

**LIQUIDITY COVERAGE RATIO - DRAFT REGULATIONS AND GUIDELINE  
INDUSTRY FEEDBACK AND CENTRAL BANK RESPONSE  
OCTOBER 2024**

| ISSUE                                   | COMMENT  | CENTRAL BANK RESPONSE  |
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| <b>REGULATIONS</b>                      |  |  |
| <b>Exclusion of Insurance Companies</b> | Regulation 3 - ‘Application’<br>For avoidance of doubt, confirmation that the Financial Holding Company does not have to consider any LCR implications regarding the Insurance Subsidiaries? | Confirmed.<br>The scope of consolidation for a financial holding company (FHC) or financial group will be the same as that which applies for consolidated capital adequacy reporting as stated in section 3.2 of the Central Bank’s Consolidated Prudential Reporting Guideline. The scope of consolidation of the LCR does not include liquidity risks stemming from insurance business conducted within financial groups. Notwithstanding, the parent of the financial group or FHC should consider the liquidity needs and risks of the other entities in the group that are not subject to the LCR consolidation rules in determining the appropriate liquidity needs for the group. |
| <b>LCR Minimum Requirement</b>          | Regulation 4, Subsection 6<br>Any expanded definition or deficient % for ‘excessive liquidity risk’?   | ‘Excessive liquidity risk’ will be determined by the Central Bank. The basis for such determination would include factors such as the LCR and other liquidity monitoring indicators for the licensee and in comparison to its peer group; adherence to the Central Bank’s Liquidity Risk Management Guideline; business model; new products/services; restructures, etc.   |

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| <b>GUIDELINE</b>                                |   |   |
| <b>Section 4.1<br/>Exemption of<br/>NFIs</b>    | Can the Central Bank provide a timeline for publishing/advising NFI's which are exempted from reporting the LCR?  | Section 12(1) of the draft LCR Regulations states that a non-bank financial institution (NFI) licensed pursuant to section 17 of the FIA will be exempted from complying with the reporting requirements of the LCR on an individual basis. However, where the NFI is the parent of a financial group, it is expected to comply with the reporting requirements of the LCR on a consolidated basis only. These proposed exemptions for NFIs on an individual basis will come into effect upon promulgation of the LCR Regulations and the relevant NFIs will be notified subsequently |
| <b>Section 5.6<br/>Transition<br/>timelines</b> | We recommend an extension of the transition period and submission timelines for the LCR submissions. For the first six months we recommend a submission timeline of 20 working days for the first six months and reducing to 15 working days for the next six months. The additional time will allow for automation of the LCR reporting by our members were deemed necessary (this is necessary and enable the report to be generated daily, if required). | Agreed.   |
| <b>Section 6.17 -<br/>HQLA</b>                  | For Level 2A Assets, are marketable securities which are not assigned the 20% risk rate automatically excluded from the HQLA?   | The marketable securities eligible for Level 2A HQLA, are those securities issued by or guaranteed by sovereigns, central banks, public sector entities (PSEs) and multilateral development banks   |

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|   |   | <p>(MDBs) that are assigned the 20% risk weight under the Financial Institutions (Capital Adequacy) Regulations, 2020 ('Capital Adequacy Regulations' or 'Regulations'), along with meeting the specified criteria (see section 6.21 of the LCR Guideline). All other securities that do not meet these criteria, nor the criteria for level 1 or level 2B assets, are to be excluded from HQLA.</p>   |
| <p><b>Section 6.17 - HQLA</b></p>               | <p>Composition of HQLA [pg.20]<br/>Confirmation on 6% reserves to be used as HQLA: For avoidance of doubt is this 6%/10% [effective 60% of reserves] or simply 6% in absolute of the reserves.</p>  | <p>The reserve requirement refers to the <b>percentage of prescribed liabilities</b> that licensees are required to hold as cash reserves at the Central bank, as stipulated by section 57 of the Financial Institutions Act, 2008. Currently, as stated in the Central Bank's monetary policy announcement as at July 2024, the reserve requirement is 10%. <b>HQLA can include reserves up to 6% of total prescribed liabilities</b>, which would currently translate to 60% of reserves.</p>  |
| <p><b>Section 6.17 - HQLA Cash Reserves</b></p> | <p>As the industry strengthens its ability to manage stress scenarios, we recommend that the Central Bank consider allowing the full cash reserve held at the Central Bank to be treated as HQLA. We recommend removing the 6% cap and Central Bank giving itself the flexibility to adjust the cap upwards or remove it totally in the future.</p> | <p>Not agreed. Based on the Quantitative Impact Studies conducted and consideration of economic factors, the Central Bank is satisfied with the inclusion of 6% of total prescribed liabilities (or 60% of reserves currently) in HQLA at this time. The assets that qualify as HQLA are specified in the LCR Guideline, which can be revised as needed given the prevailing economic/financial conditions. Further, as proposed the Central Bank has the flexibility to reduce or increase the required reserves allowed to be used as HQLA as required based on local or domestic financial and economic conditions.</p> |

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| <b>Section 7 - Expected Cash Outflows</b>    | Seeking confirmation that Repo Liabilities secured by GORTT have a 0% run off.   | A repo liability secured by a GORTT security, <b>may</b> attract a 0% run-off rate, only if the security can be classified as level 1 HQLA (see section 7.51 of the LCR Guideline). For example, if the GORTT security is denominated in USD, it would not be assigned a 0% risk weight under the Capital Adequacy Regulations and thus would not qualify as level 1 HQLA and would <b>not</b> attract the 0% run-off rate.                                      |
| <b>Section 7.12 - Expected Cash Outflows</b> | Effective Deposit Scheme [pg.27]<br>Consideration of a more stringent definition of ‘transactional account’; e.g. Savings/Checking Accounts. For the purpose of administration, using the guidance ‘where salaries, income or transactions are regularly credited and debited’ may require deeper analysis to adhere to requirements on a large-scale portfolio. | The criteria for a ‘transactional account’ is specified by the Basel Committee on Banking Supervision (BCBS). If the criteria cannot be verified, then the account should not be considered transactional, and thus cannot be classified as “stable deposits”. Such accounts should therefore be classified as “less stable deposits”.   |
| <b>Section 7.18 Deposit Withdrawals</b>      | We recommend some leeway be provided to FI’s that allow a customer to withdraw their funds notwithstanding the contractual provisions in extenuating circumstances and the amount is statistically immaterial given the size of that category of deposits, then the remaining portion of that category of deposits may still qualify for the 0% run-off rate.    | This treatment is specified by the Basel Committee on Banking Supervision (BCBS) LCR standard. Where a licensee allows a depositor to withdraw a deposit before its maturity date as specified in section 7.18, this signals that all the deposits can be withdrawn and therefore the run-off rate for that category of deposits should be reflected as such. Note that this section refers to retail deposits, for which the run-off rates are only 5% and 10%. |

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| <b>Section 7.27<br/>Operational<br/>Deposits</b>   | The requirement to seek Central Bank’s prior approval for operational deposits does not appear feasible given the reporting timelines. We recommend that FI’s be allowed to develop internal documented criteria for identifying operational deposits as approved by its ALCO (which can be shared with the Central Bank if required).  | The Central Bank will consider this recommendation.   |
| <b>Section 8.3 -<br/>Expected Cash<br/>Inflows</b> | Cap on total inflows [pg. 43]<br>Clarity on whether the 25% of cash includes the factoring of the 6% reserves.  | Section 8.3 states that HQLA, which includes a portion of Central Bank reserves (i.e. 6% of a licensee’s prescribed liabilities or 60% of reserves), must be at least 25% of a licensee’s total cash <b>outflows</b> .  |
| <b>Section 8.4 -<br/>Inflows</b>                   | Section 8.4C v (1) - Once the run-off assumptions on deposits are applied, per this section of the guideline, the deposit base of the institution reduces, and the corresponding reserve requirement also reduces. Under these circumstances we recommend that the FI be allowed to include this reduction in cash reserve requirement at the Central Bank, which is in cash form, as an inflow for the purpose of the LCR calculation. | Section 8.4 (c) v pertains to the inflow rate for the expected cash inflows described. When the deposit base declines, the institution will have an outflow for which the run-off rates are prescribed under sections 7.5 to 7.19 of the LCR Guideline. As the deposits decline, the cash reserve requirement will also decline. However, the reduction in the cash reserve requirement stemming from reduced deposits should not be viewed as an inflow. Instead, the value of those reserves held in excess of the cash reserve requirement will increase, but there will be no impact on cash inflows. |
| <b>Section 9 –<br/>Liquidity</b>                   | We also note that the Central Bank has not conducted a QIS on the Liquidity Monitoring Tools, we’re   | The Liquidity Monitoring Tools (LMT) are to be used for monitoring purposes only. As there is no minimum requirement for the LMT, the Central Bank will not be conducting a QIS on the LMT.   |

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| <b>Monitoring Tools</b>     | recommending that a QIS be conducted prior to the “go live date”.   |  |
| <b>GENERAL</b>              |   |  |
| <b>Foreign Currency LAR</b> | Our members seek feedback on if the Central Bank will eventually remove the foreign currency Liquid Asset Requirements (LAR) when the LCR is enacted. | The LAR is no longer in effect. A Circular Letter dated Nov 21, 2022 advised of the discontinuation of the Weekly Statement of Condition (CB 10) Regulatory Return, which was used to calculate and monitor the LAR. |