[DRAFT FOR CONSULTATION][1]

Completion Instructions

Return of Liquidity Position of an Authorized Institution

Form MA(BS)1E

INTRODUCTION

1. This document sets out the Completion Instructions (CIs) for authorized institutions (AIs) to compile the above Return. The Return is used by the HKMA to collect information from AIs on their liquidity ratios and related matters. This facilitates the ongoing supervision and monitoring of liquidity risk both of individual AIs and of the banking sector as a whole. This document should be read in conjunction with:

(i) the Banking (Liquidity) Rules (BLR) [2], made by the Monetary Authority (MA) under the Banking Ordinance (BO)[3] to prescribe liquidity requirements applicable to AIs. The BLR set out the requirements relating to the Liquidity Coverage Ratio (LCR)[4] and the Liquidity Maintenance Ratio (LMR)[5]. The LCR is applicable to

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[1] Most of the footnotes provided in this draft are for explanatory purposes, and will be deleted after this set of Completion Instructions is finalised.

[2] The drafting of the BLR is in progress. The HKMA plans to issue the draft BLR for industry consultation in the middle of 2014. The reporting requirements presented, and the terms used, in this draft Return largely reflect those that the HKMA intends to include in the BLR. In finalising this Return, the HKMA will take into account industry comments received from the consultation and incorporate changes, where necessary, to align with the final drafting of the BLR.

[3] The existing provisions in the BO relating to the Liquidity Ratio (mainly set out in Part XVIII and the Fourth Schedule) will be repealed when the new liquidity requirements (mainly set out in Part XVIB as inserted by the Banking (Amendment) Ordinance 2012 (BAO 2012)) come into effect on 1 January 2015.

[4] The LCR is one of the two Basel III liquidity standards introduced by the Basel Committee on Banking Supervision (BCBS) in response to the 2007-2009 Global Financial Crisis. The detailed LCR requirements are set out in the document *Basel III: Liquidity Coverage Ratio and liquidity risk monitoring tools* issued by the BCBS in January 2013, which is available at *http://www.bis.org/publ/bcbs238.pdf*. This document is referred to as the 2013 BCBS LCR Document in these CIs.

[5] The LMR is an enhanced version of the Liquidity Ratio set out in Part XVIII of, and the Fourth Schedule to, the BO. The LMR was previously referred to as the Modified Liquidity Ratio (or MLR) in the HKMA's consultation papers on the Implementation of Basel III Liquidity Standards in Hong Kong (L1, L2, L3), which are available at:

- L1: *http://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/basel-3/consultation_on_basel-3_implementation_b/consultation_paper_liquidity.pdf*

AIs designated by the MA as category 1 institutions under the BLR, whereas the LMR is applicable to other AIs that are not designated as category 1 institutions (i.e. category 2 institutions);

(ii) the statutory guideline "*Liquidity Risk Management*" (LM-1) issued by the MA under the Supervisory Policy Manual (SPM), which sets out the HKMA's approach to supervising AIs' liquidity risk and provides supplementary guidance to AIs in respect of the LCR or LMR requirements applicable to them under the BLR; and

(iii) the statutory guideline *"Sound Systems and Controls for Liquidity Risk Management"* (LM-2) under the SPM, which sets out the HKMA's supervisory expectations on AIs' liquidity risk management systems.[6]

The terms used in this document should, unless specified otherwise or the context requires otherwise, be ascribed the meanings used in the BO or the BLR, as the case may be.

2. This Return consists of 4 parts:

(i) Part 1 summarises certain key information relating to the reporting institution's liquidity ratio. Most of the items in this Part are automatically generated from information reported in other Parts of the Return.

(ii) Part 2 captures relevant information pertaining to the calculation of the LCR. This Part should be completed by all category 1 institutions.

(iii) Part 3 captures relevant information pertaining to the calculation of the LMR. This Part should be completed by all category 2 institutions.

- L2: *http://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/basel-3/basel3-20120618/consultation_paper_liquidity.pdf*
- L3: *http://www.hkma.gov.hk/eng/key-functions/banking-stability/basel-3/consultation_on_local_implementation_of_basel-3_liquidity_standards.shtml*

[6] The HKMA is updating the SPM modules LM-1 and LM-2 to incorporate, and elaborate on, the requirements in the BLR relevant to the implementation of the LCR and the LMR. The industry will be consulted on the proposed revisions of these modules in due course.

(iv) Part 4 captures certain supplementary information related to the LCR or LMR. All AIs should complete this Part.

3. This Return is supplemented by the following returns, which are, or will be, used by the HKMA to collect other liquidity-related information from AIs:

	Reported by	Reporting bases	Report frequency
MA(BS)18 – Return on Selected Data for Liquidity Stress-testing[7]	All licensed banks incorporated in HK	Unconsolidated position (HK Office and overseas branches, if any)	Quarterly
[MA(BS)22 – Return of Intraday Liquidity Position of an Authorized Institution] [8]	All licensed banks incorporated in HK and any other AIs designated by HKMA	Same as MA(BS)1E	HK Office: Monthly Other bases: to be determined
[MA(BS)23 – Return on Liquidity Monitoring Tools] [9]	All AIs	Same as MA(BS)1E	Monthly

[7] The HKMA will review MA(BS)18 in due course to determine whether it should be modified or enhanced for the purposes of liquidity stress-testing.

[8] The HKMA is consulting the industry on the "Return of Intraday Liquidity Position of an Authorized Institution" [MA(BS)22]. (Please refer to the consultation document issued to the two industry Associations on 27 March 2014 for details.)

[9] The HKMA proposes to introduce a new Return on Liquidity Monitoring Tools [MA(BS)23] in order to implement the liquidity monitoring tools recommended by the BCBS in the 2013 BCBS LCR Document. The draft of this new Return (with completion instructions) is included in this consultation to invite the industry's comments.

SECTION A: GENERAL INSTRUCTIONS

Bases of reporting

4. All AIs (irrespective of their place of incorporation) must calculate the LCR or the LMR, as the case may be, on a Hong Kong office basis[10]. AIs incorporated in Hong Kong must additionally calculate the LCR or LMR on the following bases where applicable:

- Unconsolidated basis, covering the AI's Hong Kong office and overseas branches (if any); and

- Consolidated basis (if the AI has one or more than one associated entity[11]), covering the AI's Hong Kong office, overseas branch(es), and any associated entity specified by the MA on a case-by-case basis.[12]

For the purposes of this Return, all AIs should report the LCR or LMR and other required liquidity information on the Hong Kong office basis. AIs incorporated in Hong Kong should additionally report the LCR or LMR on an unconsolidated and consolidated basis, where applicable.[13]

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10 The term "Hong Kong office" refers to an AI's principal place of business in Hong Kong and its local branches (if any).

11 The term "associated entity" is defined in section 97H(4) of the BO (as inserted by the BAO 2012).

12 The HKMA will discuss the scope of consolidation in the calculation of LCR or LMR with AIs incorporated in Hong Kong individually, having regard to the level of liquidity risk that their associated entities may pose to them; and whether the business of those entities falls within one or more than one "relevant financial activity" (which will be defined in the BLR largely following the existing definition provided in the Banking (Capital) Rules (BCR)).

13 Section 97H(3)(d) and (e) of the BO enables the MA to require an AI incorporated in Hong Kong to calculate the LCR or LMR on a combination of specific reporting bases. For example, in addition to the reporting bases specified in this paragraph, the MA may require an AI to calculate the LCR or LMR covering its operations in a particular jurisdiction separately. The imposition of any other such reporting basis will only be required when the MA envisages a genuine need therefor having regard to the AI's liquidity risk profile.

Reporting frequency and submission timeline

5. A reporting institution should submit this Return (i.e. a separate copy of this Return for each basis of calculation applicable to it) to the MA not later than 14 days[14] after the last day of each calendar month (i.e. the month-end reporting date).[15] If the submission date falls on a public holiday, it will be deferred to the next working day.

6. In each monthly submission, the reporting period covered in this Return refers to the calendar month ending on the month-end reporting date.

Valuation of assets, liabilities or cash flows under LCR or LMR

7. Unless otherwise specified, all asset, liability and cash flow items included in the calculation of the LCR or LMR should be measured on the basis of their "principal amount" as defined in the BLR. The "principal amount" of any marketable asset included as a "high quality liquidity asset" (HQLA) under the LCR or "liquefiable asset" under the LMR should be measured at fair value[16]. The principal amount of other on-balance sheet assets and liabilities and associated cash flows should be the book value (including any accrued interest) as determined according to the applicable accounting standards. For off-balance-sheet items, the principal amount means the contracted amount or, in the case of an undrawn or partially drawn facility, the undrawn amount.

[14] Under the Basel LCR standard, banks are required to report their LCR on a consolidated basis to supervisory authorities within 14 days after every month-end. The HKMA intends to adhere to this requirement. For consistency's sake, the HKMA will also adopt this submission timeline for the reporting of the LMR. To reduce the reporting burden, the HKMA proposes to allow a longer timeframe (say, [30] days after the end of each calendar month) for AIs to submit the new Return on Liquidity Monitoring Tools [MA(BS)23].

[15] The MA may in exceptional situations allow an AI a longer period to submit this Return if this is justified by the institution's special circumstances.

[16] The 2013 BCBS LCR Document specifies that "*Level 1 assets in the stock of HQLA should be measured at an amount no greater than their current market value*" (Footnote 11). This Document also provides that Level 2A assets or Level 2B assets (which are all marketable debt securities) must be measured at "current market value" (paragraphs 52 and 54). Accordingly, the HKMA considers the view that marketable assets included as HQLA under the LCR should be measured at fair value. For consistency's sake, the same principle is applied to marketable assets included as "liquefiable assets" under the LMR.

Reporting currencies

8. Unless specified otherwise, the figures to be reported in this Return should be rounded up to the nearest thousand in Hong Kong dollars (HKD), or HKD equivalent in the case of foreign currency items. The closing middle market T/T rates prevailing at the close of business on the position date should be used for conversion purposes.

9. In certain parts in this Return, reporting institutions are required to provide a breakdown of the reported total amount of an item in the following currencies:[17]

[Components of LCR] (to be confirmed)	Components of LMR
● Hong Kong dollars (HKD) ● US dollars (USD) ● Major currencies (including euro (EUR), Japanese yen (JPY) and British pound (GBP)) ● renminbi (RMB) ● other currencies*	● Hong Kong dollars (HKD) ● US dollars (USD) ● renminbi (RMB) ● other currencies*

* If a reporting institution has significant exposure to any specific currency within the "other currencies" category, the institution should put in place adequate systems and

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[17] The existing Return requires reporting institutions to provide a breakdown of the <u>weighted amount</u> of each asset or liability component of the Liquidity Ratio into (i) "HKD plus USD", and (ii) other currencies. In the revised Return, reporting institutions will be required to provide a more granular breakdown of the LCR / LMR components in the following currencies:

- <u>HKD, USD and RMB</u> (for all AIs) – A separate breakdown in these currencies is considered necessary for more effective monitoring of AIs' liquidity positions in these currencies. This is in recognition of the relative importance of these currencies to the Hong Kong banking sector and the relatively large (or increasingly large) positions of AIs in these currencies. In the case of RMB, the reported information will also facilitate supervisory monitoring by the HKMA of AIs' RMB liquidity profile amid continuing development of RMB business in Hong Kong;

- <u>EUR, JPY and GBP</u> (for category 1 institutions only) – Those institutions that need to use Option 2 of the Alternative Liquidity Approaches (ALA) under the LCR will be subject to additional haircuts for HQLA denominated in foreign currencies that will be used to cover HKD liquidity needs. As explained in L3 (section 5), EUR, JPY and GBP fall within the category of "other major currencies". HQLA denominated in a currency within this category will be subject to an 8% haircut under ALA Option 2, while HQLA denominated in USD will be subject to a 2% haircut (in light of the Linked Exchange Rate Mechanism) and HQLA denominated in other convertible currencies (including RMB) will be subject to a 10% haircut.

The calculation of haircuts under ALA Option 2 will be automated in this Return based on data reported by a category 1 institution. The HKMA will demonstrate the method of calculating the additional haircuts on foreign currency HQLA under this Option when Part 2 of this revised Return is rolled out for consultation.

procedures to ensure its ability to provide the relevant breakdown of the LCR / LMR components in that currency upon request by the HKMA. A currency is considered to be significant to an AI if the AI's liabilities denominated in that currency account for 5% or more of its total liabilities.[18]

Time horizon of LCR and LMR

10. The LCR of a category 1 institution is calculated based on a time horizon of 30 calendar days (the "LCR period"). For the purposes of calculating the LCR at a specific position date, the LCR period refers to the 30 calendar days immediately following that date. The LMR of a category 2 institution is calculated based on a time horizon of one calendar month (the "LMR period"). For the purposes of calculating the LMR at a specific position date, the LMR period refers to the calendar month immediately following that date.

Determination of "remaining term to maturity"

11. In determining whether the maturity date of an asset, liability or cash flow item is expected to fall within the LCR period or the LMR period, reference should be made to its contractual terms unless otherwise specified. If there are options for prepayment or deferred payment embedded in the contractual terms that may alter the contractual maturity date of an asset, liability or cash flow item, for the purposes of determining its remaining term to maturity (or its earliest possible maturity date) under the LCR or LMR, the reporting institution should adopt the following approach[19]:

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[18] The benchmark of 5% should be measured on the basis of (i) the "total liabilities" figure reported in item 11 of the most recent "Return of Assets and Liabilities" submitted by the reporting institution to the HKMA, i.e.MA(BS)1A for Hong Kong office position and MA(BS)1B for unconsolidated position; or (ii) the latest available figure of consolidated total liabilities (before shareholders' funds) published by the institution if it needs to submit this Return on a consolidated basis. As background, the benchmark of 5% is based on that specified in paragraph 211 of the 2013 BCBS LCR Document. The HKMA considers that this benchmark should be applicable to both category 1 institutions and category 2 institutions in determining whether they have significant exposure to a specific currency.

[19] This approach is in line with the principles in the 2013 BCBS LCR Document (paragraphs 86 and 87). Although these principles are set out in the 2013 BCBS LCR Document primarily for unsecured wholesale funding under the LCR, the HKMA observes that it is not uncommon for AIs to use the same approach for determining the term to maturity of their assets and liabilities in the course of internal liquidity management and stress-testing. Therefore the HKMA intends to make the approach more generally applicable for the purposes of calculating the LCR and LMR.

(i) If the reporting institution's counterparty has an option to defer payment in relation to an asset (or a cash inflow arising from the asset) to the institution beyond the LCR period or LMR period, it should assume that the option will be exercised and should not count the asset (or the cash inflow) in the LCR or LMR. If however the institution has an option to advance payment in relation to an asset (or a cash inflow arising from the asset) from its counterparty within the LCR period or LMR period, it should assume that the option is not exercised, unless the institution has actually notified its counterparty that it will exercise the option.

(ii) If the reporting institution or its counterparty has an option to advance payment in relation to a liability (or a cash outflow arising from the liability) to the counterparty such that the payment date falls within the LCR period or LMR period, the institution should assume that the option will be exercised and should count the liability (or the cash outflow) in the LCR or LMR.[20] If however the institution has an option to defer payment in relation to a liability (or a cash outflow), it should assume that the option is not exercised, unless the institution has actually notified its counterparty that it will exercise the option.

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[20] This treatment takes into account the possible interaction between an AI and its creditors. For example, if the liability of an AI is callable at its discretion (e.g. in the case of a debt security issued by the AI) and the market expects the AI to exercise the option, there may be a case for assuming that the AI will indeed exercise the option for reputation reasons (otherwise the market may perceive the AI as having liquidity problems).

SECION B: SPECIFIC INSTRUCTIONS

PART 1: SUMMARY CERTIFICATE ON LIQUIDITY POSITION

Section (I) : Summary of information on Liquidity Coverage Ratio (LCR)

[The CIs for this section will be provided when the HKMA consults the industry on Part 2 (in respect of the calculation of the LCR) of this Return later.]

Section (II) : Summary of information on Liquidity Maintenance Ratio (LMR)

12. The information in this section will be generated automatically based on the information reported by a reporting institution in Part 3 of this Return.

PART 2: LIQUIDITY COVERAGE RATIO

[The HKMA will consult the industry on this Part in due course.]

PART 3: LIQUIDITY MAINTENANCE RATIO

Section (I): General

13. For the purposes of the LMR a category 2 institution should -

(i) calculate the "weighted amount" of an asset, liability or cash flow item by multiplying the principal amount of that item as determined in accordance with the BLR (please refer to paragraph 7) by the liquidity conversion factor (LCF) applicable to that item;

(ii) determine whether the "remaining term to maturity" of an asset or liability falls within the LMR period having regard to the approach set out in paragraph 11 and the following illustrative examples:

	Position Date			
	31.1.2015	28.2.2015	29.2.2015*	30.4.2015
Remaining term to maturity	Period Covered			
not more than 1 month	1.2.15 - 28(29*).2.15	1.3.15 - 28.3.15	1.3.15 - 29.3.15	1.5.15 - 30.5.15
more than 1 month but not more than 1 year	1.3.15 - 31.1.16	29.3.15 - 28.2.16	30.3.15 - 28.2.16	31.5.15 - 30.4.16
not more than 1 year	1.2.15 - 31.1.16	1.3.15 - 28.2.16	1.3.15 - 28.2.16	1.5.15 - 30.4.16
more than 1 year but not more than 5 years	1.2.16 - 31.1.20	29.2.16* or 1.3.16 - 28.2.20	1.3.16 - 28(29*).2.20	1.5.16 - 30.4.20
more than 5 years	1.2.20 onwards	29.2.20* or 1.3.20 onwards	1.3.20 onwards	1.5.20 onwards

**Assuming 29 days in February*

(iii) report securities transactions due for settlement within the LMR period and repo-style transactions in accordance with the treatment prescribed in **Annex 1**. If the institution is a market maker for Exchange Fund Bills and Notes, its positions should be reported in accordance with the specific CIs for sub-item (A6)(a)(i). If the institution enters into repo-style transactions with the MA through the Discount

Window as a market maker, the transactions should be reported according to the treatment set out in **Annex 1**.

Section (II): Liquidity Maintenance Ratio (month-end position)

14. In this section, a category 2 institution should report the components of its LMR based on the position as at the month-end reporting date in accordance with the following:

A. Liquefiable assets[21]

(A2) Gold bullion[22]

Report in this item gold bullion at fair value.

(A3) Claims on, or reserves maintained with, the Exchange Fund and overseas central banks that can be withdrawn overnight or repayable on demand

Report in this item the reporting institution's claims on, or reserves maintained with, the Exchange Fund and overseas central banks that can be withdrawn overnight (i.e. within 24 hours) or are repayable on demand. If such claims or reserves are not "withdrawable" overnight or repayable on demand but will mature or be "withdrawable" within the LMR period, they should be reported in item (C1).

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[21] All assets reported as "liquefiable assets" under the LMR should satisfy the general requirements to be set out in the BLR. These general requirements are consistent with those prescribed in paragraph 8 of the Fourth Schedule to the BO.

[22] Currently, the Fourth Schedule to the BO does not provide a definition for "gold". However, the BCR defines "gold bullion" as follows:

- *Gold bullion held by the institution, or gold bullion held on an allocated basis for the institution by another person, which is backed by gold bullion liabilities;*
- *Gold bullion held on an unallocated basis for the institution by another person which is backed by gold bullion liabilities; and*
- *Gold bullion held by the institution, or gold bullion held for the institution by another person, which is not backed by gold bullion liabilities.*

The HKMA considers this definition appropriate for application under the LMR.

RMB funds placed by the reporting institution in a fiduciary account opened with the RMB Clearing Bank in Hong Kong (which account constitutes a claim on the People's Bank of China (PBoC)) can be reported in this item if the funds can be withdrawn within 24 hours or are repayable on demand. RMB funds placed by the institution with the RMB Clearing Bank in a non-fiduciary account or with other banks such as any AI in Hong Kong or any other bank operating outside Hong Kong which do not constitute a claim on the PBoC cannot be reported in this item or item (C1). Such RMB funds should be regarded as interbank placements for reporting under sub-item (A4)(a) or item (C2), as the case requires.

(A4) Total one-month liabilities[23] of relevant banks to the reporting institution, net of total one-month liabilities of the institution to relevant banks (i.e. "net due from relevant banks")

The reporting institution should only report in this item if the principal amount of one-month liabilities of relevant banks[24] to the institution maturing within the LMR period is equal or greater than the principal amount of one-month liabilities of the institution to relevant banks maturing within the same period (referred to in these CIs as "net due from relevant banks").

If the institution is a "net borrower" in the interbank market within the LMR period, i.e. the principal amount of one-month liabilities of the institution to relevant banks maturing within the LMR period exceeds the amount of one-month liabilities of relevant banks to the institution maturing within the same month (referred to in these CIs as "net due to relevant banks"), the institution should refer to the CIs for items (B2) and (C2).

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[23] The HKMA intends to adopt the current definition of "one-month liability" under the Fourth Schedule to the BO for LMR purposes.

[24] The existing definition of "relevant bank" provided in the Fourth Schedule to the BO will be adopted under the BLR, except that the Exchange Fund will no longer be regarded as a "relevant bank" and will treated in the same way as other central banks under the BLR.

Back-to-back transactions[25] should not be included in this or any other item for the calculation of the LMR (please also refer to paragraph 9.2.4 of LM-2).

(A4)(a) Report in this sub-item total one-month liabilities of relevant banks to the reporting institution maturing within the LMR period. The institution's claims under export bills discounted and its holdings in marketable debt securities or prescribed instruments should be reported in items (A5) and (A6) respectively.

(A4)(b) Report in this sub-item total one-month liabilities of the reporting institution to relevant banks, which include on-balance sheet liabilities and contingent obligations maturing within the LMR period.

Debt securities or prescribed instruments with a remaining term to maturity of not more than one month issued by the institution (together with any interest payable) should be reported in item (A8), unless alternative reporting under item (B3) is otherwise agreed by the MA (please refer to the CIs for item (A8).

(A4)(c) "Net due from relevant banks" is the difference between sub-items (A4)(a) and (A4)(b). The weighted amount derived in sub-item (A4)(c) should be included as "liquefiable assets" under the LMR only up to 40% of the reporting institution's weighted amount of "total qualifying liabilities (before deductions)" (item (B4)) (referred to in these CIs as the 40% ceiling). Any excess amount over the 40% ceiling should be reported in item (C3) as "deductions from qualifying liabilities".

Numerical examples illustrating how a reporting institution's claims on (or reserves maintained with) central banks and one-month interbank claims and liabilities should be reported in item (A4) and its sub-items are provided in **Annex 2**.

(A5) Export bills

[25] Back-to-back transactions refer to those inter-office or intra-group transactions which typically involve two legs, one borrowing long (with maturity beyond one month) and the other lending short (with maturity within one month). Both legs of the transactions are for the same or similar amount and at the same or similar rate of interest and are, in most cases, rolled forward continuously. Such transactions typically involve no actual movement of funds, and hence should not be relied upon as a source of liquidity.

(A5)(a) Report in this sub-item the reporting institution's export bills drawn under letters of credit issued by relevant banks which are payable at sight or within the LMR period. Also report export bills which are not drawn under letters of credit but accepted by relevant banks and due for payment within the LMR period. However, sight bills[26] which remain unpaid for 14 days after negotiation and usance bills[27] which remain unpaid for 14 days after due date, or whose due date has been extended, should be excluded.

(A5)(b) Usance bills which are excluded from sub-item (A5)(a) may be included in this sub-item provided that they are covered by re-discounting facilities approved by the MA. A re-discounting facility will be approved only if it meets the following criteria:

(i) it is provided by a third party relevant bank;

(ii) it is irrevocable before its expiry;

(iii) it allows usance bills to be re-discounted on a without recourse basis; and

(iv) it provides for the proceeds of bills re-discounted to be remittable to the reporting institution within the LMR period.

The amount to be reported under sub-item (A5)(b) should be net of any realisation costs or discounting charges the reporting institution may expect to incur.

(A6) <u>Marketable debt securities or prescribed instruments</u>[28]

[26] Sight bill is a type of bill of exchange which requires the importer to pay the bill immediately when the completed documents are presented.

[27] Usance bill is a type of bill of exchange which has agreed upon the credit period given by the exporter to the importer and requires the importer to accept the bill first and pay the bill later on a specific date.

[28] The term "prescribed instrument" is defined in section 137B of the BO (supplemented by the Sixth Schedule to the BO).

Report the reporting institution's marketable debt securities or prescribed instruments eligible for inclusion in this item for which the institution may receive payment within the LMR period (including any accrued interest) either upon maturity or through monetization[29] of these securities / instruments in the secondary market.

(A6)(a)(i) Market makers for Exchange Fund Bills and Notes should report their positions in these instruments in accordance with the following:

(i) the long and short positions of such instruments with a remaining term to maturity of not more than one year should be offset against one other;

(ii) the long and short positions of such instruments with a remaining term to maturity of more than one year should similarly be offset against one other;

(iii) if the net positions in both (i) and (ii) above are long, they should be reported in sub-items (A6)(a)(i)(A) and (A6)(a)(i)(B) respectively;

(iv) if the net positions in (i) and (ii) are in the opposite direction (i.e. one is long and the other is short), the long position should be reduced by the short position on a dollar-for-dollar basis. The resultant net long position, if any, should then be reported in the appropriate time band.

(A6)(b)-(e) For the purposes of determining whether a marketable debt security / prescribed instrument has a qualifying credit rating assigned by an "external credit assessment institution" (ECAI), the reporting institution should follow the relevant requirements set out in Schedule 6 to the BCR and Schedule [xx] to the BLR. An

[29] The term "monetize" means converting an asset into cash by –
(i) a direct sale of the asset;
(ii) entering into a repo-style transaction that is collateralized by the asset; or
(iii) any other means.

A similar meaning will be provided under the BLR.

"ECAI rating" can be an "ECAI issue specific rating" or an "ECAI issuer rating", as defined in the BCR. [30]

The qualifying ECAI rating for marketable debt securities / prescribed instruments under these sub-items generally relates to an ECAI issue specific rating that is assigned to the debt securities / instruments concerned. However, marketable debt securities / prescribed instruments which do not have a qualifying ECAI issue specific rating but which are issued, or guaranteed, by specific types of entities specified in sub-items A6(b) and A6(d)) that have a qualifying ECAI issuer rating may also be included as liquefiable assets.

(A6)(b) This sub-item captures marketable debt securities / prescribed instruments issued or guaranteed by the central bank or central government of a country, a multilateral development bank, or a relevant international organization, which have a qualifying ECAI rating.

(A6)(c)(i) This sub-item captures marketable debt securities / prescribed instruments issued or guaranteed by a relevant bank, other than those included in sub-item (A6)(a)(ii), provided that the debt securities / instruments concerned have a qualifying ECAI issue specific rating.

(A6)(c)(ii) This sub-item captures marketable debt securities / prescribed instruments issued or guaranteed by a regional government of a country or by any other entity, provided that the debt securities / instruments concerned have a qualifying ECAI issue specific rating. "Other entity" for this purpose can be a financial institution (which is not a relevant bank), a corporate or any other entity not specified elsewhere in item (A6).

[30] The HKMA will continue to regard a long-term credit rating of A- or above (or a short-term credit rating representing equivalent credit quality) as a "qualifying credit rating". The external credit assessment institutions (ECAIs) recognised for the purposes of the BCR will likewise be recognised for the purposes of the BLR. The term "credit rating" will be replaced by the term "ECAI rating" currently used in the BCR. Under the BLR, it is intended that a "qualifying ECAI rating" should refer to an ECAI rating in respect of the issuer or the debt security / instrument concerned that is equivalent to a long-term credit rating of A- or above (or a short-term credit rating representing equivalent credit quality) issued by an ECAI.

(A6)(d)(i) This sub-item captures marketable debt securities / prescribed instruments without a qualifying issue specific rating, but which are issued or guaranteed by a relevant bank (other than those debt securities / instruments captured in sub-item (A6)(a)(ii)), provided that the debt securities / instruments concerned have a remaining term to maturity of not more than one month or the issuer has a qualifying ECAI issuer rating.

(A6)(d)(ii) This sub-item captures marketable debt securities / prescribed instruments without a qualifying issue specific rating, but which are issued by a regional government of a country, provided that the issuer concerned has a qualifying ECAI issuer rating.

(A6)(e) This item captures any other marketable debt securities / prescribed instruments not included elsewhere in sub-items A6(a) to A6(d), but which the reporting institution should be able to use in order to secure borrowing from a central bank of a country (which has a qualifying ECAI issuer rating) through a standing facility, the nature of which is similar to the Discount Window operated by the HKMA. To avoid doubt, such a standing facility concerned does not include any emergency liquidity facility provided by a central bank.

(A6)(f) This sub-item captures (i) residential mortgage-backed securities (RMBS)[31] and (ii) any other marketable debt securities / prescribed instruments that have been approved specifically by the MA for inclusion as liquefiable assets under the LMR. <u>Such debt securities / instruments do not include those approved by the MA for inclusion under the Liquidity Ratio. In other words, all debt securities / instruments reported under this sub-item should have approval from the MA specifically for LMR purposes.</u>

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[31] The BCBS has specified the qualifying criteria for RMBS to be recognised as HQLA under the LCR (please refer to paragraph 54(a) of the 2013 BCBS LCR Document). The HKMA intends to apply the same set of criteria for considering any application that may be submitted by a category 2 institution for inclusion of RMBS as liquefiable assets under the LMR. Similar to the LCR, the applying institution should be able to demonstrate to the MA's satisfaction that <u>the relevant issue of RMBS can meet all of the relevant qualifying criteria as well as the general requirements that are applicable to liquefiable assets</u>. The MA will also assess (i) the <u>institution's ability to manage the relevant risks</u> of holding RMBS, as reflected from its relevant risk management policies, procedures and exposure limits; and (ii) <u>the institution's overall risk management capability</u> as observed by the HKMA in the course of its ongoing supervision.

The reporting institution should provide further information in respect of any marketable debt securities / prescribed instruments reported under this sub-item in Part 4 (Section (IV)) of this Return.

(A6)(g) This sub-item captures all marketable debt securities / prescribed instruments not reported elsewhere in item (A6) and with a remaining term to maturity of not more than one month.

(A7) Residential mortgage loans in respect of which there has been issued by The Hong Kong Mortgage Corporation Limited (HKMC) an irrevocable commitment to purchase which is approved by the Monetary Authority

The MA's prior approval is required for reporting any mortgage loan in this item.

Report in this item the reporting institution's residential mortgage loans covered by The HKMC's irrevocable Forward Commitment Facility (Facility) that are immediately saleable to The HKMC. Such loans should conform to The HKMC's purchasing requirements and satisfy any conditions as set out in its Forward Commitment Facility Letter Agreement (Facility Agreement) approved by the MA for this purpose. The total reported amount cannot exceed the amount of commitment agreed under the Facility (less any commitment amount utilised).

If The HKMC, under the Facility Agreement, requires the institution to repurchase defaulted mortgage loans, the obligation to repurchase such mortgage loans should be included in the institution's qualifying liabilities for the calculation of its LMR if the repurchase is to be made within the LMR period.

(A8) Debt securities or prescribed instruments with a remaining term to maturity of not more than 1 month issued by the reporting institution

Report these securities or instruments in this item together with any interest payable. Alternatively, these liabilities may be reported in item (B3) if the institution can demonstrate to the satisfaction of the MA that the liabilities will be rolled over or refinanced upon maturity. The MA will require reasonable assurance from the institution that, based on past experience, the maturing liabilities would be replaced and are not simply "one-off" transactions. This might apply, for example, where the institution is able to tap a reliable pool of investors through regular issues of certificates of deposit.

Interest payable within the LMR period on debt securities / instruments issued by the institution which are maturing beyond the LMR period should be reported in sub-item (A4)(b) or item (B2) as the case requires, if they are held by relevant banks, or in item (B3) if they are held by customers other than relevant banks. If the institution cannot identify the holders of the debt securities / instruments concerned, the interest payable should be reported in item (B3).

B. Qualifying liabilities

(B1) Total one-month liabilities of the reporting institution to the Exchange Fund and overseas central banks

Report in this item the reporting institution's liabilities to the Exchange Fund and overseas central banks (if any), including liabilities repayable on demand or having a remaining term to maturity of not more than one month.[32]

(B2) Total one-month liabilities of the reporting institution to relevant banks (such liabilities should not be included in sub-item (A4)(b))

This item should be reported by the reporting institution only if the institution is a "net borrower" in the interbank market within the LMR period (i.e. its "net due to relevant banks" is greater than zero), and should cover the institution's total one-

[32] An AI's claims on, or reserves maintained with, the Exchange Fund and overseas central banks that can be withdrawn overnight or are repayable on demand can be recognized as liquefiable assets (under item (A3)), whereas other one-month liabilities of the Exchange Fund and overseas central banks to the AI can be deducted from its qualifying liabilities (under item (C1)). On the other hand, the AI's liabilities to the Exchange Fund and overseas central banks (repayable on demand or maturing within the LMR period) should be included as qualifying liabilities (under item (B1)). This proposed reporting treatment provides the HKMA with a more complete picture of a reporting institution's claims on, and liabilities to, the Exchange Fund and overseas central banks that fall due within the LMR period.

month liabilities to relevant banks. Total one-month liabilities of relevant banks to the institution should be reported under item (C2).

(B3) Other one-month liabilities

Report in this item the reporting institution's deposits and other liabilities payable (including interest payable) within the LMR period which are not included elsewhere. This item includes, for example -

(i) the institution's irrevocable commitments to provide funds on a known date of draw-down within the LMR period or irrevocable standby facilities which are on demand, at call or have a notice period within the same period. This would include a commitment to pay under contingent liabilities.[33] Nonetheless, commitments to provide funds which can be unconditionally cancelled by the institution (such as credit facilities for overdrafts) should be excluded;

(ii) in respect of derivative contracts, the amount of expected payment within the LMR period (after the contract is marked to market). If a derivative contract gives rise to both a cash inflow to, and a cash outflow from, the institution simultaneously (e.g. in the case of a swap contract), the net amount of cash outflow (if any) generated from that contract should be reported.[34] However, the net amount of cash outflow generated from

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[33] For example, in case of an undertaking by a reporting institution under a letter of guarantee (or any contract having a nature similar to a letter of guarantee, such as a standby letter of credit):

- if a guarantee issued by the institution has been called upon resulting in the institution having an irrevocable commitment to pay on this guarantee within the LMR period, such an irrevocable commitment should be reported in this item;
- if a guarantee issued by the institution contains provisions to the effect that the institution will have an obligation to (i) pay within the LMR period in case the guarantee is called upon (where the notice period for the guarantee is within the LMR period); or (ii) pay on demand (where no notice period is required), the contingent liability under the guarantee should also be reported in this item regardless of whether it has been called upon, except in cases where any condition attached to the execution of the guarantee cannot in practice be met within the LMR period.

[34] When the reporting institution reports the LMR components with a breakdown in specific currencies, the institution may report the net amount of cash outflow generated from a derivative contract in the currency leg in which the outflow is denominated. For example, if a currency swap necessitates the institution to pay USD100mn and receive HKD775 million (at a contractual exchange rate of @7.75) on a date falling within the

such a contract cannot be offset by the net amount of cash inflow generated from another contract, unless the two contracts are with the same counterparty and the institution has established an effective bilateral netting agreement with that counterparty covering those contracts; and

(iii) in respect of forward asset purchases, the amount payable by the institution within the LMR period (except to the extent that it is used to purchase an asset which qualifies as a liquefiable asset). In other words, the amount payable for the purchase of a liquefiable asset can be excluded because there will not be a material change in the institution's liquidity position when the asset is purchased.

In the case of the sale or purchase of securities conducted by the reporting institution on behalf of the institution's clients (including brokers), the amount payable to these clients arising from such transactions can be excluded from this item, even if the transactions are due for settlement within the LMR period.[35] Similarly, the corresponding receivables from the institution's clients (including brokers) should not be included as "deductions from qualifying liabilities" (please refer to subsection C of this Return). Such reporting treatment is also applicable to account receivables and payables arising from margin trading transactions which are valued but not yet settled. Such transactions refer to those margin trading positions with respect to which the institution's clients have not given any instruction to close out. Margin deposits arising from such transactions should however be included as qualifying liabilities of the institution where appropriate.

If a deposit is contractually pledged to the reporting institution as collateral to secure a loan granted by the institution[36] to a non-bank customer, the pledged

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LMR period but the market exchange rate is @7.8, then the institution has to mark the contract to market, resulting in a net amount (equivalent to HK$5 million) payable by the institution. This net amount should be included in item (B3) under the column of "USD" (i.e. the currency of the institution's payment leg).

[35] Such transactions can be excluded given that they are not proprietary transactions and the liquidity risk involved is considered to be relatively low.

[36] The BCBS has specified the criteria for exclusion of pledged deposits from the calculation of the LCR in a document entitled "Frequently Asked Questions on Basel III's January 2013 Liquidity Coverage Ratio framework" (which is available at: http://www.bis.org/publ/bcbs284.pdf). The relevant criteria are also applicable for the LMR purposes.

deposit can be excluded from the calculation of the LMR, provided that the following conditions are met:

(i) the loan will not mature or be settled within the LMR period;

(ii) the pledge arrangement is subject to a legally enforceable contract disallowing withdrawal of the deposit before the loan is fully settled or repaid; and

(iii) the amount of deposit to be excluded cannot exceed the outstanding balance of the loan (or the drawn portion of a facility).

The above reporting treatment does not apply to a deposit which is pledged against an undrawn facility (or the undrawn portion of a partially drawn facility). Please refer to the CIs for item (C4) re the reporting of eligible loan repayments secured by deposits placed with the institution. Deposits which are pledged with the institution to secure other off-balance sheet obligations should be reported as qualifying liabilities. Nevertheless, such deposits may be excluded from the institution's qualifying liabilities to the extent that they are pledged to secure off-balance sheet obligations that are also required to be reported as qualifying liabilities.[37]

C. <u>Deductions from qualifying liabilities</u>

(C1) <u>Other one-month liabilities of the Exchange Fund and overseas central banks to the reporting institution (excluding the amount included in item (A3))</u>

Report in this item total one-month liabilities of the Exchange Fund and overseas central banks to the reporting institution (except that the amount of such liabilities

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[37] For example, a deposit pledged with the reporting institution to secure a guarantee issued by the institution should be reported as a qualifying liability if the deposit can be withdrawn from the institution within the LMR period. If however the guarantee issued by the institution is called upon, resulting in the institution having to honour its obligation under the guarantee within the LMR period (hence creating a qualifying liability under the guarantee), then the pledged deposit does not need to be counted as a qualifying liability. This is to avoid double counting in that it is reasonable to expect the institution to use the pledged deposit to cover its liability under the guarantee (hence no additional liquidity is required for repaying the pledged deposit).

that is repayable on demand or withdrawable within 24 hours should be reported as liquefiable assets in item (A3)).

(C2) Total one-month liabilities of relevant banks to the reporting institution (such liabilities should not be reported in sub-item (A4)(a))

This item should be reported by the reporting institution only if the institution is a "net borrower" in the interbank market within the LMR period (i.e. the principal amount of its "net due to relevant banks" is greater than zero), and should capture total one-month liabilities of relevant banks to the institution. The institution's total one-month liabilities to relevant banks should be reported in item (B2).

(C3) "Net due from relevant banks" of the reporting institution exceeding the 40% ceiling specified in sub-item (A4)(c)

This item should be reported by the reporting institution only if the weighted amount of its "net due from relevant banks" exceeds the 40% ceiling specified in sub-item (A4)(c). The institution should report the excess amount in this item as a deduction from its qualifying liabilities.[38]

(C4) Eligible loan repayments

Report in this item loan repayments (including principal and interest receivable) from the reporting institution's non-bank customers which (i) fall due within the LMR period and (ii) satisfy the eligibility criteria set out in the BLR[39]. This item should exclude any repayment in respect of mortgage loans reported in item (A7).

For the purposes of this item, a loan is regarded as fully performing if there are no arrears of principal or interest in respect of the loan. Where the payment date(s) of

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[38] The design of this Return is such that any excess amount derived under sub-item (A4)(c) will be auto-generated and shown in item C(3) for calculation of the LMR.

[39] The HKMA will adopt the eligibility criteria currently provided in the Fourth Schedule to the BO in the BLR for LMR purposes.

principal or interest of a loan has been "rescheduled", including the roll-over of a loan on its original due date or the re-negotiation of a loan's payment terms in advance of maturity, the loan can still be regarded as fully performing provided that -

(i) the rescheduling of payment dates is not caused by a deterioration in the financial position of the borrower or of his ability to meet the original repayment schedule; and

(ii) the revised payment terms are not "non-commercial" to the institution.

Loans repayable by instalments at an interval of not more than one month (e.g. residential mortgage loans, hire purchase loans and personal loans) will still be regarded as fully performing if there is no instalment which is overdue for more than one month on the reporting date.

Loans falling due within one month that have revolving features, i.e. where the institution has a commitment to provide finance to the borrower under a facility on an ongoing basis, should not be included in this item. However, such revolving loans can be included as eligible loan repayments when both the revolving loan and the facility are due to mature or expire within the LMR period <u>and</u> the institution has made no commitment, either verbally or in writing, to renew the facility upon its expiry.

The reporting of repayments of loans which are secured by deposits pledged with the institution should be based on a cash-flow concept. The following table illustrates how the loan repayments and the pledged deposits, both of which are due within the LMR period, should be reported:

	Amount to be included in			
Scenario	Eligible Loan Repayments		One-month liabilities	
	(A)	(B)	(A)	(B)
L = D	-	R*	-	-

L > D	R - D	R*	-	-
L < D	-	R*	D - L	D – L

(A) = in the case of a loan, including a loan to be repaid by instalments, the outstanding balance of which will be fully repaid within 1 month

(B) = in the case of a loan the outstanding balance of which will not be fully repaid within 1 month

L = outstanding balance of the loan

D = amount of the pledged deposit

R = repayment(s) of the loan due within one month

* = to the extent that the repayments will not be used to reduce the amount of the deposit or interest payable on the deposit.

Where the pledged deposit matures beyond one month, a repayment of the loan due within one month can be included as eligible loan repayments.

Section (III): Average Liquidity Maintenance Ratio during the reporting period[40]

15. A category 2 institution should report its average LMR during the reporting period (i.e. the calendar month ending on the month-end reporting date) in this section. The average LMR is expressed as the ratio of "average liquefiable assets" (item A) to "average qualifying liabilities (after deductions)" (item B). The two items should be calculated by dividing the sum of the weighted amounts of liquefiable assets, or the sum of the weighted amounts of qualifying liabilities (after deductions), as the case may be, maintained by the reporting institution at the close of business on each working day during the reporting period, by the number of working days during that period. If the institution has been approved by the MA to calculate its average monthly LMR on the basis of specified days during a calendar month, it should calculate the average liquefiable assets and average qualifying liabilities (after deductions) by dividing the sum of the weighted amounts of liquefiable assets, or the sum of the weighted amounts of qualifying liabilities (after deductions), as the case may be, maintained by the institution at the close of business on each of the specified days during

[40] The BLR will provide that a category 2 institution must maintain an LMR of not less than 25% on average in each calendar month. In line with the existing requirements under the Liquidity Ratio, the average LMR will

the reporting period by the number of such specified days during that period. If any such specified day is a public holiday, the immediately preceding working day should be taken for the purposes of such calculation.

<u>Section (IV): Lowest Liquidity Maintenance Ratio during the reporting period</u>

16. This should be the lowest LMR recorded at the close of business on a working day during the reporting period. [41]

PART 4: SUPPLEMENTARY INFORMATION

17. This Part collects certain supplementary information associated with the LCR reported in Part 2, or the LMR reported in Part 3, as the case may be.

<u>Section (I): Amount of pledged deposits excluded from calculation of LCR / LMR</u>

18. Report in this section the total amount of pledged deposits excluded from the calculation of the LCR or LMR. (Please refer to the CIs provided in Part 2 item [xx] in respect of the LCR, or in Part 3 items (B3) and (C4) in respect of the LMR for more details.)

<u>Section (II): Deposits from non-bank connected parties included in calculation of LCR / LMR</u>

19. For the purposes of this Return, non-bank connected parties include any non-bank customer or entity that is:

(i) an associated entity of the reporting institution;

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cover each working day of a calendar month, unless a category 2 institution is permitted to calculate this average ratio by reference to such days during the month as specified by the MA.

[41] Although some category 2 institutions may be allowed to calculate the average LMR covering "specific days" (instead of all business days) in a month for the purpose of complying with the minimum 25% requirement, the HKMA expects that all category 2 institutions should calculate their LMR daily for managing their liquidity positions. To facilitate the HKMA's continuous monitoring of a category 2 institution's liquidity position, each category 2 institution is required to report the lowest level of its LMR recorded on any working day within the reporting period.

(ii) a minority shareholder controller or majority shareholder controller (as defined in section 2 of the BO) of the institution and any relative[42] of any such controller who is a natural person; or

(iii) a director of the institution and any relative of such director.

[42] The meaning of "relative" is that assigned to it by section 79 of the BO.

Section (III): Inter-office / intra-group transactions included in calculation of LCR / LMR

20. Report in this section the inter-office or intra-group claims and liabilities of the reporting institution. To avoid doubt, the terms "head office", "overseas office", "connected AI in Hong Kong" and "connected bank outside Hong Kong" have the following meanings:

	If the reporting institution is incorporated in HK (i.e. a local AI)	**If the reporting institution is the HK branch of a bank incorporated outside HK (i.e. a foreign bank branch "FBB")**
Head Office (HO)	Not applicable	The FBB's HO located in the place of its incorporation
Overseas office	Any branch (or representative office if applicable) set up by the local AI outside HK	Any branch (or representative office if applicable) set up by the bank outside HK
Connected AI in HK	Any AI – - which is a shareholder controller or an associated entity of the institution; or - whose shareholder controller (or HO) is also the shareholder controller (or HO) of the institution	
Connected bank outside HK	Any bank operating outside Hong Kong – - which is a shareholder controller or an associated entity of the institution; or - whose shareholder controller (or HO) is also the shareholder controller (or HO) of the institution	

Section (IV): Marketable debt securities / prescribed instruments approved by Monetary Authority for inclusion as HQLA under LCR / liquefiable assets under LMR[43]

21. This section collects supplementary information in respect of marketable debt securities (e.g. RMBS) or prescribed instruments held by the reporting institution which are approved by the MA for inclusion as HQLA under the LCR or as liquefiable assets under the LMR, as the case may be. Please also refer to the CIs provided for Part 2 item [xx] (in respect of the LCR) and Part 3 sub-item (A6)(g) (in respect of the LMR).

22. If any issue of approved marketable debt securities or prescribed instruments has an "International Securities Identification Number" (or "ISIN"), report the number in the first column of the table in this section[44].

23. Report the "currency denomination" of the marketable debt securities or prescribed instruments using common currency codes. Some major currency codes are indicated below for reference.

Australian Dollar	British Pound	Canadian dollar	euro	Hong Kong Dollar	Japanese Yen	New Zealand Dollar	Swiss Franc	Renminbi	US Dollar
AUD	GBP	CAD	EUR	HKD	JPY	NZD	CHF	RMB	USD

24. The principal amount of marketable debt securities or prescribed instruments reported in this section should be measured at fair value.

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[43] The requirement to provide a breakdown of marketable debt securities / prescribed instruments reported in Part 2 item [xx] (in the case of the LCR) or Part 3 sub-item (A6)(d) (in the case of the LMR) is to facilitate the HKMA's monitoring of specific debt securities / instruments (e.g. RMBS) approved by the MA for inclusion as HQLA under the LCR or as liquefiable assets under the LMR. (Please also refer to Footnote 31 for more details.)

[44] The reporting of ISIN will facilitate the HKMA in cross-checking its internal records and verifying whether a particular issue of debt securities or prescribed instruments reported by the institution in the table in this section has been approved by the MA for inclusion as HQLA under the LCR or liquefiable assets under the LMR.

Annex 1

Reporting treatment of securities transactions and repo-style transactions due for settlement within LMR period under LMR

A reporting institution should adopt the following treatment which illustrates the manner of reporting under various scenarios:

Securities transactions due for settlement within the LMR period

1. Purchase of securities

(a) Subject of purchase is a liquefiable asset

Report the subject as a liquefiable asset.

Report the corresponding account payable as a qualifying liability.

(b) Subject of purchase is not a liquefiable asset

No liquefiable asset can be reported.

Report the corresponding account payable as a qualifying liability.

2. Sale of securities

(a) Subject of sale is a liquefiable asset

The subject cannot be reported as a liquefiable asset because it has already been removed from the reporting institution's balance sheet on the trade day.

Reporting of the corresponding account receivable depends on the type of counterparty to the transaction.

If the counterparty is a relevant bank, the corresponding account receivable should be treated as a one-month liability of a relevant bank to the institution, the reporting of which should follow the CIs for sub-items (A4)(a) or item (C2), as the case requires.

If the counterparty is a non-bank customer, the corresponding account receivable should be treated as an eligible loan repayment (provided that the relevant eligibly criteria are met), the reporting of which should follow the CIs for item (C4) (i.e. as a cash inflow item deductible from qualifying liabilities).

No qualifying liability arises from the transaction.

(b) Subject of sale is not a liquefiable asset

Neither the subject nor the corresponding account receivable can be included in the calculation of the LMR. A stricter approach is adopted for the sale of non-liquefiable assets in general (i.e. not restricted to securities). Non-liquefiable assets can be converted to liquefiable assets by sale only upon the receipt of cash.

No qualifying liability arises from the transaction.

Repo-style transactions

A. Where the risks and rewards **ARE NOT** substantially transferred to the buyer

3. Repo transaction due to unwind within the LMR period

(a) Repo subject is a liquefiable asset

The repo subject remains on the balance sheet of the reporting institution but cannot be reported as a liquefiable asset because it is not free from encumbrance.

If the cash inflow (increase in nostro balance) arising from the transaction remains in the form of a liquefiable asset (and hence can be counted as such in the LMR), the institution’s liquidity position will not change significantly because the liquefiable asset (repo subject) has only changed from one form to another form. If however the cash inflow is utilised to acquire a non-liquefiable asset (and hence cannot counted as a liquefiable asset under the LMR), there will be a reduction in the institution’s liquefiable assets because the liquefiable asset (repo subject) has been exchanged for a non-liquefiable asset. If the cash inflow remains as a nostro balance to be withdrawn within the LMR period, the reporting treatment should follow the CIs for sub-item (A4)(a) or item (C2), as the case requires.

The corresponding account payable should not be reported as a qualifying liability because the future cash outflow will bring in a liquefiable asset and the institution's liquidity position will not change in essence (apart from the possible difference in LCF). In other words, once the account payable is settled, the repo subject immediately ceases to be “encumbered” and can be reported as a liquefiable asset.

In summary, both the repo subject and the account payable arising from the repo transaction should be excluded from the reporting of liquefiable assets and qualifying liabilities respectively, whereas the cash inflow arising from the transaction should be reported as a liquefiable asset only if it remains as, or is utilised to acquire, a liquefiable asset.

(b) Repo subject is not a liquefiable asset

The cash inflow (increase in nostro balance) arising from the transaction may result in a net increase in the reporting institution’s liquefiable assets if the funds are utilised to acquire a liquefiable asset (and hence can be counted as a liquefiable asset under the LMR) because the non-liquefiable asset (repo subject) has been exchanged for a liquefiable asset. If the funds are utilised to acquire a non-liquefiable asset, there will be no net impact on liquefiable assets as the repo subject is also a non-liquefiable asset. If the cash inflow remains as a nostro balance to be withdrawn within the LMR period, the reporting treatment should follow the CIs for sub-item (A4)(a) or item (C2), as the case requires.

Report the corresponding account payable as a qualifying liability in sub-item (A4)(b) or item (B2) as the case requires, because the cash outflow arising from the transaction will not result in a liquefiable asset.

4. Reverse repo transaction due to unwind within the LMR period

As the reverse repo subj**e**ct cannot be re-hypothecated by the reporting institution, the asset cannot be claimed by the reporting institution as a liquefiable asset.

The cash outflow (decrease in nostro balance) arising from the transaction will reduce total one-month liabilities of relevant banks to the reporting institution, the reporting of which will follow the CIs for sub-item (A4)(a) or item (C2), as the case requires.

Reporting of the corresponding account receivable depends on the type of counterparty to the transaction. If the counterparty is a relevant bank, the corresponding account receivable should be treated as a one-month liability of a relevant bank to the institution, the reporting of which will follow the CIs for sub-item (A4)(a) or item (C2), as the case requires. If the counterparty is a non-bank customer, the corresponding account receivable should be treated as an eligible loan repayment (provided that the relevant eligibly criteria are met), the reporting of which will follow the CIs for item (C4) (i.e. as a cash inflow item deductible from qualifying liabilities).

No qualifying liability arises from the transaction.

5. Repo transaction due to unwind beyond the LMR period

(a) Repo subject is a liquefiable asset

Same treatment of repo subject and cash inflow as in scenario 3(a).

No qualifying liability arises from the transaction since the corresponding account payable does not fall due within the LMR period.

(b) Repo subject is not a liquefiable asset

Same treatment of repo subject and cash inflow as in scenario 3(b).

No qualifying liability arises from the transaction since the corresponding account payable does not fall due within the LMR period.

6. Reverse repo transaction due to unwind beyond the LMR period

Same treatment of cash outflow as in scenario 4.

The corresponding account receivable should not be included in the calculation of the LMR since it is a claim due beyond the LMR period.

No qualifying liability arises from the transaction.

B. Where the risks and rewards **ARE** substantially transferred to the buyer

The reporting treatment set out below is to be applied to repo / reverse repo transactions where securities are sold / purchased subject to a repurchase / resale agreement, the terms of which transfer substantially all risks and rewards of ownership to the buyer and the transaction is separately accounted for as an outright sale / purchase and a commitment to repurchase / sell back. Where the price for the commitment to repurchase / sell back has not been determined, the fair value (e.g. current market value) of the securities concerned should be used.

7. Repo transaction due to unwind within the LMR period

(a) Repo subject is a liquefiable asset

As the repo subject is sold under an outright transaction, it should not be reported as a liquefiable asset. If the cash inflow arising from the transaction (increase in nostro balance) remains in the form of a liquefiable asset (and hence can be counted as such in the LMR), the reporting institution’s liquidity position will not change significantly because the liquefiable asset (repo subject) has only changed from one form to another form. If however the cash inflow is utilised to acquire a non-liquefiable asset (and hence cannot be counted as a liquefiable asset under the LMR), there will be a reduction in the institution's liquefiable assets because the liquefiable asset (repo subject) has been exchanged for a non-liquefiable asset. If the cash inflow remains as a nostro balance to be withdrawn within the LMR period, the reporting treatment should follow the CIs for sub-item (A4)(a) or item (C2), as the case requires.

The corresponding commitment to repurchase should not be reported as a qualifying liability because the future cash outflow will bring in a future liquefiable asset and the liquidity position will not change in essence (apart from the possible difference in LCF).

(b) Repo subject is not a liquefiable asset

The cash inflow (increase in nostro balance) arising from the transaction may result in a net increase in the reporting institution's liquefiable assets if the funds are utilised to acquire a liquefiable asset (and hence can be counted as a liquefiable asset under the LMR) because the non-liquefiable asset (repo subject) has been exchanged for a liquefiable asset. If the funds are utilised to acquire a non-liquefiable asset, there will be no net impact on the institution's liquefiable assets as the repo subject is also a non-liquefiable asset. If the cash inflow remains as a nostro balance to be withdrawn within the LMR period, the reporting treatment should follow the CIs for sub-item (A4)(a) or item (C2), as the case requires.

Report the corresponding commitment to repurchase as a qualifying liability because the cash outflow arising from the transaction will not result in a liquefiable asset or a deduction from qualifying liabilities, as the case may be.

8. Reverse repo transaction due to unwind within the LMR period

(a) Reverse repo subject is a liquefiable asset

As the reverse repo subject is purchased under an outright transaction, it should be reported as a liquefiable asset and the cash outflow arising from the transaction (decrease in nostro balance) will reduce total one-month liabilities of relevant banks to the reporting institution, the reporting of which will follow the CIs for sub-item (A4)(a) or item (C2), as the case requires.

The future cash inflow brought about by the corresponding commitment to sell back should not be reported as a liquefiable asset because it will be offset by the simultaneous future outflow of the liquefiable asset (reverse repo subject).

(b) Reverse repo subject is not a liquefiable asset

The cash outflow (decrease in nostro balance) arising from the transaction will reduce total one-month liabilities of relevant banks to the reporting institution, the reporting of which will follow the CIs for sub-item (A4)(a) or item (C2), as the case requires.

As the reverse repo subject acquired in return is not a liquefiable asset, there is no change to the institution's liquefiable assets.

Reporting of the future cash inflow brought about by the corresponding commitment to sell back depends on the type of counterparty to the transaction. If the counterparty is a relevant bank, the future cash inflow is treated as a one-month liability of a relevant bank to the reporting institution, the reporting of which will follow the CIs for sub-item (A4)(a) or item (C2), as the case requires. If the counterparty is a non-bank customer, the corresponding account receivable should be treated as an eligible loan repayment (provided that the relevant eligibly criteria are met), the reporting of which will follow the CIs for item (C4) (i.e. as a cash inflow item deductible from qualifying liabilities).

9. Repo transaction due to unwind beyond the LMR period

(a) Repo subject is a liquefiable asset

Same treatment of the outright transaction as in scenario 7(a).

No qualifying liability arises from the transaction since the corresponding commitment to repurchase does not fall due within the LMR period.

(b) Repo subject is not a liquefiable asset

Same treatment of the outright transaction as in scenario 7(b).

No qualifying liability arises from the transaction since the corresponding commitment to repurchase does not fall due within the LMR period.

10. Reverse repo transaction due to unwind beyond the LMR period

(a) Reverse repo subject is a liquefiable asset

Same treatment of the outright transaction as in scenario 8(a).

No qualifying liability arises from the transaction.

(b) Reverse repo subject is not a liquefiable asset

Same treatment of the outright transaction as in scenario 8(b).

No qualifying liability arises from the transaction.

<u>**Summary of reporting of repo / reverse repo transactions under LMR**</u>

I. Repo transaction

	Mature in the LMR period	Mature beyond the LMR period
1. Funds received from counterparty		
(i) If used to acquire liquefiable assets (LA)	Included as LA	Included as LA
(ii) If remain as bank balance that can be withdrawn by the reporting AI within the LMR period	Increased 1-month liabilities of relevant banks to reporting AI (reflected in sub-item (A4)(a) or item (C2) as the case requires)	Increased 1-month liability of relevant banks to reporting AI (reflected in sub-item (A4)(a) or item (C2) as the case requires)
(iii) If used to acquire non-LA	Not included in LMR	Not included in LMR
2. Repo subject posted to counterparty as collateral		
(i) If collateral is LA	Excluded from LA	Excluded from LA
(ii) If collateral is non-LA	No effect on LMR	No effect on LMR
3. Funds payable to counterparty		
(i) If repo subject is LA	Not to include as qualifying liability (QL)	Not to include as QL
(ii) If repo subject is non-LA	To include in sub-item (A4)(b) or item (B2) as the case requires	Not to include as QL

II. Reverse repo transaction

	Mature in the LMR period	Mature beyond the LMR period
1. Funds paid to counterparty (resulting in lower interbank balance)	Reduced 1-month liabilities of relevant banks to reporting AI (reflected in sub-item (A4)(a) or item (C2) as the case requires)	Reduced 1-month liabilities of relevant banks to reporting AI (in sub-item (A4)(a) or item (C2) as the case requires)
2. Reverse repo subject received by reporting AI as collateral		
(i) If collateral cannot be re-hypothecated	Not included as LA	Not included as LA
(ii) If collateral can be re-hypothecated - & is LA	Included as LA	Included as LA

- & is non-LA	Not included as LA	Not included as LA
3. Funds receivable from counterparty upon maturity (i) If collateral is LA (ii) If collateral is non-LA - & counterparty is a relevant bank - & counterparty is not a relevant bank	 Not to include as LA Increase 1-month liability of relevant banks to reporting AI (reflected in sub-item (A4)(a) or item (C2) as the case requires) Include in item (C4) if criteria for eligible loan repayments met	No effect on LMR

Annex 2

Numerical example for reporting of due to/from central banks and relevant banks

(I) Reporting of due to / from central banks

Assume Bank A and Bank B have the following positions:

	Bank A		Bank B	
	Usable on demand or within 24 hours	Mature in LMR period*	Usable on demand or within 24 hours	Mature in LMR period*
Due from central banks	80	160	20	40
Due to central banks	50	100	60	120

* *Not usable on demand or within 24 hours*

The two banks should report their respective positions as follows:

Items	Bank A		Bank B	
	Principal amount	Weighted amount	Principal amount	Weighted amount
(A3)	80	80	20	20
(B1)	150 (= 50 + 100)	150	180 = (60 + 120)	180
(C1)	160	160	40	40

(II) Reporting of due to / from relevant banks

Assume Bank A and Bank B have the following positions in interbank transactions:

	Bank A	Bank B
• Due from relevant banks maturing in the LMR period	100	20
• Due to relevant banks maturing in the LMR period	20	100
• Qualifying liabilities (before deductions)	150	150

The two banks should report their respective positions as follows:

Items	Bank A ("Net due from relevant banks" in 1 month $\geq$ 0)		Bank B ("Net due to relevant banks" in 1 month > 0)	
	Principal amount	Weighted amount	Principal amount	Weighted amount
(A4)(a)	100		*No need to report item (A4)*	
(A4)(b)	20			
(A4)(c)	80 (= 100 – 20)	60 = Min {(100-20)*80%, (150*40%)}		
(B2)	*No need to report items (B2) and (C2)*		100	100 (100% LCF)
(C2)			20	20 (100% LCF)
(C3)		4 (= 80*80% – 60)	n.a.	