

**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, which is used by the Monetary Authority (MA) to collect information from AIs on their liquidity ratios and related information. This document should be read in conjunction with –
- (i) the Banking (Liquidity) Rules (BLR), made by the MA under section 97H of the Banking Ordinance (BO) to prescribe liquidity requirements applicable to AIs. The BLR set out the requirements relating to, among other statutory liquidity ratios, the Liquidity Coverage Ratio (LCR) and the Liquidity Maintenance Ratio (LMR). The LCR is applicable to AIs designated by the MA as category 1 institutions under rule 3<sup>1</sup>, whereas the LMR is applicable to other AIs that are not designated as category 1 institutions (i.e. category 2 institutions);
  - (ii) the Banking (Liquidity Coverage Ratio – Calculation of Total Net Cash Outflows) Code (CoP) approved and issued under section 97M of the BO for the purposes of providing guidance on the calculation of “total net cash outflows”, the denominator of the LCR;
  - (iii) the statutory guideline *Regulatory Framework for Supervision of Liquidity Risk* (LM-1) issued by the MA under the Supervisory Policy Manual (SPM), which sets out the MA’s approach to supervising AIs’ liquidity risk and provides supplementary guidance to AIs in respect of the requirements on statutory liquidity ratios LCR or LMR requirements applicable to them under the BLR; and
  - (iv) the statutory guideline *Sound Systems and Controls for Liquidity Risk Management* (LM-2) under the SPM, which sets out the MA’s supervisory expectations on AIs’ liquidity risk management systems.

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

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<sup>1</sup> Unless the context otherwise requires, a reference to a “rule” in these CIs means a rule in the BLR.

2. This Return consists of 3 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 this 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.

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

- MA(BS)18 – Return on Selected Data for Liquidity Stress-testing;
- MA(BS)22 – Return on Intraday Liquidity Position of an Authorized Institution;
- MA(BS)23 – Return on Liquidity Monitoring Tools; and
- MA(BS)26 – Return of Stable Funding Position of an Authorized Institution.

## **GENERAL INSTRUCTIONS**

### **Bases of reporting**

4. In line with the basis of calculation required under rule 10(1)(a), all AIs (irrespective of their place of incorporation) must report their LCR or LMR, as the case may be, on a Hong Kong office basis.

AIs incorporated in Hong Kong must, pursuant to the bases of calculation required under rules 10(1)(b) and 11(1), additionally report their LCR or LMR respectively on the following bases where applicable<sup>2</sup>:

- (i) Unconsolidated basis, covering the AI's Hong Kong office and overseas branches (if any); and
- (ii) Consolidated basis (if the AI has one or more than one associated entity), covering the AI's Hong Kong office, overseas branch(es), and any associated entity specified by the MA on a case-by-case basis.

To avoid doubt, references in this Return to an AI incorporated in Hong Kong, in terms of reporting of the LCR or LMR on a consolidated basis, should also be construed in the context of the AI's consolidated group.

### **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 reporting applicable to it) to the MA not later than 14 days after the last day of each calendar month (i.e. the month-end reporting date). 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, obligations or cash flows under LCR or LMR**

7. Unless otherwise specified, all assets, liabilities, obligations and cash-flow items included in the calculation of the LCR or LMR should be measured according to the

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<sup>2</sup> By virtue of section 97H(3)(d) and (e) of the BO, rule 12(1) provides that the MA, after taking into account the liquidity risk associated with a part of a locally incorporated AI's business in or outside Hong Kong, may require the AI to calculate its LCR or LMR on the basis of that part by itself, or in conjunction with any other part of the AI's other business, if the MA considers it prudent and reasonable to do so. For example, in addition to the calculation (and hence reporting) bases specified in this paragraph, the MA may require an AI to calculate the LCR or LMR covering its operations in a particular country separately. The imposition of any such additional calculation (and hence reporting) basis will only be required when the MA envisages a genuine need therefor having regard to the AI's liquidity risk profile.

“trade-day approach” on the basis of their “principal amount” as defined in the BLR.<sup>3</sup>  
To elaborate further–

- (i) for the purposes of calculating the LCR, the “principal amount” of any marketable asset included as a “high quality liquidity asset” (HQLA) should be measured at fair value irrespective of the applicable accounting standards. The principal amount of other on-balance sheet assets and liabilities and associated cash flows should be the book value (including any accrued interest<sup>4</sup>) 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;
- (ii) for the purposes of calculating the LMR, the “principal amount” of any gold bullion, marketable debt security or prescribed instrument, or listed ordinary share included as a “liquefiable asset” should be measured at fair value irrespective of the applicable accounting standards, whilst other assets, liabilities, obligations and cash-flow items included in the calculation are measured at book value (including any accrued interest<sup>5</sup>) as determined according to the applicable accounting standards.

### **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. Reporting institutions are required to provide a breakdown of the reported amount of individual components of the LCR or LMR in the following currencies:

<b>Components of LCR</b>	<b>Components of LMR</b>
● HKD	● HKD
● US dollars (USD)	● US dollars (USD)

<sup>3</sup> The meaning of “principal amount” of an asset, liability, obligation or cash-flow item for LCR purposes is provided in rule 17. The meaning of this term for LMR purposes is provided in rule 48(8).

<sup>4</sup> The term “accrued interest” means the amount of interest accrued on an asset, liability, obligation or cash flow up to the position date of the LCR. (To avoid doubt, if the principal amount of an on-balance sheet item is measured at fair value, it is not necessary to add accrued interest to the reported principal amount.)

Apart from “accrued interest” that needs to be added to the book value of an on-balance sheet item, interest to be accrued on such an item within the LCR period (i.e. the reporting institution’s interest receivable or payable within the relevant period) should also be included in the calculation of the LCR. The treatment of interest receivable or payable differs across individual reporting items under the LCR. Please refer to CIs for specific items under the LCR.

<sup>5</sup> “Accrued interest” under the LMR has the same meaning as this term under the LCR. The preceding footnote is also applicable for LMR purposes after necessary modifications.

<ul style="list-style-type: none"> <li>● Major currencies (including euro (EUR), Japanese yen (JPY) and pound sterling (GBP))</li> <li>● renminbi (RMB)</li> <li>● other currencies*</li> </ul>	<ul style="list-style-type: none"> <li>● renminbi (RMB)</li> <li>● other currencies*</li> </ul>
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\* *If a reporting institution has significant exposures to any specific currency within the “other currencies” category, the institution should put in place adequate systems and procedures to ensure its ability to provide the relevant breakdown of the LCR / LMR components in that currency upon request by the MA. 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 (including shareholders’ funds).<sup>6</sup>*

### **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, obligation or cash-flow item is expected to fall within the LCR period or LMR period, reference should be made primarily to its contractual terms unless otherwise specified. For example, 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, obligation 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:

<sup>6</sup> In applying this benchmark to assess whether an AI has significant exposures to individual currencies on the Hong Kong office basis, the AI should conduct the assessment by reference to the “total liabilities” figure reported by it in item 11 of the monthly “Return of Assets and Liabilities of an Authorized Institution” (Form MA(BS)1). This assessment should be conducted by all AIs monthly.

If a locally incorporated AI has any overseas branch or specified associated entity, the AI should also assess periodically whether it has significant exposures to individual currencies on an unconsolidated basis or consolidated basis (or on both bases). This assessment on an unconsolidated basis should be based on the “total liabilities” figure reported by the AI in item 11 of the quarterly return “Combined Return of Assets and Liabilities of an Authorized Institution” (Form MA(BS)1B). The frequency of assessment should therefore be quarterly. For the assessment on a consolidated basis, a locally incorporated AI may measure the “5%” benchmark by reference to its consolidated total liabilities (including shareholders’ funds) published in its latest financial statements. This assessment on a consolidated basis should be conducted semi-annually once the required consolidated “total liabilities” figure is available.

- (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, the institution 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 has an option to advance payment in relation to a liability or obligation (or a cash outflow arising from the liability or obligation) to the counterparty such that the payment date falls within the LCR period or LMR period and there is market expectation that the institution will exercise the option, the institution should assume that the option will be exercised and should count the liability or obligation (or the associated cash outflow) in the LCR or LMR.<sup>7</sup> If however the institution has an option to defer payment in relation to a liability or obligation (or the associated 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.

### **No double counting of reported items**

12. Any asset, liability, obligation or cash-flow item included in the calculation of the LCR or LMR for reporting in this Return should not be double counted. For example,
- (i) in the case of the LCR, if an asset is included in the reporting institution's HQLA (numerator), any cash inflow associated with the asset (e.g. arising from the maturity of the asset within the LCR period) cannot be included in the institution's total net cash outflows (denominator). Similarly, in the case of the LMR, an asset included in the institution's liquefiable assets (numerator) cannot be deducted from the institution's qualifying liabilities (denominator) even if the asset is due to mature within the LMR period; and
  - (ii) where a liability or funding obligation of the reporting institution arising from a transaction can potentially be included in more than one type of expected cash outflow under the LCR (or qualifying liability under the LMR), it is not necessary for the institution to include such liability or obligation in the calculation of each and every applicable type of expected cash outflow under

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<sup>7</sup> This treatment takes into account the possible interaction between an AI and its creditors. For example, if the liability or obligation 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).

the LCR (or qualifying liability under the LMR), provided that the outflow treatment will yield the maximum amount of expected cash outflow for such liability or obligation under the LCR (or qualifying liability under the LMR), save for situations where a specific outflow treatment is clearly prescribed in the BLR.<sup>8</sup>

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<sup>8</sup> For example, a category 1 institution has arranged a structured financing transaction (e.g. under an asset-backed commercial paper issuance programme) via a special purpose entity (SPE) and the institution has provided a committed liquidity facility to the SPE or any associated entity (say, in order to cater for the possible needs for the SPE to redeem the structured financial instrument issued under that transaction or to support an associated entity to act as a market-maker for the instrument). If the financial instrument issued by the SPE will mature within the LCR period and therefore the expected cash outflow arising from the redemption of the instrument is reported in item B17 of Section (I) under Part 2 of this Return, the institution does not need to report the committed liquidity facility associated with this structured financing transaction in item B19 or item B21 of Section (I) under Part 2 of this Return.

## **SPECIFIC INSTRUCTIONS**

### **PART 1: SUMMARY CERTIFICATE OF LIQUIDITY POSITION**

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

13. If the reporting institution is a category 1 institution, complete items 1.8 and 1.9 (*the highest and the lowest LCR during the reporting period respectively*) and item 1.10 (*the lowest level of HKD-denominated HQLA (level 1 assets) as a percentage of HKD-denominated total net cash outflows (before application of 75% inflow ceiling) during the reporting period*). The other information included in this Section will be generated automatically from that reported by the institution in Part 2 of this Return.

Item 1.8 (together with item 1.9) enables the MA to monitor the variation of the level of LCR during the reporting period.

Item 1.9 enables the MA to monitor whether a category 1 institution complied with the minimum level of LCR required under rule 4 during the reporting period.

Item 1.10 enables the MA to monitor whether a category 1 institution, which is a “rule 37 institution” (as defined in rule 36), complied with the requirements in rule 37(d) that it held at least an amount of HKD-denominated level 1 assets that was not less than 20% of its HKD-denominated total net cash outflows (before application of the 75% inflow ceiling) during the reporting period. For the purposes of this item, the amount of HKD-denominated level 1 assets should be calculated before adjustments of the 15% ceiling on level 2B assets and 40% ceiling on the sum of level 2A and level 2B assets. Please refer to the explanatory note provided in item A6 in Section (I) under Part 2 of this Return and Annex 1.

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

14. If the reporting institution is a category 2 institution, complete item 2.7 “Lowest LMR during the reporting period”<sup>9</sup>. The other information required in this Section will be generated automatically from that reported by the reporting institution in respect of its LMR position in Part 3 of this Return.

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<sup>9</sup> Item 2.7 should be the lowest LMR level calculated by the reporting institution covering all working days during the reporting period, irrespective of whether the institution is allowed to calculate its average LMR, for the purposes of rule 7, by reference to specific days approved by the MA under rule 48(2). This figure will enable the MA to monitor a category 2 institution’s liquidity position throughout the reporting period in a more comprehensive manner.



## PART 2: LIQUIDITY COVERAGE RATIO

### General requirements for reporting of LCR

#### *Inclusion of assets as HQLA*

15. The reporting institution should only report in its stock of HQLA any asset that fulfils the following requirements:
- (i) the asset falls within a class of assets specified in Schedule 2 to the BLR and meets the qualifying criteria applicable to that class of asset as specified in the Schedule;
  - (ii) the asset satisfies the characteristic requirements specified in Schedule 3 to the BLR, and the operational requirements specified in Schedule 4 to the BLR that are applicable to the asset;
  - (iii) the institution satisfies the operational requirements specified in Schedule 4 to the BLR that are applicable to the institution in so far as those requirements relate to the asset.
16. If an asset held by the reporting institution is eligible for inclusion as HQLA and the asset is due for redemption within the LCR period, report the asset as HQLA instead of as a cash inflow. If, however, the asset no longer qualifies as HQLA, report the asset as a cash inflow (measured at book value, including accrued interest) plus any interest receivable upon redemption. To avoid doubt, any asset lent by the institution to a third party (or borrowed from a third party) on an uncollateralized basis (e.g. the asset lending or borrowing transaction is not conducted under a repo-style transaction) cannot be counted as the institution's HQLA in any circumstance.
17. Pursuant to rules 23 and 24, if the reporting institution is incorporated in Hong Kong, the HQLA held by the institution's overseas branch or specified associated entity can be included under Section (I)A of this Part for the calculation of its LCR on a consolidated basis, unconsolidated basis and/or other basis specified by the MA under rule 12 (where applicable) only to the extent that the total net cash outflows of the branch or entity are also included in Section (I)B of this Part (irrespective of whether the HQLA are subject to liquidity transfer restriction).<sup>10</sup>

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<sup>10</sup> For example, if a category 1 institution's consolidated group member has –

- HQLA of \$1000; and
- total net cash outflows of \$600, which is included in the calculation of the institution's LCR,

a portion of the member's HQLA (up to \$600) can be included in the institution's consolidated stock of HQLA according to rule 23(1) even if that portion of HQLA is subject to liquidity transfer restriction. (This example is applicable even if the minimum requirement of the LCR is less than 100% during 2015 to 2018.)

18. If however the branch or entity is holding any “surplus HQLA” (as defined in rule 23(4)), any such surplus HQLA included in Section (I)(A) of this Part must meet the conditions set out in rule 23(2), including (i) the free transferability at all times of the surplus HQLA to the institution’s Hong Kong office; and (ii) the absence of any liquidity transfer restriction affecting, or of any reasonable doubt about, the free transferability of the surplus HQLA.<sup>11</sup>

***Determination of risk-weights for marketable debt securities***

19. For the purposes of reporting the amount of marketable debt securities under sub-items A1(c), A1(d), A1(e) and A2(a) in Section (I) of this Part, the risk-weights applicable to those debt securities are to be determined under the standardized (credit risk) approach (STC Approach) prescribed in the following sections under Part 4 of the Banking (Capital) Rules (BCR)<sup>12</sup>:

<u>Marketable debt securities issued or guaranteed by:</u>	<u>Applicable provisions in BCR for determining the risk-weight:</u>
● Sovereigns or central banks	● Section 55
● Public sector entities	● Section 57
● Relevant international organizations	● Section 56
● Multilateral development banks	● Section 58

For LCR purposes, EF debt securities are to be treated as if they were issued by a central bank (i.e. determining the risk-weight under section 55 of the BCR).

***Reporting of net positions in marketable debt securities***

20. Generally speaking, a marketable debt security reported as HQLA by the reporting institution should be net of the institution’s short position in that security. If the institution is carrying a net short position in a security, no long position in that security

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<sup>11</sup> According to rule 23(4), surplus HQLA held by a category 1 institution’s consolidated group member refers to the amount of HQLA held by that member that is more than the higher of –  
 (a) the member’s total net cash outflows;  
 (b) the HQLA required to be held by the prevailing regulations applicable to that member.

Using the example provided in the preceding footnote,

- if the consolidated group member is subject to a minimum LCR requirement of 100% (or a level less than 100%), the member is regarded to have an amount of surplus HQLA equal to \$400;
- if the member is subject to a minimum LCR requirement of more than 100% (e.g. 120%), the member is regarded to have less surplus HQLA (e.g. \$280 = 1000 – max (600, 600\*120%).

The member’s surplus HQLA as calculated above can be included in the institution’s consolidated stock of HQLA only if the surplus HQLA is not subject to liquidity transfer restriction.

<sup>12</sup> As required in the 2013 BCBS LCR Document (Footnote 15), the 0% risk-weight applicable to level 1 assets cannot be determined by national discretion under the STC Approach (as provided in paragraph 53 of the Basel II document “*International Convergence of Capital Measurement and Capital Standard*”, which is available at: <http://www.bis.org/publ/bcbs128.pdf>). The same principle applies to the 20% risk-weight applicable to level 2A assets.

should be reported as HQLA. Instead, the institution should report the net short position as a cash outflow under item B22 in Section (I) of this Part.

21. For example, if the reporting institution has the following positions in debt securities which are eligible for recognition as HQLA:

	<u>Long</u>	<u>Short</u>	<u>Net Long (Net Short)</u>
Debt Security A	\$900	\$300	\$600
Debt Security B	500	750	(250)

The institution may recognise \$600 net long position in Debt Security A as HQLA. The net short position (\$250) in Debt Security B should be reported as cash outflow under item B22 in Section (I) of this Part.

However, if the reporting institution is a market maker of EF debt securities, it can only recognise its net long position in EF debt securities as HQLA. In the above example, if Debt Security A and Debt Security B are both EF debt securities (e.g. in different tenors) held by the institution as a market maker, the net long position in all such securities (\$350 = \$600 – \$250) should be reported as HQLA by the institution. No cash outflow should therefore be reported in respect of the net short position in Security B (\$250).

### ***Transactions with obligations for delivery of collateral***

22. If the reporting institution has entered into a transaction whereby the institution has an obligation to deliver an amount of assets as collateral to the counterparty by selecting from a list of allowable assets, and the institution has not actually decided what type of asset is to be delivered, the institution should, for the purposes of calculating the expected cash outflow arising from this obligation to deliver collateral to the counterparty for reporting in this Part, assume that it would select assets within the allowable list in a descending order of the level of haircut applicable to the assets in the list. If the list contains the following types of asset, the order of selection would be –

- 1<sup>st</sup>: assets that do not qualify as HQLA;
- 2<sup>nd</sup>: level 2B assets that are not approved RMBS;
- 3<sup>rd</sup>: approved RMBS;
- 4<sup>th</sup>: level 2A assets; and
- 5<sup>th</sup>: level 1 assets.

23. If the allowable list includes assets denominated in different currencies and the reporting institution has not actually decided which assets are to be delivered, the institution may, for the purposes of completing the currency-specific columns in the templates, assume that the order of selection would be –

- 1<sup>st</sup>: assets denominated in “other currencies”;
- 2<sup>nd</sup>: assets denominated in RMB;
- 3<sup>rd</sup>: assets denominated in “other major currencies” (i.e. EUR, JPY and GBP);

- 4<sup>th</sup>: assets denominated in USD; and
- 5<sup>th</sup>: assets denominated in HKD.

24. In the case of a securities swap transaction where the reporting institution's counterparty is also obliged to deliver an asset to the institution by selecting from a list of allowable assets, the above assumptions on selection of assets are also applicable to the institution's counterparty. (Please refer to the CIs for items B9 and C3 in Section (I) of this Part.)

### ***Cash flows arising from forward contracts and transactions awaiting settlement***

25. Cash flows arising from forward contracts should be treated under the LCR according to the CIs provided in **Annex 2**. Cash flows arising from transactions conducted by the reporting institution and awaiting settlement within the LCR period can be treated by reference to paragraph 4 of Annex 2, unless specified otherwise.

### ***Pledged deposits***

26. Consistent with rule 41(2), a pledged deposit placed with the reporting institution by a customer (other than a bank) that is contractually pledged to the institution as collateral to secure a loan from the institution may be excluded from the institution's total expected cash outflows to be reported under Section (I)B of this Part, provided that the following conditions are met:
- (i) the loan will not be settled within the LCR period;
  - (ii) the pledge arrangement is subject to a legally enforceable contract that effectively disallows withdrawal of the deposit before the loan is fully settled; and
  - (iii) the amount of deposit to be excluded does not exceed the outstanding balance of the loan.
27. The above reporting treatment does not apply if the pledged deposit is pledged as collateral against an undrawn credit facility, in which case the reported amount of expected cash outflow that relates to that deposit or facility should be calculated based on the higher of the outflow rates that are respectively applicable to the deposit or facility as if the deposit were not a pledged deposit (re rule 41(3)).
28. If a pledged deposit is pledged as collateral against a partially drawn credit facility (re rule 41(4)) –
- (i) the reporting treatment under paragraph 26 applies to the drawn portion of the facility; and

- (ii) the reporting treatment under paragraph 27 applies to the undrawn portion of the facility.

### ***Deposits taken by deposit-taking companies***

29. Where the reporting institution (or its specified associated entity in case of a locally incorporated institution) is a deposit-taking company (DTC), the reporting of deposits taken by the DTC under Section (I)B of this Part should follow the CIs set out in **Annex 4**.

## **Specific requirements for reporting of LCR**

### **Section (I): Liquidity Coverage Ratio (Month-end position)**

30. In this Section, a category 1 institution should report the components of its LCR based on its month-end position in accordance with the CIs set out below. The post-haircut factor applicable to each HQLA item, outflow rate applicable to each cash outflow item, and inflow rate applicable to each cash inflow item, are specified as “Weight” under Column 4 of the reporting templates in Section (I)A, (I)B and (I)C of this Part respectively. The reporting institution should apply these weights for calculating the weighted amounts of HQLA, total expected cash outflows and total expected cash inflows for the purposes of reporting the LCR.

#### **Section (I)**

##### **Ref. no.**

#### **A. HIGH QUALITY LIQUID ASSETS (HQLA)**

Assets reported as HQLA by the reporting institution should meet all relevant qualifying requirements referred to in paragraph 15, and other applicable requirements set out in paragraphs 16 to 24, of these CIs.

#### **A1 Level 1 assets**

##### ***A1(b) Withdrawable central bank reserves***

Report in this sub-item the book value (including accrued interest) of any funds placed by the reporting institution with the MA for the account of the Exchange Fund that are repayable on demand; or any of the following funds placed by the reporting institution with a central bank whereby the funds are –

- (i) repayable on demand;
- (ii) term funds that are explicitly and contractually repayable on notice (which expires on the first day of the LCR period) from the institution; and

- (iii) term funds against which the institution can borrow from the central bank a loan on a term basis (or on an overnight but automatically renewable basis). If the amount of the loan that the institution may borrow from the central bank against the term funds concerned and the amount of the funds are different, report the lower of those two amounts.

If the reporting institution carries on a banking business in an overseas country which is subject to reserve requirements imposed by the central bank in that country, the reserves placed with the central bank may be reported in this sub-item only if –

- (i) the reported amount is the portion of funds placed with the central bank that exceeds minimum reserve requirements and hence is repayable on demand; or
- (ii) the reported amount is the portion of the required reserves that is allowed by the central bank to be drawn down by the institution in times of financial stress. This should be supported by reliable evidence<sup>13</sup> that can effectively confirm the extent to which the required reserves placed by the institution are able to be withdrawn in times of stress.

RMB funds placed with the reporting institution’s RMB Fiduciary Account opened with the People’s Bank of China (PBoC) through the RMB Clearing Bank can be regarded as funds placed with an overseas central bank and hence be reported in this sub-item, subject to the funds meeting the relevant qualifying requirements for recognition as HQLA. (Please refer to Part 7 of, and Schedules 2 to 4 to, the BLR for the details of the relevant qualifying requirements.)

***A1(c) to (e) Marketable debt securities recognised as level 1 assets***

- A1(c) Report in this sub-item the fair value of marketable debt securities that comply with the requirements specified in Schedule 2 (section 1(c) of Part 2 and section 1 of Part 3) to the BLR. In particular, these debt securities must be issued or guaranteed by a sovereign, central bank, public sector entity, relevant international organization or multilateral development bank, or that are EF debt securities, and qualify for a risk-weight of 0% under Part 4 (STC approach) of the BCR.
- A1(d) Report in this sub-item the fair value of marketable debt securities that comply with the requirements specified in Schedule 2 (section 1(d) of Part 2 and section 2 of Part 3) to the BLR. In particular, these debt securities must be issued by the sovereign or

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<sup>13</sup> “Reliable evidence” may include, for example, a public policy statement announced by the central bank or relevant authority in the host country in which the institution’s consolidated group member is operating, a notice or confirmation letter issued by the central bank or relevant authority in that host country to that member, or any other official document that can effectively verify that the reserves concerned are truly withdrawable in stressed conditions. The institution should be able to present the evidence to the MA upon request. If necessary, the MA may directly confirm with the central bank or relevant authority in that host country.

central bank of a country and denominated in the local currency of the country, or must be EF debt securities, and which –

- (i) do not qualify for a 0% risk-weight under Part 4 (STC approach) of the BCR (i.e. section 55) (hence do not qualify for inclusion in sub-item A1(c)); or
- (ii) qualify for a 0% risk-weight only by virtue of section 56 of the BCR

provided that the institution is incorporated, or carries on a banking business through a branch or consolidated entity, in the country.<sup>14</sup>

A1(e) Report in this sub-item the fair value of marketable debt securities that comply with the requirements set out in Schedule 2 (section 1(e) of Part 2 and section 3 of Part 3) to the BLR. In particular, these debt securities must be issued by the sovereign or central bank of a country and meet the criteria set out for item A1(d) except that the debt securities are denominated in a currency that is not the local currency of the country in which the reporting institution is incorporated or carries on a banking business through a branch or consolidated entity. The amount of debt securities reported in this sub-item should not exceed the amount of total net cash outflows in the non-local currency (in which the debt securities are denominated) arising from the institution's banking business in the country.<sup>15</sup>

## **A2 Level 2A assets**

A2(a) Report in this sub-item the fair value of marketable debt securities that comply with the requirements set out in Schedule 2 (section 2(a) of Part 2 and section 4 of Part 3) to the BLR. In particular, these debt securities must be issued or guaranteed by a sovereign, central bank or public sector entity, and which qualify for a 20% risk-weight under Part 4 (STC approach) of the BCR, but which do not qualify for inclusion as level 1 assets in sub-item A1(d) or A1(e)<sup>16</sup>.

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<sup>14</sup> For example, if the reporting institution is incorporated in Country A or maintains a branch or consolidated entity in Country A, the institution can recognise a non-0% risk-weight debt security issued by the sovereign or central bank in Country A in its local currency as a level 1 asset under this sub-item, provided that other qualifying criteria are met. If the institution's branch or consolidated entity ceases to operate in Country A, the debt security concerned will no longer be eligible for recognition as a level 1 asset under this sub-item. In this situation, whether the debt security can be recognised as HQLA under another asset class (e.g. as a level 2A asset under sub-item A2(a)) will depend on its compliance with the qualifying criteria applicable to any other asset class.

<sup>15</sup> Using the example provided in the preceding footnote, if the debt security concerned is denominated in a foreign currency (e.g. "currency B") which is not the local currency of Country A, the reporting institution can recognise the debt security as level 1 HQLA under sub-item A1(e) up to an amount not exceeding the total net cash outflows of the institution in currency B (arising from the banking business conducted by the institution in Country A).

<sup>16</sup> Pursuant to section 2(2) and section 3(2) of Part 3 of Schedule 2 to the BLR, category 1 institutions are allowed to report marketable debt securities that qualify for inclusion under both sub-item A1(d) (or A1(e)) and sub-item A2(a) as level 1 assets under sub-item A1(d) (or A1(e)).

A2(b) Report in this sub-item the fair value of marketable debt securities that comply with the requirements set out in Schedule 2 (section 2(b) of Part 2 and section 5 of Part 3) to the BLR. In particular, these debt securities must be issued by corporates and assigned with a credit quality grade as specified in section 5 of Part 3 of Schedule 2 to the BLR.

The credit quality grade of a corporate debt security (or a covered bond in the case of sub-item A2(c)) is determined by either one of the following approaches:

- (i) if the debt security (or covered bond) has an ECAI issue specific rating, map the rating to the relevant LT ECAI rating mapping table or ST ECAI rating mapping table (where applicable) for determining the credit quality grade<sup>17</sup>; or
- (ii) if the debt security (or covered bond) does not have an ECAI issue specific rating and the reporting institution holding the debt security is approved by the MA to use the IRB approach under section 8 of the BCR (if the institution is incorporated in Hong Kong) or by the institution's home supervisor (if the institution is incorporated outside Hong Kong) to use the internal ratings-based approach that reflects the standards of the BCBS to calculate capital charge for credit risk, use the institution's internally rated probability of default for the debt security as a reference for determining the credit quality grade.

A2(c) Report the fair value of covered bonds that comply with the requirements set out in Schedule 2 (section 2(c) of Part 2 and section 6 of Part 3) to the BLR. In particular, the covered bonds reported in this sub-item must qualify for the required credit quality grade by following the CIs provided for sub-item A2(b).

### A3 Level 2B assets

A3(a) Report in this sub-item the fair value of marketable debt securities that comply with the requirements set out in Schedule 2 (section 3(a) of Part 2 and section 7 of Part 3) to the BLR. In particular, this item covers those debt securities which are –

- issued by corporates and assigned with a credit quality grade of 1, 2, 3 or 4 (if section 7(1)(a)(i), (b)(i) or (b)(iii) of Part 3 of Schedule 2 to the BLR is applicable); or 1, 2 or 3 (if section 7(1)(a)(ii) or (b)(ii) of Part 3 of Schedule 2 to the BLR is applicable); or
- issued by sovereigns, central banks or public sector entities, and assigned with a credit quality grade of 1, 2, 3 or 4 (if section 7(1)(ba) or (bb)(i) of Part 3 of

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<sup>17</sup> In brief, a corporate debt security or a covered bond that can be recognised as a level 2A asset must have a long-term ECAI issue specific rating of AA- or better. In the case of a corporate debt security (e.g. commercial paper) that does not have a long-term ECAI issue specific rating, that security must have a short-term ECAI issue specific rating representing a comparable level of credit quality.



Schedule 2 to the BLR is applicable); or 1, 2 or 3 (if section 7(1)(bb)(ii) of Part 3 of Schedule 2 to the BLR is applicable).<sup>18, 19</sup>

A3(b) Report in this sub-item the fair value of listed ordinary shares that comply with the requirements set out in Schedule 2 (section 3(c) of Part 2 and section 10 of Part 3) to the BLR.<sup>20</sup>

A3(c) Report in this sub-item the fair value of any RMBS that comply with the requirements set out in Schedule 2 (section 3(b) of Part 2 and sections 8 and 9 of Part 3) to the BLR. In particular, the RMBS reported in this sub-item must have been approved by the MA (under section 9 of Part 3 of Schedule 2 to the BLR) for the reporting institution to include those securities as level 2B assets.<sup>21</sup>

**A5 Deduction: Adjustments for 15% ceiling on level 2B assets and 40% ceiling on sum of level 2A and level 2B assets**

Complete Table 1 of Section (II) of this Part according to the CIs provided in **Annex 3**, including adjustments before and after the reversal by the reporting institution of any relevant securities financing transaction, which requires the institution to exchange with its counterparty, during the LCR period, an asset in its stock of HQLA for another asset, both of which are eligible for inclusion as HQLA.<sup>22</sup> Table 1 will generate the required figures for this item.

**A6 Deduction: foreign exchange haircuts (if BLR rule 37 is applicable)**

The figure to be reported under this item is generated automatically provided that the reporting institution fulfils the conditions set out in rule 37, including, among others, the institution's holding of HKD-denominated HQLA (level 1 assets) is not less than 20% of its HKD-denominated total net cash outflows. A numerical example is

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<sup>18</sup> In brief, a marketable debt security that can be recognised as a level 2B asset must have a long-term ECAI issue specific rating of BBB-or above. In the case of a marketable debt security (e.g. commercial paper) that does not have a long-term ECAI issue specific rating, that security must have a short-term ECAI issue specific rating representing a comparable level of credit quality.

<sup>19</sup> If a marketable debt security cannot meet all criteria for inclusion as HQLA at a higher level, it may still be possible for inclusion as HQLA at a lower level provided that all applicable criteria for that level are satisfied. For example, a marketable debt security issued by a corporate with a credit quality grade of "1" but having a historical record of price decrease exceeding 10% at any time within a 30-day period cannot be recognised as level 2A assets. However, it may still be recognised as level 2B assets if its price has not decreased by more than 20% within any 30-day period, and all other applicable criteria for level 2B assets are satisfied.

<sup>20</sup> If the institution has taken liquidity risk in a particular country (e.g. having an operation in that country through a branch or subsidiary), the eligible overseas ordinary shares listed in that country can also be booked in the institution's Hong Kong office if the Hong Kong office is the booking centre for the institution's overseas exposures.

<sup>21</sup> Please refer to **Annex 2** of SPM module LM-1 for further guidance on the treatment of RMBS under the LCR.

<sup>22</sup> This means that all relevant requirements set out in rule 25 are met by the assets concerned, or by the institution holding the asset insofar as those requirements relate to the asset, when the asset is held by the institution.

provided in **Annex 1** to demonstrate the calculation of the additional adjustment due to foreign exchange haircuts, which will be transposed to item A6 of Section (I) of this Part.

## **B. TOTAL EXPECTED CASH OUTFLOWS<sup>23</sup>**

### **B1 Retail deposits taken by Hong Kong office**

Report in item B1 the book value (including accrued interest) of retail deposits taken by the reporting institution in its Hong Kong office. Interest to be accrued (and payable by the institution) within the LCR period should also be reported in this item. Provide a breakdown of these deposits by (i) stable retail deposits; (ii) less stable retail deposits; and (iii) retail term deposits.

For stable retail deposits, insert an outflow rate of 3% under the “weight” column of item B1(a) if the reporting institution has put in place and maintained effective systems and procedures to ensure compliance with all requirements set by the Hong Kong Deposit Protection Board (HKDPB) to facilitate swift operation of the Deposit Protection Scheme. (Such requirements may include, for example, timely submission of information in accordance with the requirements set out in the Guideline on Information Required for Determining and Paying Compensation issued by the HKDPB.) Otherwise, insert an outflow rate of 5% in item B1(a) if the institution cannot meet the HKDPB’s requirements, or is specifically required to do so by the MA.

If a time deposit taken by a category 1 institution from a retail customer cannot meet the criteria (or if the institution is unable to ascertain whether a time deposit can meet the criteria) for being classified as a “retail term deposit”, the deposit must be treated as a less stable retail deposit if it cannot satisfy the criteria for being classified as a “stable retail deposit”.

For the purposes of reporting the breakdown of a deposit item by currency, if a retail customer has placed deposits denominated in more than one currency with the reporting institution and these deposits are covered by an effective deposit insurance scheme (EDIS), assume that the EDIS covers these deposits in the order of (i) HKD deposits; (ii) USD deposits; (iii) deposits denominated in other major currencies (i.e. EUR, JPY and GBP); (iv) RMB deposits; and (v) deposits denominated in other currencies. (This assumption is also applicable to items B3 to B6, where deposit insurance coverage is also a relevant factor affecting the calibration of these items.)

### **B2 Retail deposits taken by overseas offices**

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<sup>23</sup> Please refer to the guidance provided in subsection 5.8 of SPM module LM-1.

Item B2 is applicable to locally incorporated reporting institutions whose overseas offices (e.g. overseas branches or overseas specified associated entities) have taken retail deposits, for the purposes of reporting their LCR on an unconsolidated basis, consolidated basis and/or other basis specified by the MA under rule 12 (where applicable). Unless rule 22(3) or (4) applies, the expected cash outflow arising from those overseas retail deposits is calculated in accordance with the liquidity requirements applicable to such deposits imposed by the relevant banking supervisory authority of the host country concerned in which the deposits are taken.

Report in item B2 the aggregate book value (including accrued interest) of, and the aggregate expected cash outflows arising from, retail deposits taken by all overseas offices of the locally incorporated reporting institution. Any interest to be accrued (and payable by the institution) within the LCR period should also be reported in this item.

The following is an illustration of how item B2 should be reported assuming that the reporting institution takes stable retail deposits in two overseas countries:

	Principal amount of stable retail deposits taken by an institution's overseas offices	Outflow rates applicable in the relevant country
Country A	USD1000 (equiv. HKD7800)	3%
Country B	EUR200 (equiv. HKD2000)	5%

Sub-item B2(a) should be reported as follows:

	Principal amount	Weight	Weighted amount	Breakdown of weighted amount by currencies				
				HKD	USD	Other major \$	RMB	Other \$
2 Retail deposits taken by overseas offices								
(a) stable retail deposits	9800		334		234 =7800*3%	100 =2000*5%		

### **B3, B4 Small business funding**

Report in items B3 (or B4) the book value (including accrued interest) of small business funding obtained by the reporting institution in accordance with the CIs for items B1 (or B2), as if such funding is akin to retail deposits taken by the reporting institution's Hong Kong office (or overseas office as the case may be).

### **B5 Operational deposits**

Report in this item the book value (including accrued interest) of operational deposits received by the reporting institution from wholesale customers (other than small business customers), including both financial institutions and non-financial entities. Interest to be accrued on these deposits (and payable by the institution) within the LCR period should also be reported in this item. The deposits reported in this item must

meet the qualifying criteria in relation to operational deposits provided in clause 7 of the CoP.

If the deposits taken by the reporting institution from a customer consist of both operational deposits and non-operational deposits, assume that the portion of deposits that qualifies as operational deposits will take precedence over the remaining deposits when determining the level of protection covered under an EDIS (where applicable).

For example, assume that the reporting institution has taken the following deposits from customers:

<u>(Unit: HKD'000 equivalent)</u>	<u>Customer A</u> <u>(non-FI)</u>	<u>Customer B</u> <u>(non-FI)</u>	<u>Customer C</u> <u>(non-FI)</u>	<u>Customer D</u> <u>(FI)</u>
Operational deposits that comply with clause 7 of CoP	700	500	150	400
Other deposits not regarded as operational deposits	300	250	350	200
Total	1,000	750	500	600

The deposits are insured under an EDIS up to HKD500,000 equivalent per a customer's total eligible deposits placed with the institution.

The reporting institution should report the above deposits in item B5 (and item B6) as follows:

		<u>(Unit: HKD'000 equivalent)</u>			
		Customer A	Customer B	Customer C	Customer D
5	Operational deposits				
(a)	fully insured by an effective deposit insurance scheme	500	500	150	400
(b)	not covered under sub-item B5(a)	200	0	0	0
(c)	<i>Memorandum item: Excess operational deposits (excluded from sub-item B5(a) or B5(b))</i>	300	250	350	200
6	Unsecured wholesale funding				
(a)	(other than operational deposits) provided by corporates, etc.				
	(i) amount entirely protected by EDIS	0	0	350	0
	(ii) not covered under sub-item B6(a)(i)	300	250	0	0
(b)	other than funding mentioned in item B3, B4, B5 or sub-item B6(a)	0	0	0	200

For sub-item B5(a), the outflow rate should be the same as that used by the reporting institution in sub-items B1(a) and B3(a).

Report in sub-item B5(c), as a memorandum item, excess operational deposits (excluded from sub-item B5(a) or B5(b)). As demonstrated in the above example, this portion of deposits should be included in item B6.

## **B6 Unsecured wholesale funding (other than operational deposits)**

Report the book value (including accrued interest) of unsecured whole funding (other than operational deposits) in this item according to the CIs below. Interest to be accrued on such funding (and payable by the institution) within the LCR period should also be included.

Sub-item B6(a) covers unsecured wholesale funding (other than operational deposits) provided by corporates (other than small business customers), sovereigns, the MA for the account of the Exchange Fund, central banks, multilateral development banks and public sector entities. Report the funding concerned in two separate components:

- (i) report in paragraph (i) the funding provided by customers captured in this sub-item the entire amount of which is fully insured by an EDIS; and
- (ii) report in paragraph (ii) the funding provided by customers captured in this sub-item the entire amount of which is not fully insured by an EDIS.

Hence, if a customer provides funding of \$800,000 to the reporting institution but the EDIS concerned provides full protection only up to \$500,000 of a customer's eligible deposits, the entire amount (\$800,000) does not fall within paragraph (i) and has to be reported in paragraph (ii) of this sub-item.

Report in sub-item B6(b) unsecured wholesale funding other than funding covered under item B3, B4, B5 or B6(a). This means that this sub-item does not include small business funding, operational deposits, and unsecured wholesale funding provided by wholesale customers (excluding small business customers). The customers covered in this sub-item may include, for example, financial institutions, fiduciaries<sup>24</sup>, beneficiaries<sup>25</sup>, conduits and SPEs engaged in structured financing transactions, and any of the reporting institution's associated entities which is not a financial institution. Unsecured wholesale funding received by the institution in the course of providing correspondent banking and prime brokerage services should also be reported in this sub-item.<sup>26</sup> In addition, this sub-item should include unsecured wholesale funding (other than small business funding) received by the reporting institution (or its specified associated entity), if the institution (or that entity) is a DTC that is not subject to section 12(3) of the BO by virtue of the MA's written permission to early repay the funding concerned (see **Annex 4** for details).

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<sup>24</sup> The term "fiduciary" means a legal entity that is authorized to manage assets on behalf of a third party. Fiduciaries include asset management entities such as pension funds and other collective investment vehicles. (Please refer to Footnote 43 of the 2013 BCBS LCR Document.)

<sup>25</sup> The term "beneficiary" means a legal entity that receives, or may become eligible to receive, benefits under a will, insurance policy, retirement plan, annuity trust or other contract. (Please refer to Footnote 44 of the 2013 BCBS LCR Document.)

<sup>26</sup> As provided in clause 9 of the CoP, if a category 1 institution has received from customers any unsecured wholesale funding in the course of providing prime brokerage services to those customers and the funding is withdrawable within the LCR period, the entire amount of that funding is included in this sub-item, irrespective of whether the institution has maintained, or is required to maintain, all or any portion of the funding in segregate accounts for the protection of customer assets.

**B7 Debt securities and prescribed instruments issued by the reporting institution and redeemable within the LCR period**

Report in this item the book value (i.e. the amount that is contractually redeemable upon maturity, including accrued interest) of debt securities and prescribed instruments issued by the reporting institution which are redeemable within the LCR period, irrespective of the type of investors holding these securities and instruments. Interest to be accrued on these securities and instruments (and payable by the institution) within the LCR period should also be reported in this item.

To avoid doubt, this item does not cover the redemption of asset-backed securities, covered bonds or other structured financial instruments issued by the reporting institution within the LCR period. The expected cash outflow arising from the redemption of such instruments should be reported in item B17.

**B8 Secured funding transactions (other than securities swap transactions)**

Report in this item the book value (including accrued interest, if any) of money payable by the reporting institution within the LCR period arising from maturing secured funding transactions (which are not securities swap transactions). Breakdown the money payable by type of counterparty and/or the type of collateral<sup>27</sup> posted by the institution to the counterparty as required.

The specific currency columns should be reported based on the currency denomination of the money payable by the institution (irrespective of the currency denomination of the underlying collateral).<sup>28</sup>

If the reporting institution has entered into a securities lending transaction under which the institution lends its own securities to the counterparty to cover the latter's short positions in equivalent securities and receives a sum of money from the counterparty in exchange, the expected cash outflow arising from the transaction should be included under this item. If, however, the securities lent by the institution to the counterparty are obtained from another counterparty as collateral, and the securities do not qualify as HQLA, the expected cash outflow arising from the transaction should instead be included under item B21 as "other contingent funding obligations" (please refer to the CIs for item B21 for details).

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<sup>27</sup> As provided in clause 11(3) of the CoP, a secured funding transaction (other than a securities swap transaction) entered into by a category 1 institution is not regarded as being collateralized by an asset that falls within level 1 assets, level 2A assets, approved RMBS or other level 2B assets unless that asset satisfies the requirements set out in rule 25(a) and (b) that are applicable to it.

<sup>28</sup> For example, if the reporting institution is obliged to pay an amount of money in Hong Kong dollars within the LCR period under a secured funding transaction which is collateralized by a security denominated in USD dollars, the institution should report the amount payable in the "HKD" column instead of the "USD" column.

For the purposes of reporting under sub-item B8(b), the terms “domestic public sector entity” and “foreign public sector entity” are defined in the BCR. Any public sector entity being referred to in this sub-item must qualify for a risk-weight of not exceeding 20% in the calculation of credit risk under the STC approach (in accordance with section 57 of the BCR).

## **B9 Securities swap transactions**

If the reporting institution has entered into a securities swap transaction that is due for settlement within the LCR period, complete Table 3 in Section (II) of this Part, which will generate the required figures for this item.

In Table 3, report, in the appropriate rows, the principal amounts (measured at fair value) of securities to be delivered by the reporting institution within the LCR period under the maturing securities swap transactions it has entered into. In order to determine the row under which a particular securities swap transaction should be reported, the institution should ascertain the type of securities to be delivered by it and the type of securities to be received from the counterparty within the LCR period.<sup>29</sup>

For example, a category 1 institution (Bank A) has incurred some positions arising from securities swap transactions conducted with its counterparty (Bank B). These transactions, as described below, are due for settlement within the LCR period.

Transaction (I): To deliver a level 1 asset (HKD1000) and to receive a level 2A asset;

Transaction (II): To deliver a level 2A asset (USD100, which is assumed to be equivalent to HKD780) and to receive an RMBS that has not been approved by the MA for recognition by the institution as a level 2B asset.

Bank A should report its obligations to deliver securities under Transaction (I) and Transaction (II) in item (b) and item (i) of Table 3 respectively. It should complete this Table as follows, so as to generate the total weighted amount for the purposes of item B9.

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<sup>29</sup> As provided in clause 11(6) of the CoP, a security to be delivered, or received, by a category 1 institution under a security swap transaction is not regarded as a level 1 asset, level 2A asset, approved RMBS or other level 2B asset unless the security satisfies the requirements set out in rule 25(a) and (b) that are applicable to it.

(Unit: HKD'000 equivalent)

	Type of securities to be delivered by reporting institution to counterparty within the LCR period	Type of securities to be received by reporting institution from counterparty within the LCR period	Principal amount of securities to be delivered by reporting institution	Weight	Weighted amount	Breakdown of weighted amount by currencies				
						HKD	USD	Other major \$	RMB	Other \$
(b)	level 1 assets	level 2A assets	1000	15%	150	150	0	0	0	0
(i)	level 2A assets	assets that are not level 1 assets, level 2A assets or level 2B assets	780	85%	663	0	663	0	0	0
	Total		1780		813	150	663	0	0	0

*(Note: If Bank B is also a category 1 institution, it should report the expected cash inflow arising from the two securities swap transactions (i.e. Transaction (I) and Transaction (II)) in item C3 of Section (I) by completing Table 4 in Section (II).)*

If the reporting institution (or its counterparty) is contractually allowed to select securities from a list of allowable types of securities (with different levels of quality and liquidity value) for delivery in a securities swap transaction, and the institution (or its counterparty) has not confirmed what type of securities the institution (or its counterparty) will deliver under the transaction, the institution may assume that it (or its counterparty) will select from the list the type of securities to be delivered in the order specified in paragraph 22 of these CIs.

#### **B10 Contractual net cash outflows arising from derivative contracts**

Complete Table 5 of Section (II) of this Part following the CIs provided in **Annex 5**, if the reporting institution has any liabilities or obligations arising from derivative contracts within the LCR period. This Table will generate the required figures for cash outflow item B10 (and also cash inflow item C9) under Section (I) of this Part.

#### **B11 Derivative contracts or other transactions with material adverse event clauses**

If the reporting institution has entered into any derivative contract or other transaction which contains a material adverse event clause, which, if such an event occurs, will require the institution to –

- (i) pay a sum of money;
- (ii) deliver additional collateral to the institution's counterparty; or
- (iii) incur any funding need arising from adverse changes in the institution's contractual rights to re-hypothecate collateral received from the institution's counterparty,



report the sum of the contracted amounts of (i), (ii) and (iii) (or any combination of them, as the case may be) by the institution within the LCR period, as if the material adverse event were to occur within the LCR period.

**B12 Potential loss in market value of posted collateral securing derivative contracts or other transactions**

Complete Table 6 of Section (II) of this Part following the CIs provided in **Annex 6**, if the reporting institution has posted any asset to the counterparty as collateral under a derivative contract or other transaction<sup>30</sup>. Table 6 will generate the required figures for this item.

**B13 Excess non-segregated collateral callable by counterparty under derivative contracts or other transactions**

Report in this item the fair value of collateral posted to the reporting institution by a counterparty in excess of the contractually required amount if the counterparty has a unilateral right to withdraw the excess collateral on demand or within the LCR period, and the collateral received by the institution is not segregated from other assets held by the institution, meaning that the excess collateral, may be or has already been, re-hypothecated by the institution, counted as the institution's HQLA if the collateral is so qualified, or utilised by the institution for its other business operations.

**B14 Collateral substitution under derivative contracts or other transactions**

This item captures situations in which the reporting institution has received HQLA collateral from the institution's counterparty under a derivative contract or other transaction, whereby the collateral is not segregated from other assets held by the institution and the counterparty has a contractual right to substitute the HQLA collateral posted to the institution by HQLA collateral of lower liquidity quality or non-HQLA collateral anytime within the LCR period. It is assumed that the counterparty will exercise the right within the LCR period by substituting the HQLA collateral by collateral of the lowest liquidity quality among the allowable types of assets to be substituted. Complete Table 7 under Section (II) of this Part, which will generate the required figures for this item.

In Table 7, report, in the appropriate rows, the principal amounts (measured at fair value in the case of marketable assets) of collateral posted to the reporting institution by the counterparties under the derivative contracts or transactions concerned. In

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<sup>30</sup> This item is applicable to derivative contracts or other transactions, as long as the posted collateral is subject to market risk thus rendering a category 1 institution potentially obliged to post additional collateral to its counterparty if the collateral drops in value.

determining the row under which each of those contracts or transactions should be reported, the institution should ascertain –

- (i) the type of HQLA collateral posted by the counterparty to the institution (Column 2 of Table 7); and
- (ii) the type of assets that may be posted by the counterparty to the institution for collateral substitution (Column 3 of Table 7).

The type of assets under (ii) is derived by applying an order of collateral substitution in line with that specified in paragraph 22 of these CIs (to the extent allowed under the relevant contract or transaction).

As an illustration, if the counterparty is contractually allowed to substitute level 1 HQLA collateral by any other collateral (which may be non-HQLA), it is always assumed that the counterparty will use non-HQLA for collateral substitution. In other words, the contract or transaction should be reported under item (e) of Table 7 with an applicable outflow rate of 100%. If, however, the type of collateral allowed to be substituted is confined to HQLA (i.e. level 1, level 2A and level 2B assets), it is assumed that the counterparty will always use level 2B assets that are not “approved RMBS” for collateral substitution. In other words, the contract or transaction should be reported under item (d) of Table 7 with an applicable outflow rate of 50%.

**B15 Contractual obligations to post collateral to counterparty under derivative contracts or other transactions (not otherwise covered in Section (I)B)**

If the reporting institution has any contractual obligation to provide collateral to its counterparty under a derivative contract or other transaction within the LCR period, report in this item the principal amount of collateral (measured at fair value in the case of marketable assets) that the institution is required to provide to the counterparty, unless this obligation is already captured under other cash outflow items in Section (I) of this Part. This contractual obligation should be reported irrespective of whether the counterparty has actually demanded the institution to provide additional collateral.

**B16 Increase in collateral needs arising from adverse changes in market value of derivative contracts or other transactions**

If the reporting institution has entered into derivative contracts or other transactions that subject the institution to collateral requirements, report in this item the estimated amount of additional collateral that has to be posted to counterparties arising from adverse changes in the market value of such contracts or transactions (*Value X*) by applying the formula and steps listed below:

Value X is the largest absolute value of the total cumulative amount of net collateral flow of a category 1 institution realized in any period of 30 calendar days during the

24 months preceding to the date on which the reporting institution’s LCR is calculated.  
It should be calculated according to the following formula:

$$\text{Value X} = \max \{ | \sum_{n=1}^{30} (\text{daily net collateral flow})_n |, | \sum_{n=2}^{81} (\text{daily net collateral flow})_n |, \dots, | \sum_{n=701}^{730} (\text{daily net collateral flow})_n | \};$$

where—

- (a) (daily net collateral flow)<sub>n</sub> means net amount of collateral inflows or outflows on day “n” caused by changes in the fair value of derivative contracts or other transactions subject to collateral requirements; and
- (b) it is assumed that 24 months consist of 730 calendar days.

If the reporting institution is not able to calculate Value X due to data insufficiency or any other reason, the institution should notify the MA of this inability and the reasons for it, and agree an alternative calculation method with the MA for reporting under this item.

The collateral flow should include the amount of settlement payments or settlement receipts that are made in relation to market value change for derivative contracts or other transactions that are structured as settled-to-market, where the reporting institution records variation margin on cleared derivatives as settlement payments (or receipts) rather than as transfers of collateral.

[Explanatory note: This elaboration is to incorporate item 1 of the BCBS FAQ issued in September 2018. (<https://www.bis.org/press/p180920a.htm>).]

For the purposes of reporting the breakdown of Value X by currency, adopt the approximation method illustrated in the example below:

Assume the reporting institution’s Value X (on an all-currency basis) is HKD100 and that its total liabilities (including shareholders’ funds) at the end of the most recent financial disclosure period had a currency profile as follows:

	Total	HKD	USD	Other major \$	RMB	Other \$
Total liabilities (including shareholders’ funds)	100%	60%	15%	10%	5%	10%

Approximate the currency breakdown of Value X as follows:

	Total	HKD	USD	Other major \$	RMB	Other \$
Value X	100	60 (100*60%)	15 (100*15%)	10 (100*10%)	5 (100*5%)	10 (100*10%)

**B17 Repayment of funding obtained from structured financial instrument issued by the reporting institution and redeemable within the LCR period**

If the reporting institution has issued any asset-backed securities, covered bonds or other structured financial instruments which will mature within the LCR period, report in this item the book value (including accrued interest) of these financial instruments to be redeemed. Interest to be accrued on these instruments (and payable by the institution) within the LCR period should also be reported in this item.

If the redemption of the above-mentioned securities or instruments will entitle the institution to receiving any asset that qualifies as HQLA (meaning that all the requirements in rule 25 are satisfied, or will be satisfied when the asset is received by the institution) within the LCR period, the fair value of that asset (after applying a suitable post-haircut factor specified in rule 35(1) in the case of level 2A or level 2B assets) can be deducted from, and only up to, the amount to be reported under this item.

**B18 Obligations for repayment of maturing debt or provision of funding or assets arising from any embedded option in structured financing transactions<sup>31</sup>**

If the reporting institution has entered into structured financing transactions (such as asset-backed commercial paper issuance programmes) with the obligations to repay any debt maturing within the LCR period under those transactions, and/or provide any funding or assets that may arise from any embedded options in those transactions within the LCR period, report in this item –

- (i) the book value (including accrued interest) of such maturing debt to be repaid (if not already included under item B17) and also any interest to be accrued on the maturing debt (if the payment of such interest will rely on the funding to be provided by the institution); and
- (ii) the funding or assets (measured at fair value in the case of marketable assets, or otherwise measured at book value (according to the CIs provided in paragraph (i)) that may need to be provided by the institution under the embedded options in the transactions.

If the reporting institution conducts a structured financing transaction via a special purpose entity (which may be a special purpose vehicle, conduit or structured investment vehicle), the institution should, for the purposes of this item, treat the entity

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<sup>31</sup> This item captures expected cash outflows associated with loss of funding on structured financing transactions including asset-backed commercial paper, conduits, securities investment vehicles and other such financing activities which may result from (i) the inability to refinance maturing debt; or (ii) the existence of derivative or derivative-like components contractually written into the documentation associated with structured financing transactions that would allow the “return” of assets in a financing arrangement, or that would require the original asset transferor to provide liquidity, effectively ending the financing arrangement within the LCR period.

as if it were a part of the institution irrespective of whether the entity is a specified associated entity of the institution. In other words, the institution should, in reporting this item, look through to the maturity of the debt instruments issued by the entity, and any embedded options in those instruments that may potentially trigger the need to provide funding or assets, as if those debt instruments were issued by the institution itself.

## **B19 Potential drawdown of undrawn committed facilities**

Report, in Table 8 of Section (II) of this Part, the undrawn portion of committed credit facilities and committed liquidity facilities<sup>32</sup> that can potentially be drawn by customers of the reporting institution within the LCR period. Table 8 will generate the required figures for this item.

If the reporting institution has granted a committed facility to its customer in order to provide standby liquidity support for the customer's debt obligations, report in this item the undrawn portion of the facility as a committed liquidity facility only to the extent of the customer's debt obligations that will mature within the LCR period and is supported by the facility. There is no need to include that portion of the facility which is backing the customer's debt obligations that will mature beyond the LCR period.<sup>33</sup> However, if the facility can be drawn for other purposes (i.e. not being confined to the provision of standby liquidity support for the customer's debt obligations), the undrawn amount of the facility in excess of the customer's debt obligations maturing within the LCR period (representing additional capacity of the facility to support other purposes within the LCR period) should be reported as if it were a committed credit facility.<sup>34</sup>

If the reporting institution has entered into a structured financing transaction and provided a committed liquidity facility to support that transaction, it is not necessary for the institution to include the committed liquidity facility for the purposes of this item, provided that the institution has included the structured financing transaction in

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<sup>32</sup> Please refer to the guidance provided in paragraph 5.8.21 to 5.8.26 of SPM module LM-1.

<sup>33</sup> If the maturity date of the customer's debt obligations may be advanced by any embedded prepayment options, such options should be taken into account by the reporting institution in determining whether the committed liquidity facility granted by the institution to cover such obligations should be included in the calculation of this cash outflow item.

<sup>34</sup> For example, Bank A has granted a committed facility with a usable limit of \$10 million to provide standby liquidity support for a customer's debt obligations. If the customer's debt obligations covered by this facility consist of \$1 million maturing within the LCR period and \$2 million maturing beyond the LCR period, Bank A should report in item B19 an undrawn amount of \$1 million as a committed liquidity facility. If this facility is granted for the mentioned purpose only, Bank A does not have to report any undrawn amount as a committed credit facility. However, if this facility can be used by the customer for other purposes, Bank A should report the remaining usable portion of this facility (i.e. \$10 million - \$1 million = \$9 million) as a committed credit facility if this remaining portion can be drawn by the customer for purposes other than debt coverage within the LCR period.

the reporting of expected cash outflow under item B17 or B18 (or both), as the case may be.

If the reporting institution has received (or will receive upon drawdown of a committed facility granted to a customer) collateral that qualifies as HQLA (hence meeting all the requirements set out in rule 25) to pledge against the facility, the post-haircut fair value (i.e. after applying the post-haircut factors set out in rule 35(1)) of the HQLA collateral may be deducted from the undrawn portion of that facility if –

- (i) the institution is legally entitled and operationally capable of re-hypothecating the pledged asset to obtain funding once the facility is drawn, but it has not done so yet;
- (ii) the institution has no obligation to return the collateral to the customer or to any third party upon demand or at any time within the LCR period;
- (iii) to avoid double counting, the collateral is not included by the institution as HQLA for the purposes of calculating the LCR; and
- (iv) there is no undue correlation between the probability of drawing on the facility and any potential decline in the fair value of the collateral. In other words, the drawdown of the facility is not expected to have material impact on the fair value of the asset.

For the purposes of reporting the currency breakdown in this item –

- (i) if the HQLA collateral mentioned above is denominated in a currency that is not the same as that of the committed facility, convert the post-haircut fair value of the collateral into the currency in which the committed facility is denominated before deduction from the undrawn portion of the facility; and
- (ii) if the committed facility is a multi-currency facility and the institution cannot ascertain the currency denomination of the amount of the facility that may be drawn by the customer within the LCR period, report the currency breakdown of the undrawn amount as if the facility would be drawn in Hong Kong dollars. (If the multi-currency facility does not allow drawdown in Hong Kong dollars, assume the facility will be drawn by the order of: US dollars, other major currencies, RMB and lastly other currencies (where applicable).)

## **B20 Contractual lending obligations not otherwise covered in Section (I)B**

Report, in Table 9 of Section (II) of this Part, the contracted amount of the following contractual lending obligations not otherwise covered in Section (I)B of this Part:

- (i) contractual lending obligations to financial institutions, the MA for the account of the Exchange Fund, or central banks; and

- (ii) contractual lending obligations to –
  - (a) retail customers;
  - (b) small business customers; and
  - (c) sovereigns, public sector entities, multilateral development banks, wholesale customers (excluding small business customers) or any other persons not included in paragraph (i) and paragraph (ii)(a) and (b).

Table 9 will generate the required figures for this item.

**B21 Other contingent funding obligations (whether contractual or non-contractual)**

Report the reporting institution’s other contingent funding obligations, as specified in Table 10 of Section (II) of this Part, which will generate the required figures for this item.

In Table 10 –

- (i) Report in item 1 the total contracted amount of trade-related contingencies that are related to import or export trade transactions conducted by the reporting institution’s customers. This item does not capture undrawn commitments under trade financing facilities (which should be captured in item B19 of Section (I) as calculated in Table 8 under Section (II) of this Part).
- (ii) Report in item 2 the total contracted amount of guarantees and letters of credit provided by the reporting institution that are not stemmed from import or export trade transactions of its customers.<sup>35</sup>

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<sup>35</sup> For example,

- (1) A category 1 institution has granted a committed credit facility with a credit limit of \$100 million to a customer. If the institution has issued an L/C of \$20 million under that facility to facilitate an import trade conducted by the customer and the institution’s obligation under the L/C may be called upon within the LCR period, the institution should report its contingent obligation under this L/C in item 1 of Table 10. (To avoid doubt, if there is concrete evidence supporting that a trade-related contingency will not be called upon within the LCR period, then the institution’s contingent funding obligations arising from that trade-related contingency is not included in the calculation of this outflow item.) The remaining usable credit limit under that facility (\$80 million) should be reported in Table 8.
- (2) If the institution has also issued a letter of guarantee with a guaranteed amount of \$10 million to support the customer’s business activity which is not directly related to a specific trade transaction, the institution should report that guaranteed amount (\$10 million) in item 2 of Table 10 if its contingent obligation under the guarantee may be called upon within the LCR period. The remaining usable credit limit under the facility reported in Table 8 will then be \$70 million.
- (3) If the institution’s contingent obligation under the L/C or the guarantee has been called upon and the payment date has been confirmed to fall within the LCR period, the amount payable by the institution should be reported in Table 9 under Section (II) (so that the expected cash outflow will be reflected in item B22 of Section (I)).
- (4) If the institution has received from the customer any HQLA collateral to cover the facility mentioned in paragraph (1) of this footnote, the institution may deduct the collateral value (after applying the haircut

- (iii) Report in item 3 the total contracted amount of the undrawn portion of uncommitted facilities granted by the reporting institution. An uncommitted facility means a credit facility or liquidity facility which is unconditionally cancellable by the institution without prior notice to the borrower.
- (iv) Report in item 4 non-contractual contingent funding obligations of the reporting institution, as specified in sub-items (a) to (e).
  - (a) Sub-item 4(a) caters for situations in which the reporting institution may have the non-contractual contingent funding obligation to repurchase (or early redeem) debt securities or structured financial instruments, irrespective of whether the maturity date of which is beyond the LCR period, by virtue of the institution's (or its associated entity's) association with such debt securities (as the issuer, market maker or dealer) or such financial instruments (as the originator, sponsor, marketing agent or seller), especially in times of stress<sup>36</sup>. Report in this sub-item the book value (including accrued interest) of such debt securities or financial instruments if the institution is satisfied<sup>37</sup> that there is a reasonable expectation that the non-contractual contingent funding obligation will be materialised within the LCR period. If the institution expects that this obligation also covers the interest to be accrued on such securities or instruments within the LCR period, the interest payable by the institution should also be reported in this item.
  - (b) Sub-item 4(b) caters for situations in which the reporting institution may have the non-contractual contingent funding obligation to repurchase money market funds or other collective investment funds marketed by the reporting institution (or its associated entity) owing to, for example, failure to satisfy reasonable expectations from investors about the

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applicable to level 2A assets and level 2B assets as the case may require) for the purposes of reporting the expected cash outflows mentioned in paragraphs (1), (2) and (3). In reporting these expected cash flows, the institution may assume that the collateral received is deployed to cover the cash outflow items in a descending order of the outflow rates applicable to those items.

- (5) If the institution will receive money from the customer within the LCR period to cover the amount payable as mentioned in paragraph (3), the institution may report the amount receivable as a cash inflow in item C10 of Section (I). If the institution converts the amount payable into a loan to the customer and the loan will mature within the LCR period, the loan can be reported as a cash inflow in item C4 of Section (I).

<sup>36</sup> For example, the reporting institution which has sponsored the issue of a structured financial instrument by its associated entity may be obliged to repurchase the financial instrument when its associated entity is in financial trouble.

<sup>37</sup> Wherever the phrase "the institution is satisfied" is referred to in this Part for the purposes of reporting any particular item (or sub-item), the MA expects the institution concerned to exercise due diligence to ascertain that there are reasonable grounds supporting the reporting of the item (or sub-item) concerned.



liquidity and marketability of the funds concerned.<sup>38</sup> Report in this sub-item the fair value of the funds if the institution is satisfied that there is a reasonable expectation that the non-contractual contingent funding obligations will be materialised within the LCR period.

- (c) Sub-item 4(c) caters for situations in which customer short positions of the reporting institution are covered by non-HQLA collateral received from the institution's other customers in respect of which the institution has the right of re-hypothecation such that the institution may be obligated to provide funding to cover customer short positions in the event of withdrawal of the non-HQLA collateral by its other customers. Report in this sub-item the fair value of such non-HQLA collateral that is used to cover customer short positions.<sup>39</sup>
- (d) Sub-item 4(d) caters for situations in which the reporting institution may have the non-contractual contingent funding obligation to meet potential liquidity draws by a joint venture of the institution or an entity in which the institution has a minority interest, and the joint venture or entity is not consolidated for the purposes of rule 11(1), where there is a reasonable expectation that the institution will be the main liquidity provider when the joint venture or entity concerned is in need of liquidity. If the institution's obligation to provide liquidity to the joint venture or entity has been captured in any other cash outflow item, there is no need to include the obligation in this sub-item<sup>40</sup>. Before reporting any non-contractual contingent funding obligation under this sub-item, the institution should notify the MA the existence of the obligation and the circumstances giving rise to the obligation and agree with the MA the methodology for determining the amount of the obligation for the purposes of the LCR on a case by case basis.
- (e) Sub-item 4(e) caters for any other non-contractual contingent funding obligations where the reporting institution is satisfied that there is a reasonable expectation that the obligations will be materialised within the LCR period. Report in this sub-item the amount of such obligations as expected by the institution.

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<sup>38</sup> For example, the investment funds may be marketed with the objective of maintaining a stable value or the investors may anticipate ready marketability of those funds.

<sup>39</sup> To avoid doubt, if the collateral satisfies the requirements set out in rule 25(a) and (b), the transaction can be included in item B8 of Section (I) of this Part, where the expected cash outflow of the transaction is calculated based on a lower outflow rate.

<sup>40</sup> For example, the institution's contractual funding obligation arising from a committed facility granted to a joint venture or minority interest entity should be captured in item B19 instead of in this sub-item.

## **B22 Other contractual cash outflows**

Report in this item contractual cash outflows of the reporting institution (not being contractual cash outflows relating to the operating expenses of the institution) that may occur within the LCR period and are not covered in other cash outflow items in Section (I)B of this Part. These include, for example, expected cash outflows arising from uncollateralized securities borrowing transactions, uncovered short positions, amounts payable for transactions awaiting settlement, dividends and interest payable by the institution within the LCR period<sup>41</sup>.

For uncollateralized securities borrowing transactions, uncovered short positions and similar transactions which do not have a definite term to maturity, assume that the transactions will be closed out and the reporting institution's liabilities or payment obligations arising from the transactions will be fulfilled within the LCR period. In the case of forward contracts and transactions awaiting settlement, follow the CIs provided in paragraph 25 (as read in conjunction with Annex 2).

In addition, this item should include retail deposits and small business funding taken by the reporting institution or by its associated entity, where the institution or that entity is a DTC that is not subject to section 12(3) of the BO by virtue of the MA's written permission to early repay the deposits or funding concerned (see Annex 4 for details).

## **C. TOTAL EXPECTED CASH INFLOWS**

### **C1,C2 Secured lending transactions**

Report in item C1 the principal amount of money (or the fair value of securities) to be received by the reporting institution within the LCR period arising from maturing secured lending transactions (including securities swap transactions), under which the institution has re-hypothecated securities obtained from the counterparty as collateral to cover the institution's short positions in equivalent securities, irrespective of the length of time the institution may carry its short positions.

Report in item C2 the principal amount of money (measured at book value, including accrued interest) to be received by the institution from maturing secured lending transactions (other than securities swap transactions) not included in item C1 within the LCR period by the type of underlying collateral.<sup>42</sup>

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<sup>41</sup> To avoid doubt, a long-term liability or obligation may render a category 1 institution liable to pay interest within the LCR period. Such interest payable should be included in the calculation of the institution's LCR even although the long-term liability or obligation may not be included.

<sup>42</sup> As provided in clause 25 of the CoP, a secured lending transaction entered into by a category 1 institution is not regarded as being collateralized by an asset that falls within level 1 assets, level 2A assets, approved RMBS or other level 2B assets unless that asset satisfies the requirements set out in rule 25(a) and (b) that are applicable to it.

Report in the specific currency columns for items C1 and C2 the principal amount based on the currency denomination of the money (or the currency denomination of the securities in case of securities swap transactions included in item C1) to be received by the institution. In other words, it is not necessary for the institution to consider the currency denomination of the underlying collateral obtained from (hence to be returned to) the counterparty.<sup>43</sup>

### **C3 Securities swap transactions not covered in item C1**

If the reporting institution has any securities swap transactions which are not covered in item C1 and are due for settlement within the LCR period, complete Table 4 in Section (II) of this Part, which will generate the required figures for item C3.

In Table 4, report, in the appropriate rows, the principal amounts (measured at fair value) of securities to be received by the reporting institution within the LCR period under the maturing securities swap transactions it has entered into. In order to determine the row under which a particular securities swap transaction should be reported, the institution should ascertain the type of securities to be received by it and the type of securities to be delivered to its counterparty within the LCR period.<sup>44</sup>

If the reporting institution (or its counterparty) is contractually allowed to select securities from a list of allowable types of securities (with different levels of quality and liquidity value) for delivery in a securities swap transaction, and the institution (or its counterparty) has not confirmed what type of securities the institution (or its counterparty) will deliver under the transaction, the institution should assume that it (or its counterparty) will select from the list the type of securities to be delivered in the order specified in paragraph 22 of these CIs.

Using the example provided in item B9 (in which case Bank B is the reporting institution for the purposes of item C3), Bank B's cash-flow positions arising from the securities swap transactions are reciprocal to those of Bank A. Therefore, Bank B should report the expected cash inflow arising from the securities swap transactions in Table 4 as follows:

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<sup>43</sup> For example, if the reporting institution will receive a sum of money in Hong Kong dollars upon the maturity within the LCR period of a secured lending transaction which is collateralized by a security denominated in US dollars, the institution should report the money receivable in the "HKD" column instead of the "USD" column.

<sup>44</sup> As provided in clause 25(5) of the CoP, a security to be received, or delivered, by a category 1 institution under a securities swap transaction is not regarded as a level 1 asset, level 2A asset, approved RMBS or other level 2B asset unless the security satisfies the requirements set out in rule 25(a) and (b) that are applicable to it.

(HKD'000 equivalent)

	Type of securities to be received by reporting institution from counterparty within the LCR period	Type of securities to be delivered by reporting institution to counterparty within the LCR period	Principal amount of securities to be received by reporting institution	Weight	Weighted amount	Breakdown of weighted amount by currencies				
						HKD	USD	Other major \$	RMB	Other \$
(b)	level 1 assets	level 2A assets	1000	15%	150	150	0	0	0	0
(i)	level 2A assets	assets that are not level 1 assets, level 2A assets or level 2B assets	780	85%	663	0	663	0	0	0
	<b>Total</b>		1780		813	150	663	0	0	0

#### **C4 Secured and unsecured loans not otherwise covered in items C1, C2 and C3**

Report in this item the book value of repayments (including interest payments and instalments) from loans, whether secured or unsecured, that are contractually due within the LCR period (and not captured in other cash inflow items).

Report in sub-item 4(a) contractual cash inflows from revolving loans or loans without a specific maturity date. To avoid doubt, a loan drawn on a revolving facility (whether committed or uncommitted) should be reported in this sub-item, unless the loan will be fully repaid and the facility will be cancelled upon its expiry within the LCR period because the institution has decided (as evidenced in the institution's credit records) that the facility will not be renewed and hence any outstanding loan balance will have to be settled by the borrower upon expiry of the facility within the LCR period. In such a situation, contractual cash inflows from settlement of the loan can be reported in sub-item 4(b).

Sub-item 4(b) captures contractual loan repayments not covered in sub-item 4(a) that fall due within the LCR period. Such loans should be reported with a breakdown by types of borrower. To avoid doubt, whilst a loan that is revolving or does not have a specific maturity date is usually not captured in this sub-item (save for situations where a revolving loan can meet the conditions specified above), any periodic repayment of principal, interest, fee or other income generated from such loans can be included in this sub-item.

#### **C5 Release of balances maintained by the reporting institution in segregated accounts in accordance with requirements for protection of customer assets**

If the reporting institution is subject to any investor protection regulations that require the institution, upon receipt of assets (whether in cash or other assets) from customers for investment purposes, to maintain an amount of those assets as prescribed in those regulations in a segregated account, the institution may report the assets maintained in that segregated account as cash inflows under this item, provided that the assets meet the conditions set out in rule 25(a) and (b), meaning that they are HQLA qualifying

assets that can fulfil the characteristic requirements set out in Schedule 3 to the BLR, and the assets will be released from the segregated account within the LCR period and the corresponding assets payable to customers have been reported in the cash outflow sub-item B6(b).

**C6 Maturing securities not included by the reporting institution in its HQLA**

Report in this item the book value of securities held by the reporting institution (including accrued interest) if the securities will be redeemed within the LCR period and they are not included in the stock of HQLA of the institution. Interest to be accrued (and receivable by the institution) within the LCR period should also be reported in this item.

**C7 Undrawn facilities granted by other financial institutions**

Report in this item the undrawn portion of any credit, liquidity or other facilities granted by other financial institutions, irrespective of whether the facilities are committed facilities.

**C8 Operational deposits placed at other financial institutions**

Report in this item any amount of money placed by the reporting institution at other financial institutions if the institution is satisfied that the money placed is treated as operational deposits by those financial institutions. The methodology adopted by the institution for calculating this cash inflow item should be in line with the methodology adopted by it for determining the amount of operational deposits received by it (as referred to in item B5).

**C9 Contractual net cash inflows arising from derivative contracts**

Follow the CIs provided in [Annex 5](#) for completing Table 5 of Section (II) of this Part, which will generate the required figures for this item.

**C10 Other contractual cash inflows arising from assets, transactions or activities not otherwise covered in Section (I)C**

Report in this item contractual cash inflows not covered in other cash inflow items by type of customer, provided that the inflows are generated from assets, transactions or activities conducted by the reporting institution and expected to be received by the institution within the LCR period. This item may capture expected cash inflows arising from, for example, forward transactions and amounts receivable from transactions awaiting settlement (see paragraph 25 and [Annex 2](#)), dividend receivable, and interest receivable (if the interest has not been included elsewhere) within the LCR period. Nonetheless, cash inflows arising from non-financial activities should be excluded.

In the case of uncollateralized securities lending transactions maturing within the LCR period, the contractual cash inflow (either in cash or other assets that qualify for inclusion as HQLA upon receipt by the institution) can be counted in this item. If the cash inflow is an asset that can qualify as a level 2A or level 2B asset upon receipt by the institution, report in this item the fair value of the asset after applicable haircut. If an uncollateralized securities lending transaction (or any similar transaction) does not have a definite term to maturity, assume the transaction will be carried forward beyond the LCR period, and therefore the cash inflow to be generated upon the settlement of the transaction cannot be included in the calculation of the LCR.

## PART 3: LIQUIDITY MAINTENANCE RATIO

### General requirements for reporting of LMR

31. For the purposes of the LMR, a category 2 institution should –
- (i) calculate the “weighted amount” of an asset, liability, obligation or cash flow item by multiplying the principal amount (please refer to paragraph 7 of these CIs) of that item as determined in accordance with Part 8 (as read with Schedule 5) of the BLR by the liquidity conversion factor (LCF) applicable to that item;
  - (ii) ascertain that each of the assets (either owned by the reporting institution or received by the institution from its counterparty as collateral that can be re-hypothecated) to be included in the stock of liquefiable assets meets the qualifying criteria set out in rule 49. In particular, the assets must be free from encumbrances (see rule 49(2)(c))<sup>45</sup> and freely transferrable and available to the institution (see rule 49(2)(e)). If an asset held by the institution’s consolidated group member is subject to liquidity transfer restriction, rule 49(3) requires that the asset concerned must not be included in the institution’s liquefiable assets except to the extent that the qualifying liabilities (after deductions) of the member are also included in the calculation, provided that the asset concerned can satisfy all other relevant requirements specified in rule 49(1) and (2).<sup>46</sup>
  - (iii) determine whether the “remaining term to maturity” of an asset, liability or obligation falls within the LMR period having regard to the approach set out in paragraph 11 of these CIs and the following illustrative examples:

<sup>45</sup> The guidance provided in Annex 1 of SPM module LM-1 is applicable for category 2 institutions to assess whether an asset is “free from encumbrances” for LMR purposes (with all necessary modifications).

<sup>46</sup> For example, if a category 2 institution has the following positions:

<u>Weighted amount (after offsetting intragroup assets and liabilities)</u>	<u>Hong Kong Office</u>	<u>Specified associated entity (or overseas branch)</u>
Liquefiable assets	\$2,000	\$400
Qualifying liabilities	\$6,000	\$300
Deduction from qualifying liabilities	\$1,000	\$100

The institution should calculate its LMR covering the specified associated entity or overseas branch (i.e. on a consolidated basis or unconsolidated basis, as the case may be) as follows:

- (i) If the assets held by the specified associated entity (or overseas branch) are freely transferrable to the institution’s Hong Kong Office:  $\text{LMR (con. / uncon. basis)} = (2000 + 400) / \{(6000 + 300) - (1000 + 100)\} = 46.15\%$ .
- (ii) If the assets held by the associated entity (or overseas branch) are subject to liquidity transfer restriction:  $\text{LMR (con. / uncon. basis)} = (2000 + \min(400, (300 - 100))) / \{(6000 + 300) - (1000 + 100)\} = 42.31\%$

<u>Remaining term to maturity</u>	<u>Position Date</u>			
	<u>31.1.2015</u>	<u>28.2.2015</u>	<u>29.2.2015*</u>	<u>30.4.2015</u>
	<u>Period Covered</u>			
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*

- (iv) follow the CIs provided in **Annex 7** to treat the assets, liabilities, obligations or cash flows arising from spot and forward foreign exchange transactions, derivative contracts, securities transactions, forward forward deposit transactions and repo-style transactions.

### **Section (I): Liquidity Maintenance Ratio (month-end position)**

32. In this Section, a category 2 institution should report the components of its LMR based on its month-end position in accordance with the following:

#### **Section (I)** **Ref. no.**

#### **A. LIQUEFIABLE ASSETS**

##### **(A2) Gold bullion**

Report in this item gold bullion (measured at fair value), which is confined to the reporting institution's proprietary holdings in gold bullion (either safe-kept in its vault or by a custodian) that can be accessed readily by the institution. This item does not include any financial asset (such as unit trust fund, derivative contract, commodity-linked instrument, or any similar type of product) which causes the institution to take a position in gold but does not necessarily enable the institution to have ready access to gold bullion.

- (A3) Claims on, or reserves maintained with, the MA for the account of the Exchange Fund or central banks that are repayable to the reporting institution overnight, on demand, or on notice which expires on the first day of the LMR period**



Report in this item the reporting institution's claims on, or reserves maintained with, the MA for the account of the Exchange Fund or overseas central banks only if these claims and reserves are repayable to the institution overnight (i.e. within 24 hours), on demand, or on notice which expires on the first day of the LMR period. If such claims or reserves cannot meet any of these criteria but are repayable to the institution within the LMR period, they should be reported in item (C1).

RMB funds placed by the reporting institution in a RMB Fiduciary Account opened with the RMB Clearing Bank in Hong Kong (which constitutes a claim on the PBoC) can be reported in this item if the funds are repayable to the institution overnight, on demand, or on notice which expires on the first day of the LMR period. RMB funds placed by the institution with the RMB Clearing Bank, but not in the RMB Fiduciary Account or with other AIs in Hong Kong or banks operating outside Hong Kong, do not constitute a claim on the PBoC and therefore cannot be reported in this item or item (C1). Such RMB funds should be regarded as interbank placements under sub-item (A4)(a) or item (C2), as the case may require.

**(A4) Net due from banks of the reporting institution to be included in its liquefiable assets**

If the reporting institution has any amount of net due from banks, report that amount in this item to the extent that the weighted amount of net due from banks included in this item does not exceed 40% of the institution's total weighted amount of qualifying liabilities (before deductions).

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

Back-to-back transactions<sup>47</sup> must not be included in this or any other item for the calculation of the LMR (please also refer to para. 9.2.4 of SPM module LM-2).

(A4)(a) Report in this sub-item total one-month liabilities of other 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.

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<sup>47</sup> 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.

- (A4)(b) Report in this sub-item total one-month liabilities of the reporting institution to other banks, including on-balance sheet liabilities and contingent liabilities (including any off-balance sheet 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 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 total weighted amount of “qualifying liabilities (before deductions)” (item (B4)) (referred to in these CIs as the **40% cap**). Any excess amount over the 40% cap should be reported in item (C3) as “deduction from qualifying liabilities”.

Numerical examples illustrating how a reporting institution should report its claims on (or reserves maintained with) the MA for the account of the Exchange Fund or overseas central banks (reported in item (A3)) and one-month interbank claims and liabilities (reported in item (A4)) are provided in **Annex 8**.

#### **(A5) Export bills**

- (A5)(a) Report in this sub-item the reporting institution’s export bills drawn under letters of credit issued by 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 banks and due for payment within the LMR period. However, sight bills which remain unpaid for 14 days after negotiation and usance bills 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 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) Marketable debt securities or prescribed instruments**

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 of these securities / instruments in the secondary market.

(A6)(a)(i) Market makers for EF debt securities 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 opposite directions (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 or prescribed instrument has a qualifying ECAI rating (either issue specific rating or issuer rating, as the case may require), the reporting institution should follow the relevant requirements set out in the BCR and Schedule 5 to the BLR.

The qualifying ECAI rating for marketable debt securities or prescribed instruments under these sub-items generally relates to a qualifying ECAI issue specific rating that is assigned to the debt securities / instruments concerned. However, marketable debt securities or prescribed instruments which do not have a qualifying ECAI issue specific rating but are issued or guaranteed by specific types of entities set out 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 or prescribed instruments issued or guaranteed by the central bank or central government of a country, a multilateral development bank, or a relevant international organization, where the debt security or instrument, or its issuer or guarantor, has a qualifying ECAI rating.
- (A6)(c)(i) This sub-item captures marketable debt securities or prescribed instruments issued or guaranteed by a bank, other than those included in sub-item (A6)(a)(ii), provided that the debt securities or instruments concerned have a qualifying ECAI issue specific rating.
- (A6)(c)(ii) This sub-item captures marketable debt securities or prescribed instruments issued or guaranteed by a regional government of a country or by any other entity, provided that the debt securities or instruments concerned have a qualifying ECAI issue specific rating. “Other entity” for this purpose can be a financial institution (which is not a bank), a corporate or any other entity not specified elsewhere in item (A6).
- (A6)(d)(i) This sub-item captures marketable debt securities or prescribed instruments without a qualifying issue specific rating, but which are issued or guaranteed by a bank (other than those debt securities or instruments captured in sub-item (A6)(a)(ii)), provided that the debt securities or 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 or prescribed instruments without a qualifying ECAI issue specific rating, but which are issued or guaranteed by a regional government of a country that has a qualifying ECAI issuer rating.
- (A6)(e) This sub-item captures any other marketable debt securities or 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 the MA for the account of the Exchange Fund or the 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 MA for the account of the Exchange Fund. To avoid doubt, such a standing facility does not include any emergency liquidity facility that may be provided by a central bank in stressed situations.

- (A6)(f) This sub-item captures (i) RMBS<sup>48</sup> and (ii) any other marketable debt securities or prescribed instruments that have been approved specifically by the MA for inclusion as liquefiable assets under the LMR.
- (A6)(g) This sub-item captures all marketable debt securities or prescribed instruments not reported in item (A6)(a) to (A6)(f) and with a remaining term to maturity of not more than one month.
- (A6)(h) This sub-item captures all marketable debt securities or prescribed instruments having an investment-grade ECAI rating not reported elsewhere in item (A6).

**(A7) Listed ordinary shares**

Report in this item all listed ordinary shares that comply with the requirements set out in rule 49(2)(fa) and Schedule 2 (section 3(c) of Part 2 and section 10 of Part 3) to the BLR.<sup>49</sup>

**(A8) 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 MA**

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.

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<sup>48</sup> The criteria that the MA will take into account in assessing an application submitted by a category 2 institution for inclusion of RMBS as liquefiable assets under the LMR are essentially the same as those set out for the LCR purposes (as provided in section 8 of Schedule 2 to the BLR). Please refer to the guidance provided in Annex 2 of SPM module LM-1.

<sup>49</sup> Please refer to footnote 20, which is also applicable for LMR purposes.

**(A9) Deduction from liquefiable assets – 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, measured at book value (including accrued interest and any interest payable by the reporting institution upon redemption of these securities or instruments within the LMR period). Alternatively, these liabilities may be reported in item (B3) if the reporting 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, by reference to past experience where appropriate, the maturing liabilities will in all likelihood be refinanced 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.

**B. QUALIFYING LIABILITIES**

**(B1) Total one-month liabilities of the reporting institution to the MA for the account of the Exchange Fund or central banks**

Report in this item the reporting institution’s liabilities to the MA for the account of the Exchange Fund or central banks (if any), including liabilities repayable on demand or having a remaining term to maturity of not more than one month.

**(B2) If the reporting institution’s total one-month liabilities to other banks exceed the total one-month liabilities of other banks to the institution, the amount of the institution’s total one-month liabilities to other banks**

This item should be reported by the reporting institution only if its “net due to banks” is greater than zero, and should cover the institution's total one-month liabilities to banks. Total one-month liabilities of 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<sup>50</sup> to provide funds to its customers on a known date of draw-down within the LMR period or irrevocable standby

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<sup>50</sup> Please refer to the guidance provided in paragraphs 5.8.22, 6.3.3 and 6.3.4 of SPM module LM-1 for determining the liquidity requirements for “irrevocable commitments”.

facilities which can be drawn upon by the institution's customers on demand, at call or on notice that will expire within the LMR period.

- (ii) contingent liabilities (other than trade-related contingencies)<sup>51</sup>;
- (iii) contractual payments within the LMR period arising from derivative contracts (see Annex 7); and
- (iv) fee or interest payable within the LMR period, if not already included elsewhere.<sup>52</sup>

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.<sup>53</sup> Similarly, the corresponding receivables from the institution's clients (including brokers) should not be included as “deduction 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.

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For LMR purposes, undrawn facility limits granted by an AI under overdraft and credit card facilities can be disregarded when the AI determines the amount of its qualifying liabilities. This exception will not be applicable if an AI grants a multi-purpose facility that allows a customer to draw on various types of loans in addition to overdraft or credit card advances, and there exists any lending commitment which is irrevocable.

<sup>51</sup> For example, in the 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):

- (i) 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, the amount payable by the institution under such an irrevocable commitment should be reported in this item;
- (ii) if a guarantee issued by the institution contains provisions to the effect that the institution will have an obligation to (A) 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 (B) 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. Nonetheless, trade-related contingencies (such as shipping guarantee) are not subject to this treatment (unless, as discussed in (i), the contingent liabilities have been called upon and the liabilities are contractually payable within the LMR period).

“*Trade-related contingency*” has the meaning given by section 2(1) of the BCR. It refers to a contingent liability which relates to trade-related obligations, including liabilities arising from issuing and confirming letters of credit, acceptances on trade bills, and shipping guarantees. For clarity's sake, a credit limit under a trade financing facility granted by a reporting institution is not “trade-related contingency”.

<sup>52</sup> For example, if the reporting institution has a liability maturing beyond the LMR period but that liability will create any fee or interest payable by the institution within the LMR period, the fee or interest payable should be included as “qualifying liabilities”. If the reporting institution is able to identify that the fee or interest will be payable to a particular type of counterparty, it should report the amount of fee or interest payable to that type of counterparty in the appropriate items (e.g. item (A4)(b) or item (B2) as the case requires, if the fee or interest is payable to a bank). If the institution cannot identify readily the type of counterparty, it should report the interest payable in item (B3).

<sup>53</sup> Such transactions can be excluded given that they are not proprietary transactions and the liquidity risk involved is considered to be relatively low.

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 to a non-bank customer, the pledged deposit can be excluded from the calculation of the LMR, subject to the following conditions:

- (i) the loan will not be settled within the LMR period;
- (ii) the pledge arrangement is subject to a legally enforceable contract that effectively disallows withdrawal of the deposit before the loan is fully settled;
- (iii) the deposit would otherwise be included in the calculation of qualifying liabilities; and
- (iv) the amount of deposit to be excluded must not 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.<sup>54</sup>

## **C. DEDUCTIONS FROM QUALIFYING LIABILITIES**

### **(C1) Total one-month liabilities of the MA for the account of the Exchange Fund, or central banks to the reporting institution (other than the amount included in item (A3))**

Report in this item total one-month liabilities of the MA for the account of the Exchange Fund or central banks to the reporting institution (other than the amount of

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<sup>54</sup> 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 based on the reasonable expectation that the institution will use the pledged deposit to cover its liability or obligation under the guarantee (hence no additional liquidity is required for repaying the pledged deposit).



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

**(C2) If the reporting institution's total one-month liabilities to other banks exceed the total one-month liabilities of other banks to the institution, the amount of the total one-month liabilities of other banks to it**

This item should be reported by the reporting institution only if the principal amount of its “net due to banks” is greater than zero, and should capture total one-month liabilities of banks to the institution. The institution's total one-month liabilities to banks should be reported in item (B2).

**(C3) Weighted amount, if any, of the reporting institution's net due from banks exceeding the 40% cap referred to in BLR rule 48(7)**

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

**(C4) Eligible loan repayments**

Report in this item any loan repayment (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 definition of “eligible loan repayment” provided in Schedule 5 to the BLR. 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 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
- (iii) 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 the LMR period 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 outstanding loan and the facility are due to mature or expire within the LMR period and 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:

<u>Scenario</u>	<u>Amount to be included in</u>			
	<u>Eligible Loan Repayments</u>		<u>One-month liabilities</u>	
	(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 the LMR period

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

L = outstanding balance of the loan

D = amount of the pledged deposit

R = repayment(s) of the loan due within the LMR period

\* = 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 the LMR period, a repayment of the loan due within that period can be included as eligible loan repayment.

## **Section (II): Average Liquidity Maintenance Ratio during the reporting period**

33. A category 2 institution should report its average LMR during the reporting period 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 LMR

on the basis of specified days within 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 within the reporting period by the number of such specified days within 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.

## Annex 1

### Framework for adoption of ALA Option 2 in Hong Kong<sup>55</sup>

#### *Background*

1. Pursuant to rule 37, a category 1 institution that is running a HKD LCR mismatch may use a portion of its foreign currency-denominated HQLA (which must be level 1 assets) to cover its HKD LCR mismatch, provided that the conditions set out in that rule are met fully.
2. It is not the MA's intention to require case-by-case approval of the use the provisions of rule 37 by individual category 1 institutions. However, a rule 37 institution should be able to demonstrate its compliance with rules 37 and 38 upon request by the MA.

#### *Relevant parameters for operation of rules 37 and 38*

3. The use of foreign currency-denominated HQLA to cover HKD LCR mismatch is subject to foreign exchange haircuts if the level of usage exceeds a certain threshold (as specified in rule 38(2)<sup>56</sup>). Such haircuts are –

	<u>Foreign exchange haircuts</u>
(a) Level 1 assets denominated in US dollars	2%
(b) Level 1 assets denominated in other major currencies with global transaction volume exceeding 10% of total global foreign currency market turnover (i.e. EUR, JPY and GBP)	8%
(c) Level 1 assets denominated in any other foreign currency that is freely convertible into Hong Kong dollars (including RMB assets that meet relevant qualifying criteria as HQLA)	10%

4. The threshold for triggering the application of foreign exchange haircuts is 25% of a rule 37 institution's HKD-denominated total net cash outflows and pursuant to rule 37(d), the institution may use foreign currency-denominated HQLA to cover HKD LCR mismatch provided that HKD-denominated level 1 assets are not less than 20% of HKD-denominated total net cash outflows (in line with the Basel LCR standard). This means that the relevant portion of foreign currency-denominated HQLA subject to foreign exchange haircuts will not exceed an amount equivalent to 55% (= 100% – 20% – 25%) of HKD-denominated total net cash outflows.

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<sup>55</sup> ALA Option 2 refers to the second option set out in paragraphs 59 to 61 of the 2013 BCBS LCR Document that banks in jurisdictions with insufficient HQLA may be allowed to adopt (subject to meeting various criteria set out in the Document). Rules 37 and 38 provide for the use of this option in Hong Kong.

<sup>56</sup> As provided in rule 38(2), foreign exchange haircuts do not apply to the relevant portion (or that part of the relevant portion) of foreign currency-denominated HQLA, held by a category 1 institution to cover its HKD LCR mismatch, that is not more than 25% of the institution's HKD-denominated total net cash outflows.

5. The example below demonstrates the methodology underlying Table 2 of Section (II) of this Return for calculating the amount of haircuts on foreign currency-denominated level 1 assets if the reporting institution uses such assets to cover its HKD LCR mismatch.

(Unit: HKD'000 equivalent)

		Total	HKD	USD	Other major \$	RMB	Other \$
1	Total level 1 assets (before deductions) (= Section (I), item A1(f))	3200	1200	200	100	500	1200
2	Total level 2A assets (before deductions) (= Section (I), item A2(d))	2400	300	500	800	200	600
3	Total level 2B assets (before deductions) (= Section (I), item A3(d))	100	0	0	100	0	0
4	Total HQLA (before deductions) (= Section (I), item A4)	5700	1500	700	1000	700	1800
5	Total expected cash outflows (= Section (I), item B23)	10500	5000	2000	1500	1000	1000
6	Total expected cash inflows (before application of 75% inflow ceiling) (= Section (I), item C11)	5200	1000	1200	1000	1200	800
7	HKD LCR mismatch (= Max(item 13*(item 5 – item 6) – item 4, 0))		900				
8	The part of item 7 that exceeds 25% of the reporting institution's HKD-denominated total net cash outflows (=Max (If (item 7 = 0, 0, item 7 – Max(item 5 – item 6,0)* Max(0, 25% – (100% – item 13))) ,0))		900				
9	HKD-denominated HQLA (level 1 assets) as a percentage of HKD-denominated total net cash outflows (before adjustment for 75% inflow ceiling) (Note: Rule 37(d) is satisfied if item 9 => 20%)	Yes / No / N/A					
10	Foreign currency-denominated HQLA (level 1 assets) exceeding foreign currency-denominated total net cash outflows (if any) (=Min ( Max ( item 4 – item 13* Max ( item 5 – item 6,0),0), item 1))			200	100	500	1200
11	Relevant portion of item 10 being used to cover HKD LCR mismatch			200	100	500	100
12	Foreign exchange haircuts			2%	8%	10%	10%
		<b>72</b>		<b>4</b>	<b>8</b>	<b>50</b>	<b>10</b>
13	Minimum required level of LCR applicable to the reporting institution	<u>Note</u>					

*Note: The minimum required level of LCR is 100%, unless the HKMA has required the reporting institution to observe another specified level.*

## Explanatory Notes

- In this example, a category 1 institution has a HKD LCR mismatch of HKD900 (item 7). If the institution uses foreign currency-denominated HQLA (which must be level 1 assets) to cover this amount of HKD LCR mismatch, a portion of these foreign currency-denominated HQLA (also equivalent to HKD900 in this specific example, as indicated in item 8) will be subject to foreign exchange haircuts.
- Item 9 reflects whether the institution meets the 20% minimum holding requirement for HKD-denominated HQLA (which must be level 1 assets). If the institution is unable to observe this requirement, it must notify the MA immediately, so that the MA may consider appropriate supervisory measures to address this situation. (See SPM module LM-1 (paragraphs 5.7.6 to 5.7.9)).
- Item 10 calculates the surplus amount of foreign currency-denominated HQLA (level 1 assets) that can be used to cover HKD LCR mismatch. In this example, the reporting institution has surplus level 1 assets in USD (equivalent to HKD200), other major currencies (equivalent to HKD100), RMB (equivalent to HKD500) and other currencies (equivalent to HKD1200).
- Item 11 determines the amount of foreign currency-denominated HQLA (level 1 assets) that are actually required to cover HKD LCR mismatch. In determining the order of usage of foreign currency-denominated HQLA to cover HKD LCR mismatch, it is assumed that foreign currency assets that are subject to lower foreign exchange haircuts will be utilised first. The order of usage is therefore assumed to follow this order: (i) USD, (ii) other major currencies (EUR, JPY, GBP); (iii) RMB; and (iv) other currencies. In this example, the surplus level 1 assets denominated in USD (HKD200) will be utilised first, followed by the surplus level 1 assets denominated in other major currencies (HKD100), then level 1 assets denominated in RMB (HKD500) and finally level 1 assets denominated in other currencies (up to an amount equivalent to HKD100).
- Item 12 calculates the total amount of foreign exchange haircut resulting from the use of the relevant portion of foreign currency-denominated HQLA (level 1 assets) to cover HKD LCR mismatch. This total amount of foreign exchange haircut is transposed to item A6 of Section (I) of Part 2 of this Return for calculating the total amount of HQLA (after deductions).

## Annex 2

### Treatment of cash flows arising from forward contracts and transactions awaiting settlement under the LCR

1. The term “forward contract” means a contract between two parties for entering into a transaction (e.g. to provide a loan of money, or to purchase, sell or exchange a specified quantity of commodity, currency, financial instrument or thing) at a specified price on a specified future date (Day F). Some forward contracts may have a definite termination date (Day T). On Day F (and Day T where applicable), the counterparties to the contract will incur cash (or asset) inflows or outflows, which should be treated under the LCR according to the requirements set out below.
2. If the reporting institution has entered into a forward contract with a counterparty where Day F falls within the LCR period and Day T falls after the LCR period (or Day T is not specified in the contract), the institution should report –
  - (i) in item B22 of Section (I) of Part 2 of this Return, the contractual cash outflow to be paid by the institution on Day F<sup>57</sup>. If the institution will receive an asset that will qualify as HQLA on Day F (meaning that the asset will meet all the requirements under rule 25 upon receipt) under the forward contract (e.g. in the case of a forward asset purchase contract in which the institution is the asset buyer or a forward reverse repo contract in which the institution will receive collateral from the counterparty), the fair value of that asset (after application of haircuts in the case of a level 2A or level 2B asset) may be deducted from the contractual cash outflow arising from the contract; or
  - (ii) in item C10 of Section (I) of Part 2 of this Return, the contractual cash inflow to be received by the institution on Day F. If the institution will deliver an asset on Day F under the forward contract, and the institution has counted that asset as HQLA (or has already re-hypothecated that asset to obtain funding), the fair value of that asset (after application of haircuts in the case of a level 2A or level 2B asset) should be deducted from the contractual cash inflow arising from the contract.
3. If Day F and Day T of a forward contract both fall within the LCR period, this contract is not considered under the LCR.<sup>58</sup>

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<sup>57</sup> In case of a forward securities swap transaction, report in item B22, the fair value of the asset to be delivered by the institution on Day F, net of the fair value of any asset that will qualify for inclusion as HQLA once received by the institution on Day F. The fair value of the asset to be delivered or received by the institution on Day F should be determined after application of haircuts if the asset concerned is not level 1 asset.

<sup>58</sup> This treatment is provided in BCBS FAQ (June 2017) (no. 24) based on a simplified assumption that the cash flow to be generated on Day F (when the transaction is executed) and the opposite cash flow to be generated on Day T (when the transaction is terminated) will be offset exactly within the LCR period. The reporting institution should however notice that this assumption may not always be valid in the light of the possibility that (1) there may be a difference between cash inflows and outflows generated at different points of time, or

4. If Day F of the contract had occurred before the start of the LCR period whereas Day T of the contract falls within the LCR period, the contract can be treated as a spot contract awaiting settlement. The cash flows to be accounted for on Day T should be reported according to applicable requirements.<sup>59</sup>

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(2) there exists a time gap between Day F and Day T even though these two points in time both fall within the LCR period. The institution should manage the relevant liquidity risks that are not captured under the LCR.

<sup>59</sup> For example, if a forward repo contract was executed on Day F which is prior to the LCR period and Day T falls within the LCR period, the contract should be captured in item B8 (instead of item B22) of Section (I) of Part 2 of this Return.



**Annex 3**  
**Completion instructions for Table 1 of Section (II) –**  
**Determination of adjustments to HQLA for 15% ceiling on level 2B assets and 40% ceiling on sum of level 2A and level 2B assets**

1. If the reporting institution has entered into any securities financing transaction which will necessitate the exchange of an asset for another asset, both of which are eligible for inclusion as HQLA, within the LCR period, complete sub-items 2(d) to 2(f) of Table 1 by reversing the effect of the securities financing transaction from the institution's HQLA positions, as if the exchange of assets were executed on the day when the LCR is calculated. Table 1 will generate the figure required for reporting under item A5 in Section (I) of Part 2 of this Return. If the institution does not have any such transaction outstanding, it should report sub-items 2(d) to 2(f) of Table 1 in the same amounts as those derived in sub-items 1(f), 2(d) and 3(d) in Section (I)A of Part 2 of this Return.
  2. An illustrative example for the completion of sub-items 2(d) to 2(f) of Table 1, as well as the calculation of adjustments to HQLA for the 15% and 40% ceilings is provided below. To avoid doubt, the amounts shown in all illustrative tables in this Annex are weighted amounts after applying the haircuts applicable to the assets.
- 2.1 Bank X has maintained the following positions in HQLA holdings:

(Unit: HKD'000 equivalent)

<b>Table (A)</b>	Weighted amount	HKD	USD	Other major \$	Other currencies (incl. RMB)
Level 1 assets	2100	1000	600	500	0
Level 2A assets	1600	900	700	0	0
Level 2B assets	1900	800	800	300	0
Sum of level 1 assets, level 2A assets and level 2B assets (before deductions)	5600	2700	2100	800	0

- 2.2 Some of the above assets are obtained through the two securities financing transactions specified below, which will be due for settlement within the LCR period.

(Unit: HKD'000 equivalent)

<b>Table (B)</b>	Receivable upon settlement	Payable upon settlement
(1) Securities reverse repurchase transaction	level 1 asset in USD (post-haircut fair value equivalent to HKD100)	level 1 asset in HKD (post-haircut fair value equivalent to HKD110)
(2) Securities swap transaction	level 2A asset in JPY (post-haircut fair value equivalent to HKD200)	level 2B assets in USD (post-haircut fair value equivalent to HKD220)

- 2.3 If the two securities financing transactions are reversed, Table (A) will be adjusted as follows (whilst the figures in yellow cells should be reported in items 2(d) to 2(f) of Table 1):

(Unit: HKD'000 equivalent)

<b>Table (C)</b>	Total	HKD	USD	Other major \$	Other currencies (incl. RMB)
Adjusted level 1 assets	2090	890	700	500	0
Adjusted level 2A assets	1800	900	700	200	0
Adjusted level 2B assets	1680	800	580	300	0
Total	5570	2590	1980	1000	0

3. Using the above example, Table 1 will calculate the adjustment figures for the 15% ceiling and 40% ceiling by adopting the following steps:

- 3.1 Step 1: Before reversing any securities financing transaction, the adjustments are calculated as follows based on the data in Table (A) –

Adjustment for 15% ceiling

$$= \text{Max} (\text{level 2B assets} - 15/85 * (\text{level 1 assets} + \text{level 2A assets}), \text{level 2B assets} - 15/60 * \text{level 1 assets}, 0) = \text{Max} (1900 - 15/85 * (2100 + 1600), 1900 - 15/60 * 2100, 0) = \underline{1375}$$

Adjustment for 40% ceiling

$$= \text{Max} ((\text{level 2A assets} + \text{level 2B assets} - \text{adjustment for 15\% ceiling}) - 2/3 * \text{level 1 assets}, 0) \\ = \text{Max} ((1600 + 1900 - 1375) - 2/3 * 2100, 0) = \underline{725}$$

$$\text{Total adjustments for 15\% ceiling and 40\% ceiling} = 1375 + 725 = \underline{2100}$$

- 3.2 Step 2: After reversing securities financing transactions, the adjustments are calculated as follows based on the data in Table (C) –

Adjustment for 15% ceiling

$$= \text{Max} (\text{adjusted level 2B assets} - 15/85 * (\text{adjusted level 1 assets} + \text{adjusted level 2A assets}), \text{adjusted level 2B assets} - 15/60 * \text{adjusted level 1 assets}, 0) = \text{Max} (1680 - 15/85 * (2090 + 1800), 1680 - 15/60 * 2090, 0) = \underline{1158}$$

Adjustment for 40% ceiling

$$= \text{Max} ((\text{adjusted level 2A assets} + \text{adjusted level 2B assets} - \text{adjustment for 15\% ceiling}) - 2/3 * \text{adjusted level 1 assets}, 0); \\ = \text{Max} ((1800 + 1680 - 1158) - 2/3 * 2090, 0) = \underline{929}$$

$$\text{Total adjustments for 15\% ceiling and 40\% ceiling} = 1158 + 929 = \underline{2087}$$

- 3.3 Step 3: The more conservative outcome shown in Step 1 or Step 2 is transposed to item A5 of Section (I) of Part 2 of this Return. (In this example, the final result is HKD2100.)

**Annex 4**  
**Treatment of deposits taken by deposit-taking companies under the LCR**

1. The CIs set out in this Annex apply to category 1 institutions (or their specified associated entities in the case of category 1 institutions incorporated in Hong Kong) which are deposit-taking companies (DTCs).

***Legal restriction on deposits taken by DTCs***

2. Pursuant to section 12(3) of the BO, “*A deposit-taking company shall not, without the written permission of the Monetary Authority, repay any deposit within a period of less than three months (as specified in the First Schedule to the BO) from the date on which the deposit was taken by the company.*” Nonetheless, this legal prohibition from early repayment of a deposit taken by a DTC does not apply in the following situations:
  - (i) if the deposit has already been held by the DTC for three months or more from the date on which the deposit was taken by the DTC; and
  - (ii) if the deposit has not been held by the DTC for three months or more from the date on which the deposit was taken by the DTC, but the MA has granted a written permission under section 12(3) for early repayment of the deposit.

***Treatment of deposits subject to section 12(3) restriction***

3. Deposits taken by a DTC with a remaining term to maturity that is beyond the LCR period (even though such deposits have been held by the DTC for less than three months) can be excluded from the calculation of the LCR, provided that no section 12(3) permission has been granted by the MA in respect of those deposits.<sup>60</sup>

***Treatment of deposits not subject to section 12(3) restriction (due to holding of deposits for three months or more)***

4. If deposits taken by a DTC have been held by the DTC for three months or more, the section 12(3) restriction does not apply to those deposits. The outflow treatment of those deposits should follow the CIs set out in item B1, B3, B5 or B6 of Section (I) of Part 2 of this Return as appropriate. That is,

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<sup>60</sup> This is a special treatment for “retail term deposits” taken by DTCs (otherwise those deposits will be subject to a 5% outflow rate). In the case of “unsecured wholesale funding” obtained by a DTC subject to the LCR, if the earliest possible contractual maturity date of the funding does not fall within the LCR period, the funding concerned is already not required to be included for LCR purposes.

- (i) retail deposits (other than retail term deposits) taken by a DTC that will mature within the LCR period should be treated as “less stable retail deposits” and hence reported under sub-item B1(b), given that deposits taken by DTCs are not protected by the Deposit Protection Scheme in Hong Kong and therefore do not qualify as “stable retail deposits”. Similarly, small business funding obtained by a DTC maturing within the LCR period should be reported in sub-item B3(b);
- (ii) retail term deposits taken by a DTC that will mature beyond the LCR period should be reported in sub-item B1(c). Similarly, small business funding obtained by a DTC that will mature beyond the LCR period should be reported in sub-item B3(c);
- (iii) other deposits taken by a DTC (e.g. from wholesale customers which are not small business customers) maturing within the LCR period should be reported in item B5 or B6 as the case may require.

***Treatment of deposits not subject to section 12(3) (by virtue of MA’s written permission under section 12(3))***

5. If the withdrawal restriction under section 12(3) does not apply to a deposit taken by a DTC because of the MA’s written permission to allow early repayment of the deposit, the deposit should be subject to an outflow rate of 100% (given the likelihood that the deposit would be repaid soon after the MA’s permission is granted). Report the deposit in the following item or sub-item under Section (I)(B) of Part 2 of this Return:
- (i) item B22 (i.e. other contractual cash outflows) if the deposit is a retail deposit or small business funding
  - (ii) sub-item B6(b) (i.e. unsecured wholesale funding other than funding covered under item B3, B4, B5 or B6(a))

6. The above CIs are summarised as follows:

	Term deposits taken from retail or small business customers		Term deposits taken from wholesale customers (other than small business customers)	
	Remaining term within LCR period	Remaining term exceeding LCR period	Remaining term within LCR period	Remaining term exceeding LCR period
Restricted by s.12(3)	Counted as “less stable retail deposits” (sub-item B1(b)) or “less stable small business funding” (sub-item B3(b)), subject to 10% outflow rate	Not counted	Counted in item B5 or B6 according to usual requirements	Not counted
Not restricted by s.12(3) because the 3-month restriction has been fulfilled		Counted as “retail term deposits” (sub-item B1(c)) or “small business term funding” (sub-item B3(c)), subject to 5% outflow rate		
Exempted from s.12(3) by MA	Counted as “other contractual cash outflows” (item B22), subject to 100% outflow rate		Counted in sub-item B6(b), subject to 100% outflow rate	

## Annex 5

### Completion instructions for Table 5 of Section (II) of Part 2 – Calculation of contractual net cash outflows and inflows arising from derivative contracts under LCR

- Follow the steps below to complete Table 5, which will generate the required figures for reporting of cash outflow item B10 and cash inflow item C9 in Section (I) of Part 2 of this Return.<sup>61</sup>

#### **Item 1. Gross amount of cash-flows (after collateral adjustments, if any)**

- Report in item 1 the **gross amount**, measured at fair value in accordance with the reporting institution's usual valuation methodology, of (a) contractual cash outflows to be paid, and (b) contractual cash inflows to be received, by the institution within the LCR period under derivative contracts entered into by the institution.

For example, the reporting institution (Bank A) has entered into the following derivative contracts with its counterparty (Bank B):

(Unit: HKD'000 equivalent)

		Bank A	Bank B	Applicable exchange rates
<u>Contract (I)</u>	Inflow (IF):	USD130	EUR100	@ 7.8 HKD per USD
	Outflow (OF):	EUR100	USD130	@ 9.75 HKD per EUR
<u>Contract (II)</u>	IF:	JPY 15000	GBP 100	@ 12 HKD per GBP
	OF:	GBP 100	JPY 15000	@ 7 HKD per AUD
<u>Contract (III)</u>	IF:	HKD 630	AUD 100	@ 13.33 JPY per HKD
	OF:	AUD 100	HKD 630	

Bank A should complete item 1 of Table 5 as follows:

(Unit: HKD'000 equivalent)

1. Gross amount of cash flows (before collateral adjustments, if any)	Principal amount	Weight	Weighted amount	Breakdown of weighted amount by currencies				
				HKD	USD	Other major \$	RMB	Other \$
(a) Contractual cash outflows	2875		2875	0	0	2175 (EUR100*9.75) + (GBP100* 12)	0	700 (AUD100*7)
(b) Contractual cash inflows	2769		2769	630	1014 (USD130 * 7.8)	1125 (JPY15000 ÷13.33)	0	0

<sup>61</sup> While items B10 and C9 in Section (I) of Part 2 are capturing contractual net cash flows arising from derivative contracts, contractual net cash flows arising from spot currency transactions (if any) should also be included in these two items as the case may be. Usually, the contractual cash outflow and the contractual cash inflow arising from a spot currency transaction may be offset if the inflow and outflow is settled on the same day (which is usually the case for a spot currency transaction).

## ***Adjustments for HQLA collateral posted or received by the reporting institution***

- 2.1 If the reporting institution has posted any HQLA collateral to a counterparty to secure the institution's payment obligations under a derivative contract, the institution may, for the reporting of item 1(a), offset the fair value of the posted collateral (after applying haircuts in the case of level 2A or level 2B assets) against the fair value of the contractual cash outflow to be paid by the institution under the contract. If the posted collateral is denominated in a currency which is different from that of the contractual cash outflow to be paid by the institution within the LCR period, convert the value of the posted collateral into the currency in which the contractual cash outflow is denominated.
- 2.2 Similarly, if the reporting institution has received any HQLA collateral from a counterparty to secure the counterparty's payment obligations to the institution under a derivative contract, and the collateral is included by the institution as HQLA for calculating its LCR, the institution must offset the fair value of the received collateral (after applying haircuts in the case of level 2A or level 2B assets) against the fair value of the contractual cash inflow to be received by the institution under the contract. If the received collateral is denominated in a currency which is different from that of the contractual cash inflow to be received by the institution within the LCR period, convert the value of the received collateral into the currency in which the contractual cash inflow is denominated.
- 2.3 For example –
- (i) If Bank A has posted a USD-denominated level 2A asset with a fair value of USD100 (equivalent to HKD780) to a counterparty as collateral to secure Bank A's payment obligations under Contract (I), Bank A is allowed to offset the post-haircut fair value of that asset (i.e. after applying a 15% haircut on the level 2A asset) against the contractual cash outflow to be paid by Bank A under Contract (I). The gross amount of contractual cash outflow arising from Contract (I) after collateral adjustment is equivalent to HKD312 (=EUR100\*9.75 – USD100\*7.8\*85%).
  - (ii) If Bank A has also received a HKD-denominated level 1 asset with a fair value of HKD1000 from a counterparty as collateral to secure the latter's payment obligations under Contract (II), and the collateral is included by Bank A as level 1 asset in calculating its LCR, Bank A must calculate the contractual cash inflow arising from Contract (II) by offsetting the fair value of the level 1 asset (0% haircut in this case) received by it. The gross amount of contractual cash inflow arising from Contract (II) after collateral adjustment is equivalent to HKD125 (=JPY15000/13.33 – HKD1000).

After adjustments for the value of collateral posted or received by Bank A, item 1 of Table 5 should be reported as follows:

(Unit: HKD'000 equivalent)

1. Gross amount of cash flows (after collateral adjustments, if any)	Principal amount	Weight	Weighted amount	Breakdown of weighted amount by currencies				
				HKD	USD	Other major \$	RMB	Other \$
(a) Contractual cash outflows	2212		2212	0	0	1512 (= 312 + 1200)	0	700
(b) Contractual cash inflows	1769		1769	630	1014	125	0	0

- 2.4 If the collateral posted or received by the reporting institution is specific to a derivative contract, the amount of collateral value to be deducted cannot exceed the amount of contractual cash outflow or contractual cash inflow generated from that contract.
- 2.5 If the reporting institution has posted a pool of assets (some of which may qualify for inclusion as level 1, level 2A or level 2B assets) as collateral to a counterparty to secure the institution's payment obligations under two or more derivative contracts, and there are no specific terms under the contracts regarding which of the assets within the pool should be assigned to cover which of the contracts, the institution should adopt the following assumptions:
- (i) an asset within the pool of collateral is assumed to be used to offset the contractual cash outflow denominated in the same currency as that of the asset first;
  - (ii) any remaining value of that asset is assumed to be used to offset the contractual cash outflows denominated in other currencies according to this order: (a) HKD; (b) USD; (c) "other major currencies" (i.e. EUR, JPY and GBP); (d) RMB; and (e) other currencies; and
  - (iii) in determining the order of using different classes of asset in the pool of collateral posted by the institution to offset derivative cash outflows, the institution may apply an order in line with that specified in paragraph 22 of these CIs.
- 2.6 For the purposes of reporting contractual cash inflows arising from derivative contracts, the assumptions set out in paragraph 2.5 of this Annex should also be applied to the treatment of collateral received by the reporting institution under derivative contracts.

## **Item 2. Net amount of cash flows**

3. Report in item 2 the amount, measured at fair value, of (a) contractual net cash outflows to be paid, and (b) contractual net cash inflows to be received, by the reporting institution within the LCR period arising from derivative contracts entered into by the institution, if any of the adjustments set out below is applicable to the institution.



### ***Offsetting of contractual cash flows under the same exchange rate contract***

- 3.1 The contractual cash inflow and outflow arising from the same exchange rate contract can be offset if the two amounts are fully exchanged on a simultaneous basis (or within the same day), irrespective of whether the contract is subject to a valid bilateral netting agreement.

In the above example, assume that all of the derivative contracts between Bank A and Bank B are exchange rate contracts and, for each contract, the contractual cash outflow and inflow (after adjustment of collateral value if any) can be offset. Then the respective cash-flow positions of Bank A and Bank B under each of the contracts are adjusted as follows:

(Unit: HKD'000 equivalent)

	Bank A	Bank B
<u>Contract (I)</u>	Net inflow = $(\text{USD}130 \times 7.8) - (\text{EUR}100 \times 9.75 - \text{USD}100 \times 7.8 \times 85\%)$ = 702 (reported in currency column according to the currency denomination of the largest inflow leg, i.e. USD)	Net outflow = 702
<u>Contract (II)</u>	Net outflow = $(\text{JPY}15000/13.33 - \text{HKD}1000) - (\text{GBP}100 \times 12)$ = 1075 (reported in the currency column according to the currency denomination of the largest outflow leg, i.e. GBP)	Net inflow = 1075
<u>Contract (III)</u>	Net outflow = $\text{HKD}630 - \text{AUD}100 \times 7 = 70$ (report in the currency column following the currency denomination of the largest outflow leg i.e. AUD)	Net inflow = 70

Bank A should report in item 2 as follows:

(Unit: HKD'000 equivalent)

2. Net amount of cash flows	Principal amount	Weight	Weighted amount	Breakdown of weighted amount by currencies				
				HKD	USD	Other major \$	RMB	Other \$
(a) Contractual net cash outflows after adjustments (re Code of Practice, clause 12(3) & (4))	1145		1145	0	0	1075	0	70
(b) Contractual net cash inflows after adjustments (re Code of Practice, clause 30(3) & (4))	702		702	0	702	0	0	0

### ***Offsetting of contractual cash flows across derivative contracts subject to a valid bilateral netting agreement***

- 3.2 Contractual cash outflows and inflows arising from derivative contracts entered into by the reporting institution with the same counterparty within the LCR period can be calculated on a net basis if the contracts are subject to a valid bilateral netting agreement entered into by the institution with that counterparty.

In the above example, if the three derivative contracts entered into by Bank A with Bank B are subject to a valid bilateral netting agreement, their respective net cash-flow positions under each of the contracts (as calculated under paragraph 3.1 of this Annex) can be offset further, as demonstrated below:

(Unit: HKD'000 equivalent)

	Bank A	Bank B
Contracts (I), (II) & (III)	Net outflow = $1075 + 70 - 702 = 443$ (reported in the currency column according to the currency denomination of the largest outflow leg, i.e. GBP)	Net inflow = 443

Bank A should therefore report under item 2:

(Unit: HKD'000 equivalent)

2. Net amount of cash flows	Principal amount	Weight	Weighted amount	Breakdown of weighted amount by currencies				
				HKD	USD	Other major \$	RMB	Other \$
(a) Contractual net cash outflows after adjustments (re Code of Practice, clause 12(3) & (4))	443	100%	443	0	0	443	0	0
(b) Contractual net cash inflows after adjustments (re Code of Practice, clause 30(3) & (4))	0	100%	0	0	0	0	0	0

## Annex 6

### Completion instructions for Table 6 of Section (II) – Calculation of expected cash outflow arising from potential loss in market value of posted collateral securing derivative contracts or other transactions

1. Report in item 1 of Table 6 the contracted amount of collateral (other than level 1 assets) posted by the reporting institution to its counterparty as required under a derivative contract or any other transaction (*posted collateral*). The contracted amount of posted collateral should be determined in accordance with the terms and valuation methodology that may be specified in the relevant contractual agreement. For example, if the relevant contractual agreement requires the posted collateral to be measured at market value subject to any haircut, the institution should report the post-haircut market value of the posted collateral in item 1 of Table 6.
  
2. If the reporting institution has received collateral which is not level 1 asset (*received collateral*) from the same counterparty (i.e. the one who has received the posted collateral), report the contracted amount of the received collateral in item 2 of Table 6, provided that the institution has an unrestricted right to re-hypothecate the received collateral but has not done so, nor has the institution counted the received collateral as HQLA in calculating its LCR.

For example, Bank A (the reporting institution) has the following collateral positions arising from derivative contracts (or other transactions) entered into Bank B (the counterparty):

(Unit: HKD'000 equivalent)

Contract	Collateral (other than level 1 assets) (contracted amount in HKD equiv.)	HKD	USD	Other major \$	RMB	Other \$
(I)	Collateral posted	350	0	0	0	0
(II)	Collateral posted	0	1000	0	0	0
(III)	Collateral posted	0	0	0	250	0
(IV)	Collateral received	0	0	200	0	0
(V)	Collateral received	0	1100	0	0	0

Bank A should complete Table 6 as follows:

(Unit: HKD'000 equivalent)

	Principal amount	Weight	Weighted amount	Breakdown of weighted amount by currencies				
				HKD	USD	Other major \$	RMB	Other \$
1 Collateral (other than level 1 assets) posted by the reporting institution to counterparties under derivative contracts or other transactions ( <i>posted collateral</i> )	1600 (= 350 + 1000 + 250)							
2 Collateral (other than level 1 assets) received by the reporting institution from the same counterparties under derivative contracts or other transactions that can be deducted from item 1 ( <i>received collateral</i> )	1300 (= 1100 + 200)							
3 Net amount of posted collateral (= Max (item 1 – item 2), 0)	300	20%	60	10	0	0	50	0

3. The currency breakdown under item 3 of Table 6 is derived on the basis of the following assumptions<sup>62</sup> –

- (i) the received collateral denominated in a specific currency (e.g. USD) is used to offset with the posted collateral denominated in the same currency first.

In the above example,

- (a) Bank A receives collateral denominated in USD (1100 HKD equivalent) which can cover the USD collateral posted by it fully (1000 HKD equivalent). An amount of “0” is therefore reported in the USD column; and
  - (b) likewise, Bank A receives collateral denominated in “other major currencies” (200 HKD equivalent) but no collateral in these currencies has been posted by it. Therefore an amount of “0” is also reported in the column of “other major currencies”;
- (ii) the remaining value of received collateral (if any), after covering the posted collateral in the same currency, can be used to offset posted collateral denominated in other currencies. In such cases, the reporting institution may assume that the remaining value of the received collateral is used to offset posted collateral denominated in other currencies by order of: (a) HKD; (b) USD; (c) “other major currencies” (i.e. JPY, EUR, and GBP); (d) RMB; and (e) other currencies.

In the above example,

- (a) the remaining value of received collateral denominated in USD and other major currencies (after offsetting against posted collateral in the same currency) can be used to cover posted collateral in HKD first. Therefore an amount of “10” is reported in the column of HKD ( $10 = (350 - (1100 - 1000) - 200) * 20\%$ ); and
  - (b) an amount of “50” is reported in the column of RMB ( $50 = 250 * 20\%$ ).
4. If the received collateral is kept in a segregated account opened by the counterparty with the reporting institution, the collateral in the account can only be used to offset outflows associated with payments that are eligible to be offset from the same account of the counterparty.

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<sup>62</sup> If the reporting institution intends to adopt internal assumptions and methodologies to report the currency breakdown of this cash outflow item in order to better reflect its liquidity risk profile and liquidity risk management practice, it should discuss with the MA in advance.

For example, if the USD-denominated collateral received by Bank A under Contract (V) (1100 HKD equivalent) is kept in a segregated account which is designated to cover payments under a specific contract exclusively (e.g. Contract (III), under which Bank A is obligated to post RMB-denominated collateral (250 HKD equivalent), the remaining value of USD-denominated collateral (1100 – 250) cannot be used to offset other collateral posted by Bank A. Therefore Bank A should report Table 6 as follows:

(Unit: HKD'000 equivalent)

	Principal amount	Weight	Weighted amount	Breakdown of weighted amount by currencies				
				HKD	USD	Other major \$	RMB	Other \$
1 Collateral (excluding level 1 assets) posted by the reporting institution to counterparties under derivative contracts or other transactions ( <i>posted collateral</i> )	1600 (= 350 + 1000 + 250)							
2 Collateral (excluding level 1 assets) received by the reporting institution from the same counterparties under derivative contracts or other transactions that can be deducted from item 1 ( <i>received collateral</i> )	450 (= 250 + 200)							
3 Net amount of collateral (= Max (item 1 – item 2), 0)	1150	20%	230	30	200	0	0	0

Adopting the assumptions set out in paragraph 3 of this Annex, the currency breakdown of item 3 in Table 6 is calculated as follows:

- HKD column:  $30 = (350 - 200) * 20\%$
- USD column:  $200 = (1000 - 0) * 20\%$
- RMB column: 0

5. In any circumstances, collateral received by the reporting institution from its counterparty should not be used to offset collateral posted by the institution to another counterparty.

**Annex 7**  
**Treatments of specific types of transactions under LMR**

A category 2 institution should adopt the following treatments for the LMR purposes:

**(I) Foreign exchange transactions due for settlement within the LMR period**

**1.1 Spot currency trading**

If a category 2 institution has conducted a currency trading transaction in the spot market which will be settled within the LMR period, the institution should calculate the amounts receivable and payable by it on a mark-to-market basis.

In line with the general criteria for reporting of cash flows on a net basis under the LCR, the amounts receivable and payable by the institution within the LMR period arising from foreign exchange transactions may be reported on a net basis only if –

- the amounts receivable and payable by the institution arise from the same transaction and both amounts will be settled simultaneously (i.e. on the same day) within the LMR period;
- the amounts receivable and payable by the institution arise from the transactions and contracts with a counterparty who has established a valid bilateral netting agreement with the institution.

The amounts receivable and payable by the institution (after allowable netting) should be reported in the relevant items in Part 3 of this Return according to the type of counterparty specified in Table (1):

Table (1): Reporting of amounts receivable and payable within the LMR period arising from foreign exchange transactions

Type of counterparty	Amount receivable	Amount payable
MA for account of Exchange Fund, or central bank	Item (A3) or (C1)	Item (B1)
Bank	Sub-item (A4)(a) or item (C2)	Sub-item (A4)(b) or item (B2)
Other customers	Not included in any item (Note: amount receivable from customers arising from foreign exchange transaction is not regarded as “eligible loan repayment”)	Item (B3)

- 1.2 For example, a category 2 institution has entered into a foreign exchange transaction to purchase USD 1 million and sell HKD 7.76 million (i.e. the contractual exchange rate is 7.76) while the market exchange rate has changed to 7.8 on the LMR calculation date.

When the transaction is settled within the LMR period, the institution will receive USD 1 million (equivalent to HKD7.8 million on a mark-to-market basis) and pay HKD7.76 million. If the amounts receivable and payable by the institution are settled on the same day, the net amount receivable (equivalent to HKD 40,000 in this example) should be reported in the relevant item according to Table (1).

(For the purpose of reporting the specific currency columns in Section (I) of Part 3 of this Return, report the net amount receivable in the currency leg in which the institution will receive money in that transaction. In this example, the net amount equivalent to HKD40,000 should be reported in the USD column.)

- 1.3 If the applicable market exchange rate is 7.75, the institution should include the net amount payable (equivalent to HKD10,000) as one-month liability in the relevant item according to the type of counterparty, as specified in Table (1) above. (This net amount payable should be reported in the HKD column in this example.)

## **(II) Derivative contracts**

- 2.1 The treatment of contractual amount receivable and payable by a category 2 institution within the LMR period arising from derivative contracts (including exchange rate contracts as defined in the BCR and other types of derivative contracts) is essentially the same as the treatment set out in Section (I) of this Annex. When the institution applies the applicable treatment to derivative contracts, the following points are note-worthy:

- (a) The institution is only required to include contractual payments and receipts arising from the relevant contracts within the LMR period. Contingent claims or liabilities arising from derivative contracts are not considered for the LMR purposes.<sup>63</sup>
- (b) If a contract has its final maturity date (taking into account any possibility of early settlement) falling within the LMR period (i.e. all cash flows arising from the remaining life of that contract will occur within the LMR period), the fair value of that contract can be taken as the contractual amount receivable or payable by the institution arising from that contract.
- (c) If a contract has its final maturity date falling after the LMR period but it will generate cash flows within the LMR period (e.g. in case of periodic cash flows

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<sup>63</sup> A contingent claim and liability arising from an exchange rate contract or a derivative contract means a claim or liability of which the materialisation is contingent upon the occurrence of specific event(s) defined in a contract. Whilst there are specific requirements under the LCR for category 1 institutions to include certain types of contingent cash flows arising from derivative contracts (or other transactions), such as expected cash outflows arising from derivative contracts (or other transactions) that have material adverse event clauses, contingent claims and liabilities arising from derivative contracts are not considered under the LMR.

under a swap or any similar contract), only the cash flows within the LMR period are included for LMR purposes.

- (d) If a contract will not generate any cash flows within the LMR period, that contract does not need to be considered for LMR purposes.

The amounts receivable and payable by the institution (after allowable netting) arising from derivative contracts within the LMR period should be reported in the relevant items in Part 3 of this Return according to the type of counterparty specified in Table (2):

Table (2): Reporting of amounts receivable and payable within the LMR period arising from derivative contracts

Type of counterparty	Amount receivable	Amount payable
MA for account of Exchange Fund, or central bank	Item (A3) or (C1)	Item (B1)
Bank	Sub-item (A4)(a) or item (C2)	Sub-item (A4)(b) or item (B2)
Other customers	Not included in any item (Note: amount receivable from customers arising from derivative contracts is not regarded as “eligible loan repayment”)	Item (B3)

### **(III) Securities transactions awaiting settlement within the LMR period**

#### **3.1 Purchase of securities**

- (a) The asset purchased is a liquefiable asset –

- (i) In case of a spot purchase, report the asset as a liquefiable asset, considering that an asset, once purchased, can usually be monetized readily by sale in spot market immediately.

The corresponding amount payable by the institution within the LMR period is the institution’s one-month liability, which should be reported according to the type of counterparty by reference to Table (3).



Table (3): Reporting of amounts receivable and payable within the LMR period arising from securities purchase or sale

Type of counterparty	Amount receivable	Amount payable
MA for account of Exchange Fund, or central bank	Item (A3) or (C1)	Item (B1)
Bank	Sub-item (A4)(a) or item (C2)	Sub-item (A4)(b) or item (B2)
Other customers	Not included in any item (Note: amount receivable from customers arising from sale of securities is not regarded as “eligible loan repayment”)	Item (B3)

(ii) in case of a forward purchase, the asset is usually not readily available to be monetized. In these circumstances, the asset to be received cannot be treated as a liquefiable asset. If the asset will be delivered to the institution within the LMR period, the corresponding amount payable by the institution within the LMR period can be disregarded for LMR purposes. Otherwise, the corresponding amount payable within the LMR period must be reported as a one-month liability according to the relevant type of counterparty by reference to Table (3).

(b) The asset purchased is not a liquefiable asset – No liquefiable asset can be reported, but report the corresponding amount payable within the LMR period as a one-month liability to the relevant type of counterparty by reference to Table (3).

### 3.2 Sale of securities

(a) The asset sold is a liquefiable asset –

(i) In case of a spot sale, the asset sold cannot be reported as a liquefiable asset because it has already been removed from the institution’s balance sheet on the trade day.

(ii) In case of a forward sale, the asset cannot be included in the stock of liquefiable asset if the institution is contractually obliged to deliver that asset to its counterparty within the LMR period.

(iii) If a spot or forward sale will generate any amount receivable by the institution within the LMR period, report that amount according to the type of counterparty by reference to Table (3).

(b) The asset sold is not a liquefiable asset – Irrespective of whether the asset is sold in a spot market or under a forward contract, neither the asset nor the

corresponding amount receivable within the LMR period 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.

**(IV) Forward forward deposits**

- 4.1 Under a forward forward deposit transaction (or any similar type of forward borrowing or lending transaction) where a category 2 institution is the fund provider, it has a contractual obligation to place a specified amount of funds to its counterparty on a specified day (Day P) until the placement falls due and repaid by the counterparty to the institution (on Day T). If the institution is a fund taker in that transaction, it would have cash flow positions opposite to the above.
- 4.2 As a general principle, all amounts receivable and payable by the institution within the LMR period arising from a forward forward deposit transaction must be included in the calculation of the LMR. The specific treatment of this type of transaction is set out below:
- (a) If both Day P and Day T fall within the LMR period, report the cash flows on Day P and Day T on a gross basis<sup>64</sup>. Netting is allowed only if the cash flows arising from transactions with a counterparty are subject to a valid master netting agreement.
  - (b) If Day P falls within the LMR period but Day T does not, include the cash flow on Day P only for calculating the LMR.
  - (c) If both Day P and Day T fall after of the LMR period, the transaction is not considered under the LMR.
- 4.3 The amounts receivable and payable by the institution within the LMR period should be reported in the relevant items according to Table (4):

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<sup>64</sup> As the cash flows arising from a forward forward deposit transaction are generated in different dates (i.e. Day P and Day T respectively), netting of such cash flows at the transaction level is not allowed.

Table (4): Reporting of amounts receivable and payable within the LMR period arising from forward forward deposit transactions

Type of counterparty	Amount receivable	Amount payable
MA for account of Exchange Fund, or central bank	Item (A3) or (C1)	Item (B1)
Bank	Sub-item (A4)(a) or item (C2)	Sub-item (A4)(b) or item (B2)
Other customers	Item (C4) <sup>65</sup>	Item (B3)

**(V) Repo-style transactions**

5.1 Where the risks and rewards ARE NOT substantially transferred to the buyer

5.1.1 Repo transaction due to unwind within the LMR period

(a) Repo subject is a liquefiable asset

Both the repo subject and the amount payable arising from the repo transaction should be excluded from the reporting of liquefiable assets and qualifying liabilities respectively.<sup>66</sup>

(b) Repo subject is not a liquefiable asset

Disregard the repo subject; report the amount payable by the institution within the LMR period as a one-month liability according to the type of counterparty. Please refer to Table (5).

Table (5): Reporting of amounts receivable and payable within LMR period arising from repo and reverse repo transactions

Type of counterparty	Amount receivable	Amount payable
MA for account of Exchange Fund, or central bank	Item (A3) or (C1)	Item (B1)
Bank	Item (A4)(a) or (C2)	Item (A4)(b) or (B2)
Other customers	Item (C4)	Item (B3)

<sup>65</sup> Deposit is regarded as a loan of money placed by a person to another person. Therefore amounts receivable arising from a forward forward deposit transaction can be treated as “eligible loan repayment” if the applicable criteria are met fully.

<sup>66</sup> 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 encumbrances. The corresponding account payable need 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.

### 5.1.2 Reverse repo transaction due to unwind within the LMR period

As the reverse repo subject cannot be re-hypothecated by the institution, the asset cannot be claimed by the institution as a liquefiable asset.

Report the amount receivable by the institution within the LMR period according to the type of counterparty. Please refer to Table (5).

### 5.1.3 Repo transaction due to unwind beyond the LMR period

#### (a) Repo subject is a liquefiable asset

Same treatment for the repo subject as in scenario 5.1.1(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 as in scenario 5.1.1(b).

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

### 5.1.4 Reverse repo transaction due to unwind beyond the LMR period

Same treatment of the reverse repo subject as in scenario 5.1.2.

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

## 5.2 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.

### 5.2.1 Repo transaction due to unwind within the LMR period

(a) Repo subject is a liquefiable asset

The treatment is the same as under scenario 5.1.1(a). Both the repo subject and the commitment to repurchasing the repo subject should be excluded from the reporting of liquefiable assets and qualifying liabilities respectively.

(b) Repo subject is not a liquefiable asset

Disregard the repo subject; report the institution's commitment to repurchasing the repo subject within the LMR period as a one-month liability according to the type of counterparty. Please refer to Table (5).

### 5.2.2 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 may be included as a liquefiable asset (if the other applicable criteria are met fully).

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

(b) Reverse repo subject is not a liquefiable asset

As the reverse repo subject acquired 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. Please refer to Table (5).

### 5.2.3 Repo transaction due to unwind beyond the LMR period

(a) Repo subject is a liquefiable asset

Same treatment for the repo subject as in scenario 5.2.1(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 for the repo subject as in scenario 5.2.1(b).

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

5.2.4 Reverse repo transaction due to unwind beyond the LMR period

(a) Reverse repo subject is a liquefiable asset

Same treatment for the reverse repo subject as in scenario 5.2.2(a).

No qualifying liability arises from the transaction.

(b) Reverse repo subject is not a liquefiable asset

Same treatment for the reverse repo subject as in scenario 5.2.2(b).

No qualifying liability arises from the transaction.

**Annex 8**  
**Examples for reporting of due to/from the MA for the account of the Exchange Fund,**  
**central banks and banks under LMR**

**(I) Reporting of due to / from central banks**

Assume Bank A and Bank B have the following positions:

	<b>Bank A</b>		<b>Bank B</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:

<b>Items</b>	<b>Bank A</b>		<b>Bank B</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 banks**

Assume Bank A and Bank B have the following positions:

	<b>Bank A</b>	<b>Bank B</b>
Due from banks maturing in the LMR period	100	20
Due to banks maturing in the LMR period	20	100
Qualifying liabilities (before deductions)	150	150

The two banks should report their respective positions as follows:

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