

Annex 2

Complete set of agreed changes to the formulation of the Liquidity Coverage Ratio published in December 2010

HIGH QUALITY LIQUID ASSETS (HQLA)

Expand the definition of HQLA by including Level 2B assets, subject to higher haircuts and a limit

- Corporate debt securities rated A+ to BBB– with a **50%** haircut
 - Certain unencumbered equities subject to a **50%** haircut
 - Certain residential mortgage-backed securities rated AA or higher with a **25%** haircut
- Aggregate of Level 2B assets, after haircuts, subject to a limit of **15%** of total HQLA

Rating requirement on qualifying Level 2 assets

- Use of local rating scales and inclusion of qualifying commercial paper

Usability of the liquidity pool

- Incorporate language related to the expectation that banks will use their pool of HQLA during periods of stress

Operational requirements

- Refine and clarify the operational requirements for HQLA

Operation of the cap on Level 2 HQLA

- Revise and improve the operation of the cap on Level 2 assets

Alternative liquid asset (ALA) framework

- Development of the alternative treatments, and include a fourth option for Shari'ah-compliant banks

Central bank reserves

- Clarify language to confirm that supervisors have national discretion to include or exclude required central bank reserves (as well as overnight and certain term deposits) as HQLA as they consider appropriate

INFLOWS AND OUTFLOWS

Insured deposits

- Reduce outflow on certain types of fully insured retail deposits from **5% to 3%**
- Reduce outflow on fully insured non-operational deposits from non-financial corporates, sovereigns, central banks and public sector entities (PSEs) from **40% to 20%**

Non-financial corporate deposits

- Reduce the outflow rate for “non-operational” deposits provided by non-financial corporates, sovereigns, central banks and PSEs from **75% to 40%**

Committed liquidity facilities to non-financial corporates

- Clarify the definition of liquidity facilities and reduce the drawdown rate on the unused portion of committed liquidity facilities to non-financial corporates, sovereigns, central banks and PSEs from **100% to 30%**

Committed but unfunded inter-financial liquidity and credit facilities

- Distinguish between interbank and inter-financial credit and liquidity facilities and reduce the outflow rate on the former from **100% to 40%**

Derivatives

- Additional derivatives risks included in the LCR with a **100%** outflow (relates to collateral substitution, and excess collateral that the bank is contractually obligated to return/provide if required by a counterparty)
- Introduce a standardised approach for liquidity risk related to market value changes in derivatives positions
- Assume net outflow of **0%** for derivatives (and commitments) that are contractually secured/collateralised by HQLA

Trade finance

- Include guidance to indicate that a low outflow rate (**0–5%**) is expected to apply

Equivalence of central bank operations

- Reduce the outflow rate on maturing secured funding transactions with central banks from **25% to 0%**

Client servicing brokerage

- Clarify the treatment of activities related to client servicing brokerage (which generally lead to an **increase in net outflows**)

OTHER

Rules text clarifications

- A number of clarifications to the rules text to promote consistent application and reduce arbitrage opportunities (eg operational deposits from wholesale clients, derivatives cash flows, open maturity loans). Also incorporation of previously published FAQs

Internationally agreed phase-in of the LCR

- The minimum LCR in 2015 would be **60%** and increase by **10 percentage points per year** to reach 100% in 2019
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