Appendix 3

In this Appendix underlining indicates new text and striking through indicates deleted text

The DFSA Rulebook

Prudential – Investment, Insurance Intermediation and Banking Module

(PIB)

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9 LIQUIDITY RISK

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The Maturity Mismatch approach

Guidance

The Maturity Mismatch approach measures an Authorised Firm's liquidity by assessing the mismatch between its inflows (assets) and outflows (liabilities) within different timebands on a Maturity Ladder.

9.3.10 (1) An Authorised Firm in Category 1 or 5 must use the Maturity Mismatch approach, as set out in this section, to measure liquidity.

(2) When using the Maturity Mismatch approach, an Authorised Firm must determine the net cumulative Maturity Mismatch position for each time band by:

(a) determining, in accordance with the Rules in sections A9.3 of App9, the inflows (assets), ~~and~~ outflows (liabilities), liquid assets and funding capacity which are~~, subject to their falling within one of the time bands,~~ to be included in the relevant time bands in the Maturity Ladder~~ and at what maturities~~; and

~~(b) inserting each inflow (asset) and outflow (liability) into the relevant time band on the Maturity Ladder; and~~

(~~c~~b) subtracting outflows (liabilities) from inflows (assets) in each time band, and adding the eligible assets, in accordance with section A9.3 of APP 9.

Measuring liquidity for Category 1 and Category 5

9.3.11 (1) An Authorised Firm in Category 1 or 5 must determine a net cumulative Maturity Mismatch position for each time band in respect of each of the following means of funding used by the Authorised Firm:

(a) PSIAus; and

(b) deposits.

(2) An Authorised Firm in Category 1 or 5 must calculate its liquidity by using the net cumulative Maturity Mismatch position separately for each means of funding used by the Authorised Firm as a percentage of the means of funding in each time band as follows:

(a) PSIAus net cumulative Maturity Mismatch % =

$$\frac{\text{Net cumulative Maturity Mismatch x 100}}{\text{Total PSIAus}}$$

(b) Total deposit liabilities net cumulative Maturity Mismatch % =

$$\frac{\text{Net cumulative Maturity Mismatch x 100}}{\text{Total deposits}}$$

(3) An Authorised Firm must ensure that its net cumulative Maturity Mismatch position for each means of funding used by the Authorised Firm in the sight – 8 days time band does not exceed negative 15%.

(4) An Authorised Firm must notify the DFSA in writing immediately if it exceeds or is likely to exceed the net cumulative Maturity Mismatch limit referred to in (3).

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APP9 LIQUIDITY

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A9.3 The Maturity Mismatch approach

Including inflows (assets) and outflows (liabilities) in the timebands

A9.3.1 (1) Outflows (liabilities) must be included in the Maturity Ladder according to their earliest contractual maturity.

(2) Contingent liabilities may be excluded from the ~~Maturity Ladder~~ <u>maturity mismatch ratio calculation</u> only if there is a likelihood that the conditions necessary to trigger them will not be fulfilled <u>within the ratio period</u>.

(3) Inflows (assets) must be included in the Maturity Ladder according to their latest contractual maturity. ~~, except that:~~

~~(a) undrawn committed standby facilities provided by other banks are included at sight;~~

~~(b) marketable assets are included at sight, at a discount, and~~

~~(c) assets which have been pledged as Collateral are excluded from the Maturity Ladder.~~

Including ~~marketable~~ liquid assets in the Maturity Ladder

A9.3.2 (1) ~~Assets~~ Liquid assets ~~which are readily marketable~~ are included at market value in the relevant section of the Maturity Ladder ~~in the sight - 8 days time band, generally at a discount to their recorded value calculated in accordance with (4)~~.

(2) An asset is regarded as liquid ~~readily marketable~~ if:

(a) prices are regularly quoted for the asset;

(b) the asset is regularly traded;

(c) the asset may readily be sold, including by repurchase agreement, either on an exchange, or in a deep and liquid market for payment in cash; and

(d) settlement is according to a prescribed timetable rather than a negotiated timetable.

(3) ~~The DFSA may allow, on a case by case basis, an Authorised Firm to include a longer term asset which is relatively easy to liquidate in the sight - 8 days time band.~~ Deleted

(4) The discount factor to be applied to types of marketable assets when completing the maturity mismatch ratio calculation must be determined by reference to the following table and Rules A9.2.6 to A9.2.9 (which define which assets are eligible to be included in each HQLA level):

	~~Benchmark discount~~
~~**Central government debt, Local Authority paper and eligible bank bills (Credit Quality Grade of 1, 2 or 3)**~~	
~~Central government and central government-guaranteed marketable Securities with twelve or fewer~~	~~0%~~

~~months' residual maturity, including treasury bills; and eligible local authority paper and eligible bank bills.~~	
~~Other central government, central government-guaranteed and local authority marketable debt with five or fewer years' residual maturity or at variable rates.~~	~~5%~~
~~Other central government, central government-guaranteed and local authority marketable debt with over five years' residual maturity.~~	~~10%~~
~~**Other Securities denominated in freely tradable currencies (Credit Quality Grade of 1, 2 or 3)**~~	
~~Non-government debt Securities which are Investment Grade, and which have six or fewer months' residual maturity.~~	~~5%~~
~~Non-government debt Securities which are Investment Grade, and which have five or fewer years' residual maturity.~~	~~10%~~
~~Non-government debt Securities which are Investment Grade, and which have more than five years' residual maturity.~~	~~15%~~
~~Equities which qualify for a Specific Risk weight no higher than 4%.~~	~~20%~~
~~**Other central government debt**~~	
~~Where such debt is actively traded.~~	~~20%~~
~~Exposures to a central government or a Central Bank where such Exposures are actively traded~~	~~20%~~
~~Where the issuer is a central government or a Central Bank and the issue is actively traded but the credit Exposure is not to the Issuer~~	~~40%~~
~~Non-government, actively-traded Exposures, which are Investment Grade~~	~~60%~~

Liquid assets	**Discount**
Level 1 HQLA	0%
Level 2A HQLA	15%

All other loans to financial institutions with a residual maturity of less than six months	15%
Level 2B HQLA - Eligible asset backed securities	25%
Level 2B HQLA - Other HQLA	50%
Non-HQLA eligible trading assets that are Investment Grade	60%

(5) The DFSA may vary the discounts to reflect the conditions of a particular market or institution.

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