

Appendix 3

In this appendix underlining indicates proposed new text and striking through indicates deleted text.



The DFSA Rulebook

Prudential – Investment, Insurance
Intermediation and Banking Module

(PIB)

1 APPLICATION, INTERPRETATION AND CATEGORISATION

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Branches

- 1.1.2** Unless otherwise directed by the DFSA, an Authorised Firm that is a Branch is required to comply with the Rules in chapters 2 to 11 as specifically provided in “Application Table A” which forms part of this Rule.

Guidance

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Domestic Firms

4. To assist Authorised Firms that are Domestic Firms there is a table “Application Table B” which sets out in general the application of the provisions in this module to different Categories of Authorised Firms. This table is for Guidance purposes only. The Rules in this module apply to Authorised Firms in accordance with this Chapter and as specified in Rules elsewhere in this module.

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APPLICATION TABLE B FOR AUTHORISED FIRMS THAT OPERATE AS A DOMESTIC FIRM

PIB Chapters	Category 1	Category 2	Category 3A	Category 3B	Category 3C	Category 4	Category 5
Chapter 1: Application, Interpretation and Categorisation	Whole Chapter	Whole Chapter	Whole Chapter	Whole Chapter	Whole Chapter	Whole Chapter	Whole Chapter
Chapter 2: General Requirements	Whole Chapter	Whole Chapter	Whole Chapter	Whole Chapter	Whole Chapter	Whole Chapter	Whole Chapter
Chapter 3:Capital	Whole Chapter, except Rules 3.2.4 and 3.2.6, and sections 3.4, 3.5 and 3.7	Whole Chapter, except Rules 3.2.4 and 3.2.6, and sections 3.3 and 3.5	Whole Chapter, except Rules 3.2.4 and 3.2.6, except sections 3.3, <u>and 3.5 and 3.18</u>	Whole Chapter, except Rules 3.2.4 and 3.2.7, and sections 3.3, 3.4, 3.8, <u>and 3.9 and 3.18.</u>	Whole Chapter, except Rules 3.2.4 and 3.2.7, and sections 3.3, 3.4, 3.8, <u>and 3.9 and 3.18.</u>	Whole Chapter, except Rules 3.2.4 and 3.2.7, and sections 3.3, 3.4, 3.8, <u>and 3.9 and 3.18.</u>	Whole Chapter, except Rules 3.2.4 and 3.2.6, and sections 3.4, 3.5 and 3.7
Chapter 4:Credit Risk	Whole Chapter	Whole Chapter	Whole Chapter				Whole Chapter
Chapter 5:Market Risk	Whole Chapter	Whole Chapter	Only sections 5.1, 5.2 and 5.6				Whole Chapter, except section 5.4
Chapter 6:Operational Risk	Whole Chapter, except section 6.12	Whole Chapter, except section 6.12	Whole Chapter, except section 6.12	Whole Chapter, except sections 6.10 and 6.11	Whole Chapter, except sections 6.10 and 6.11	Whole Chapter, except sections 6.10 and 6.11	Whole Chapter, except section 6.12
Chapter 7:Interest Rate Risk In the Non-Trading Book	Whole Chapter	Whole Chapter					
Chapter 8:Group Risk	Whole Chapter	Whole Chapter	Only sections 8.1 and 8.5	Only sections 8.1 and 8.5	Only sections 8.1 and 8.5	Only sections 8.1 and 8.5	Whole Chapter



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PIB Chapters	Category 1	Category 2	Category 3A	Category 3B	Category 3C	Category 4	Category 5
Chapter 9:Liquidity Risk	Whole Chapter, except Rule 9.2.2(3)	Only Rule 9.2.2 (3).					Whole Chapter, except Rule 9.2.2(3)
Chapter 10:Supervisory Review and Evaluation Processes	Whole Chapter	Whole Chapter	Whole Chapter	Whole Chapter, except sections 10.4 and 10.6	Whole Chapter, except sections 10.4 and 10.6		Whole Chapter
Chapter 11:Disclosure Requirements	Whole Chapter	Whole Chapter					Whole Chapter

1.2 Glossary for PIB

Guidance

Set out under Rule 1.2.1 are a number of mainly technical definitions used solely in PIB. Such definitions do not also appear in GLO unless they are used elsewhere in the Rulebook. GLO also contains definitions of abbreviations, terms and phrases used in PIB and those are also included in 1.2.1 for convenience purposes where such definitions are embedded in PIB specific definitions. Commonly used definitions such as “Authorised Firms”, “Domestic Firms”, and “Financial Services” appear only in GLO.

1.2.1 The following terms and abbreviations bear the following meanings for the purpose of this module:

<u>Contingency Funding Plan (CFP)</u>	<u>The plan referred to in Rule 9.2A.6.</u>
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<u>High Quality Liquid Assets (HQLA)</u>	<u>Liquid assets that meet the conditions in Rules A9.2.2 to A9.2.9 of App 9.</u>
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<u>LCR Requirement</u>	<u>The LCR required to be maintained by an Authorised Firm under Rule 9.3.4 or, if applicable, under Rule 9.3.6.</u>
<u>Leverage Ratio</u>	<u>The amount expressed as a percentage that is calculated in accordance with the Rules in section 3.18.</u>
<u>Liquidity Coverage Ratio (LCR)</u>	<u>The amount expressed as a percentage that is calculated in accordance with Rule 9.3.5 and section A9.2 of App 9.</u>
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<u>Total Net Cash Outflow</u>	<u>Has the meaning given in Rule A9.2.13</u>

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3 CAPITAL

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3.2 Requirements

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3.2.4 An Authorised Firm that is a Branch must:

- (a) ensure that it has and maintains, at all times, liquid assets and access to financial resources which are adequate in relation to the nature, size and complexity of its business to ensure that there is no significant risk that liabilities cannot be met as they fall due;
- (b) ensure that it complies with its home state Financial Services Regulator's prudential requirements;
- (c) submit to the DFSA a copy of every capital adequacy summary report and leverage ratio report submitted to its home state Financial Services Regulator within ten business days of the due date for submission to that regulator; and
- (d) in the event of any anticipated or actual breach of any prudential requirements set by its home state Financial Services Regulator, notify the DFSA forthwith with any relevant documents.

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PART 5 – Calculating the Leverage Ratio

3.18 Leverage Ratios

3.18.1 This section applies to an Authorised Firm in Category 1, 2 or 5.

Guidance

This section is relevant to an Authorised Firm that is required to report its Leverage Ratio to the DFSA under chapter 2, or to disclose its Leverage Ratio under chapter 11, of these Rules.

3.18.2 An Authorised Firm must calculate its Leverage Ratio in accordance with the following formula:

Leverage Ratio = Capital Measure ÷ Exposure Measure

Where:

- (a) “Capital Measure” represents Tier 1 Capital of the Authorised Firm calculated in accordance with Rule 3.12.1; and
- (b) “Exposure Measure” represents the value of exposures of the Authorised Firm calculated in accordance with Rule 3.18.3.

3.18.3 For the purpose of determining the Exposure Measure, the value of exposures of an Authorised Firm must be calculated in accordance with the International Financial Reporting Standards (IFRS) subject to the following adjustments:

- (a) on-balance sheet, non-derivative exposures must be net of specific allowances and valuation adjustments (e.g. credit valuation adjustments);
- (b) physical or financial collateral, guarantees or credit risk mitigation purchased must not be used to reduce on-balance sheet exposures; and
- (c) loans must not be netted with deposits.

Guidance

1. The following Guidance is intended to illustrate how an Authorised Firm should calculate its Leverage Ratio under this section.
2. The Exposure Measure under Rule 3.18.3 should be calculated as the sum of:
 - a. on-balance sheet items; and
 - b. off-balance sheet items.
3. In relation to on-balance sheet items:
 - a. for SFTs, the exposure value should be calculated in accordance with IFRS and the netting requirements referred to in Rule 4.9.14;
 - b. for Derivatives, including credit protection sold, the exposure value should be calculated as the sum of the on-balance sheet value in accordance with IFRS and an add-on for potential future exposure calculated in accordance with Rules A4.6.14 to A4.6.21 of App 4; and

- c. for other on-balance sheet items, the exposure value should be calculated based on their balance sheet values in accordance with Rule 4.9.3.
 - 4. In relation to off-balance sheet items:
 - a. for commitments that are unconditionally cancellable at any time by the Authorised Firm without prior notice, the exposure value should be the notional amount for the item multiplied by a CCF of 10%; and
 - b. for other off-balance sheet items, including:
 - i. direct credit substitutes;
 - ii. certain transaction-related contingent items;
 - iii. short-term self-liquidating trade-related contingent items and commitments to underwrite debt and equity securities;
 - iv. note issuance facilities and revolving underwriting facilities;
 - v. transactions, other than SFTs, involving the posting of securities held by the Authorised Firm as collateral;
 - vi. asset sales with recourse, where the credit risk remains with the Authorised Firm;
 - vii. other commitments with certain drawdown;
 - viii. any other commitments; and
 - ix. unsettled transactions,
- the exposure value should be the notional amount for each of the items multiplied by a CCF of 100%.
5. For an Islamic Financial Institution, assets corresponding to Unrestricted PSIAs will fall within the Exposure Measure and, therefore, are considered for the purpose of the Leverage Ratio calculation.
6. Further Guidance about the method for completing forms relating to Leverage Ratios can be found in PRU.

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9 LIQUIDITY RISK

Introduction

Guidance

1. This chapter deals with management of Liquidity Risk by an Authorised Firm. Liquidity Risk refers to the risk of potential losses incurred by an Authorised Firm's failure to have

liquid assets to ensure payment of all its liabilities as they fall due and be in a position to meet all payments required to sustain its business on a planned growth path.

2. This chapter requires an Authorised Firm to:
 - a. implement Liquidity Risk management systems and controls;
 - b. identify, measure and monitor Liquidity Risk; ~~and~~
 - c. maintain a minimum level of High Quality Liquid Assets (HQLA); and
 - d. determine quantitative limits on the cumulative negative maturity mismatch in accordance with a specified methodology.

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9.2 Liquidity Risk policy systems and controls

- 9.2.1** (1) An Authorised Firm must establish and maintain a Liquidity Risk policy.
- (1A) An Authorised Firm must ensure the policy is in writing and is approved at least annually by its Governing Body.
- (1B) The policy must set out the level of Liquidity Risk the Authorised Firm is willing to tolerate.
- (2) The policy must ~~be documented and~~ include the strategy for the daily and long-term management of Liquidity Risk appropriate to the nature, scale and complexity of the activities conducted and the strategy must include the matters referred to in (3), (4) and (5).
- (3) The strategy must include a system for identifying and assessing Liquidity Risk in accordance with Rule 9.2.4.
- (4) The strategy must include a process for the measurement and monitoring of Liquidity Risk using a robust and consistent method which enables the Authorised Firm to implement the requirements set out in Rule 9.2.5.
- (5) The strategy must include a system for controlling Liquidity Risk which enables the Authorised Firm to implement the requirements set out in Rule 9.2.6.
- (6) An Authorised Firm must ensure that it has risk management systems to implement the policy.

Guidance

1. The DFSA expects that an Authorised Firm's Liquidity Risk strategy will set out the approach that the Authorised Firm will take to Liquidity Risk management, including various quantitative and qualitative targets. It should be communicated to all relevant functions and staff within the organisation and be set out in the Authorised Firm's Liquidity Risk policy.
 2. The DFSA expects that an Authorised Firm's Liquidity Risk policy and strategy for managing Liquidity Risk will specify take into account the need to:
 - a. develop a liquidity management strategy, policies and processes in accordance with the Authorised Firm's stated Liquidity Risk tolerance;
 - b. ensure that the Authorised Firm maintains sufficient liquidity at all times;
 - c. determine the structure, responsibilities and controls for managing Liquidity Risk and for overseeing the liquidity positions of all branches and subsidiaries in the jurisdictions in which the Authorised Firm is active, and outline these elements clearly in the Authorised Firm's liquidity policies;
 - d. have in place adequate internal controls to ensure the integrity of its Liquidity Risk management processes;
 - e. ensure that stress tests, contingency funding plans and holdings of HOLA are effective and appropriate for the Authorised Firm;
 - f. establish a set of reporting criteria, specifying the scope, manner and frequency of reporting to various recipients (such as the Governing Body, senior management and the asset/liability committee) and who is responsible for preparing the reports;
 - g. establish the specific procedures and approvals necessary for exceptions to policies and limits, including the escalation procedures and follow-up actions to be taken for breaches of limits;
 - h. monitor closely current trends and potential market developments that may present significant, unprecedented and complex challenges for managing Liquidity Risk so that appropriate and prompt changes to the liquidity management strategy can be made as needed; and
 - i. continuously review information on the Authorised Firm's liquidity developments and report regularly to the Governing Body.
- a. ~~the basis for managing liquidity, for example, regional or central;~~
 - b. ~~the degree of asset concentration potentially affecting Liquidity Risk that is acceptable to the Authorised Firm;~~
 - e. ~~ways of managing both the Authorised Firm's aggregate Foreign Currency liquidity needs and its needs in each individual currency;~~
 - d. ~~ways of managing market access;~~
 - e. ~~where appropriate, the use of derivatives to minimise Liquidity Risk;~~

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- f. ~~where appropriate, the management of intra-day liquidity; and~~
- g. ~~where appropriate, the management of liquidity issues associated with PSIA's and Islamic Contracts.~~

- 9.2.2** (1) An Authorised Firm must ensure that its Governing Body is responsible for monitoring the nature and level of Liquidity Risk assumed by the Authorised Firm and the process used to manage that risk.
- (2) Without limiting the operation of (1), the responsibilities of an Authorised Firm's Governing Body in respect of Liquidity Risk include:
- (a) approving the statement of the Authorised Firm's Liquidity Risk tolerance and strategy;
 - (b) establishing and maintaining a senior management structure with clearly defined responsibilities and roles for the management of Liquidity Risk and for ensuring compliance with the Authorised Firm's Risk strategy;
 - (c) ensuring the senior management in (b) and other relevant personnel have the necessary experience to manage Liquidity Risk;
 - (ed) monitoring the Authorised Firm's overall Liquidity Risk profile on a regular basis and being aware of any material changes in the Authorised Firm's current or prospective Liquidity Risk profile; ~~and~~
 - (de) ensuring that Liquidity Risk is adequately identified, assessed, mitigated, controlled and monitored; in accordance with the Authorised Firm's Liquidity Risk tolerance and strategy;
 - (f) ensuring that the Liquidity Risk tolerance and strategy is documented; and
 - (g) ensuring that the Liquidity Risk tolerance and strategy is reviewed at least annually.

Guidance

Senior management and the Governing Body of an Authorised Firm are expected to demonstrate a thorough understanding of the links between funding liquidity risk and market liquidity risk, as well as how other risks, including credit, market, operational and reputation risks, affect the Authorised Firm's overall Liquidity Risk strategy.

Requirements imposed on a Category 2 firm

- (3) An Authorised Firm in Category 2 must:
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- (a) establish and maintain a senior management structure to manage Liquidity Risk;
- (b) identify, assess, mitigate, control and monitor Liquidity Risk; and
- (c) monitor the Authorised Firm's overall Liquidity Risk profile on a regular basis.

Guidance

In respect of Rule 9.2.2(2)(b), senior management are expected to:

- a. oversee the development, establishment and maintenance of procedures and practices that translate the goals, objectives and risk tolerances approved by the Governing Body into operating standards that are consistent with the Governing Body's intent and which are understood by the relevant members of an Authorised Firm's staff;
- b. adhere to the lines of authority and responsibility that the Governing Body has established for managing Liquidity Risk;
- c. oversee the establishment and maintenance of management information and other systems that identify, assess, control and monitor the Authorised Firm's Liquidity Risk; and
- d. oversee the establishment of effective internal controls over the Liquidity Risk management process.

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Identifying Liquidity Risk

- 9.2.4** (1) An Authorised Firm must comply with the requirements in this Rule in implementing its system referred to in Rule 9.2.1(3).
- (42) An Authorised Firm must assess the repayment profiles of its assets under both normal market conditions and stressed conditions resulting from either general market turbulence or firm-specific difficulties.
- (23) An Authorised Firm must assess the extent to which committed facilities can be relied upon under stressed conditions identified in accordance with Rule 9.2.A.39.
- (34) An Authorised Firm must consider potential liability concentrations when determining the appropriate mix of liabilities.
- (45) An Authorised Firm must consider how its off-balance sheet activities affect its cash flows and Liquidity Risk profile under both normal and stressed conditions.

- (56) If an Authorised Firm has significant, unhedged liquidity mismatches in particular currencies, it must assess:
- (a) the volatilities of the exchange rates of the mismatched currencies;
 - (b) likely access to the foreign exchange markets in normal and stressed conditions; and
 - (c) the stability of deposits in those currencies with the Authorised Firm in stressed conditions.

Guidance

1. As part of the assessment for the purposes of Rule 9.2.4(42), an Authorised Firm should identify significant concentrations within its asset portfolio.
2. For the purposes of Rule 9.2.4(34), an Authorised Firm should consider factors including:
 - a. the term structure of its liabilities;
 - b. the credit-sensitivity of its liabilities;
 - c. the mix of secured and unsecured funding;
 - d. concentrations among its liability providers or related Groups of liability providers;
 - e. reliance on particular instruments or products;
 - f. the geographical location of liability providers; and
 - g. reliance on intra-Group funding.
3. As appropriate, an Authorised Firm would be expected to consider the amount of funding required by:
 - a. commitments given;
 - b. standby facilities given;
 - c. wholesale overdraft facilities given;
 - d. proprietary derivatives positions; and
 - e. liquidity facilities given for securitisation transactions.

Measuring and monitoring Liquidity Risk

- 9.2.5** (1) An Authorised Firm must ensure that the method referred to in Rule 9.2.1(4) for measuring Liquidity Risk is capable of:

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- (a) measuring the extent of the Liquidity Risk it is incurring and includes early warning indicators to aid its daily liquidity risk management processes;
 - (b) dealing with the dynamic aspects of the Authorised Firm's liquidity profile;
 - (c) where appropriate, measuring the Authorised Firm's Exposure to Foreign Currency Liquidity Risk;
 - (d) where appropriate, measuring the Authorised Firm's intra-day liquidity positions; and
 - (e) where appropriate, measuring the Authorised Firm's Exposure to PSIA and Islamic Contract Liquidity Risk.
- (2) An Authorised Firm must establish and maintain a system of management reporting which provides relevant, accurate, comprehensive, timely, forward looking and reliable Liquidity Risk reports to relevant functions within the Authorised Firm.

Guidance

1. Early warning indicators should be designed to assist the Authorised Firm to identify any negative trends in its liquidity position and to assist its management to assess and respond to mitigate its exposure to those trends.
 2. An Authorised Firm should actively manage its intraday liquidity positions and risks in order to meet payment and settlement obligations on time under both normal and stressed conditions, thus contributing to the orderly functioning of payment and settlement systems.
34. Management information should include the following:
- a. a cash-flow or funding gap report;
 - b. a funding maturity schedule;
 - c. a list of large providers of funding;
 - d. where appropriate, a schedule of Islamic funding sources;
 - e. a limit monitoring and exception report;
 - f. asset quality and trends;
 - g. earnings projections; and
 - h. the Authorised Firm's reputation in the market and the condition of the market itself.

42. Where an Authorised Firm is a member of a Group, it should be able to assess the potential impact on it of Liquidity Risk arising in other parts of the Group.

Controlling Liquidity Risk

- 9.2.6** An Authorised Firm must ensure that the system referred to in Rule 9.2.1(5):
- (a) enables the Authorised Firm's Governing Body and senior management to review compliance with limits set in accordance with Rule 9.2.7 and operating procedures; and
 - (b) has appropriate approval processes, limits and other mechanisms designed to provide reasonable assurance that the Authorised Firm's Liquidity Risk management processes are adhered to.
- 9.2.7** (1) An Authorised Firm must ensure that its Governing Body sets appropriate liquidity limits covering Liquidity Risk management in both day-to-day and stressed conditions.
- (2) An Authorised Firm must periodically review and, where appropriate, adjust the limits referred to in (1) when its Liquidity Risk policy changes.
- (3) An Authorised firm must promptly resolve any policy or limit exceptions according to the processes described in its Liquidity Risk policy.

Guidance

1. An Authorised Firm should set limits to control its liquidity risk exposure and vulnerabilities. Limits and corresponding escalation procedures should be reviewed regularly. Limits should be relevant to the business in terms of its location, complexity of activity, nature of products, currencies and markets served. If an Authorised Firm breaches a liquidity risk limit, it should implement a plan to review its exposure and reduce it to a level that is within the limit.
2. An Authorised Firm should actively manage its collateral positions, differentiating between encumbered and unencumbered assets. An Authorised Firm should monitor the legal entity and physical location where collateral is held and how quickly the collateral may be used.

9.2A Funding strategy, stress testing and contingency funding plan

Funding strategy

- 9.2A.1** (1) An Authorised Firm must develop a funding strategy that provides effective diversification in the sources and nature of its funding.
- (2) An Authorised Firm must ensure that the funding strategy is in writing and is approved by its Governing Body.
- (3) The funding strategy must be supported by robust assumptions that are consistent with the Authorised Firm's liquidity management strategy and business objectives.
- (4) An Authorised Firm must ensure that its funding strategy is reviewed regularly and at least annually, and is updated as necessary in light of changed funding conditions and any change in the Authorised Firm's strategy.
- (5) An Authorised Firm must notify the DFSA in writing immediately of any material changes to the Authorised Firm's funding strategy.

Guidance

An Authorised Firm should maintain an ongoing presence in its chosen funding markets and strong relationships with funds providers.

- 9.2A.28** (1) An Authorised Firm must assess market access under a variety of normal and stressed conditions.
- (2) An Authorised Firm must assess regularly its capacity to raise funds quickly.
- (3) An Authorised Firm must:
- (a) identify the main factors that affect its ability to raise funds; and
 - (b) monitor those factors closely to ensure that estimates of fund raising capacity remain valid.

Stress testing

- 9.2A.39** (1) An Authorised Firm must conduct stress tests regularly to identify sources of potential liquidity strain and to ensure that its exposures remain within its Liquidity Risk tolerance. An Authorised Firm must use stress and scenario testing to assess the Liquidity Risk it would face in different circumstances.
- (2) When using stress and scenario testing in accordance with (1), an Authorised Firm must:
- (a) use scenarios based on varying degrees of short-term and protracted institution-specific and market-wide stress (individually and in combination) and both Authorised Firm-specific and market-wide difficulties; and
 - (b) include a cash-flow projection for each scenario tested, based on reasonable estimates of the impact (both on and off-balance sheet) of that scenario on the Authorised Firm's funding needs and sources.
- (3) An Authorised Firm's stress test scenarios and related assumptions must be fully documented and frequently reviewed the assumptions used in stress testing scenarios to ensure they remain appropriate.

Guidance

1. An Authorised Firm should consider carefully the design of stress scenarios and the variety of shocks used. Regardless of how strong its current liquidity situation appears to be, it should take a conservative approach when setting stress testing assumptions. It should consider the potential impact of severe stress scenarios including, but not limited to:
- a. a simultaneous drying up of market liquidity in several previously highly liquid markets;
 - b. severe constraints in accessing secured and unsecured funding;
 - c. restrictions on currency convertibility; and
 - d. severe operational or settlement disruptions affecting one or more payment or settlement systems.
24. The identification of the possible balance sheet and off-balance sheet impact referred to in Rule 9.2A.93(2)(b) should take into account:
- a. possible changes in the market's perception of the Authorised Firm and the effects that this might have on the Authorised Firm's access to the markets, including:

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- i. where the Authorised Firm funds its holdings of assets in one currency with liabilities in another, access to foreign exchange markets, particularly in less frequently traded currencies;
 - ii. access to secured funding, including by way of repurchase agreement transactions; and
 - iii. the extent to which the Authorised Firm may rely on committed facilities made available to it;
 - b. whenever applicable the possible effect of each scenario tested on currencies whose exchange rates are currently pegged or fixed; and
 - c. that:
 - i. general market turbulence may trigger a substantial increase in the extent to which persons exercise rights against the Authorised Firm under off-balance sheet instruments to which the Authorised Firm is party;
 - ii. access to OTC derivative and foreign exchange markets is sensitive to credit-ratings;
 - iii. Early Amortisation in asset securitisation transactions with which the Authorised Firm has a connection may be triggered; ~~and~~
 - iv. its ability to securitise assets may be reduced-; and
 - v. there may be a potential need to buy back debt or honour non-contractual obligations to mitigate reputational risk.
- 3. An Authorised Firm is required to conduct stress tests regularly. The frequency with which an Authorised Firm should conduct stress tests will depend on the risks to the particular Authorised Firm. For some Authorised Firms, it may be adequate to conduct tests annually, but, for others, it may be necessary to conduct tests more frequently e.g. quarterly.

9.2A.4 An Authorised Firm must ensure that stress tests conducted under Rule 9.2A.3 enable it to analyse the impact of stress scenarios on its liquidity positions, as well as on the liquidity positions of its individual business lines.

9.2A.5 (1) An Authorised Firm must ensure that results of the stress tests are integrated into its strategic planning process and its day-to-day risk management practices.

(2) An Authorised Firm must apply the results of the stress tests:

(a) to adjust its liquidity management strategy, policies and positions, including to determine an appropriate buffer of HQLA;

(b) for the setting of internal limits; and

- (c) for the purpose of the IRAP and ICAAP assessments under chapter 10, where applicable.
- (3) An Authorised Firm must incorporate the stress test results in assessing and planning for related potential funding shortfalls in its Contingency Funding Plan.
- (4) An Authorised Firm must ensure that the stress test results and vulnerabilities and any resulting actions are reported to, and discussed with, its Governing Body and the DFSA.

Guidance

If the DFSA considers that an Authorised Firm has not carried out effective stress tests under Rules 9.2A.3 to 9.2A.5, it may use its power under Article 75A of the Regulatory Law to require the Authorised Firm to maintain a buffer of liquid assets in addition to that required under section 9.3.

Contingency Funding Plan

Guidance

A Contingency Funding Plan, or CFP, is a compilation of policies, procedures and action plans for responding to severe disruptions to an Authorised Firm's ability to meet its liabilities as they fall due or its ability to fund some or all of its activities quickly and at a reasonable cost.

- 9.2A.610** (1) An Authorised Firm must have a documented Contingency Funding Plan (CFP) that sets out clearly its strategies for addressing liquidity shortfalls in emergency situations. ~~contingency funding plan to ensure that, for each of the tested scenarios, the Authorised Firm has sufficient liquid financial resources to meet its liabilities as they fall due.~~
- (2) An Authorised Firm must ensure that its CFP is in writing and is approved by its Governing Body.
 - (3) The CFP must be commensurate with an Authorised Firm's complexity, risk profile and scope of operations and its role in the financial systems in which it operates.
 - (42) The CFP contingency funding plan referred to in (1) must:
 - (a) list the events or circumstances that will lead the Authorised Firm to put any part of the plan into action;
 - (b) set out available potential contingency funding sources and the amount of funds an Authorised Firm estimates can be derived from these sources;

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- (c) estimate the lead time needed to tap additional funds from each of the contingency sources;
- (db) set out the extent to which the plan relies upon:
 - (i) asset sales, using assets as Collateral on secured funding (including repurchase agreements), securitising its assets or otherwise reducing its assets;
 - (ii) modifying the structure of, or increasing, its liabilities; and
 - (iii) the use of committed facilities; and
- (ee) contain clear administrative policies and procedures that will enable the Authorised Firm to manage the implementation of the plan, including:
 - (i) the roles and responsibilities of senior management, including who has the authority to invoke the CFP;
 - (ii) the names, location and contact details of members of the team responsible for implementing the plan;
 - (iii) the details of who is responsible for contact with the Authorised Firm's head office (if appropriate), analysts, investors, external auditors, media, significant customers, regulators and others; and
 - (iv) the mechanisms that enable senior management and the Governing Body to receive relevant, accurate, comprehensive, timely and reliable management information.

Guidance

1. The CFP should provide a framework with a high degree of flexibility so that an Authorised Firm can respond quickly in a variety of situations.
2. The CFP's design, plans and procedures should be closely integrated with the Authorised Firm's ongoing analysis of Liquidity Risk and with the results of the scenarios and assumptions used in stress tests.
3. The CFP should assist the Authorised Firm to manage a range of scenarios of severe liquidity stress that include both firm-specific and more generalised market-wide stress, as well as the potential interaction between them.

4. The CFP should, for each of the tested scenarios, demonstrate that the Authorised Firm has sufficient liquid financial resources to meet its liabilities over a range of different time periods, including intraday.

9.2A.7 An Authorised Firm must ensure that its CFP accounts for:

- (a) the impact of stressed market conditions on its ability to sell or securitise assets;
- (b) the link between asset liquidity and funding liquidity;
- (c) second round and reputational effects related to execution of contingency funding measures; and
- (d) the potential to transfer liquidity across Group entities, borders and lines of business, taking into account legal, regulatory, operational and time zone constraints.

9.2A.8 (1) An Authorised Firm must review and test its CFP regularly to ensure it is effective and operationally feasible.

- (2) For the purposes of (1), an Authorised Firm must review and update its CFP at least annually for approval by its Governing Body, or more frequently if required by business or market circumstances.

Guidance

- 1. Key aspects of CFP testing include ensuring that roles and responsibilities are appropriate and understood, confirming that contact information is up to date, proving the transferability of cash and collateral (especially across borders and entities) and ensuring that the necessary legal and operational documentation is in place to execute the plan at short notice.
- 2. An Authorised Firm should test key assumptions regularly, such as its ability to sell or repo certain assets or periodically draw down credit lines.

9.2A.9 An Authorised Firm must ensure that its CFP is consistent with its business continuity and disaster recovery arrangements and can operate in situations where business continuity arrangements have been invoked.

Guidance

1. See GEN chapter 5 regarding requirements relating to an Authorised Firm's business continuity and disaster recovery arrangements.
2. An Authorised Firm should ensure effective coordination between teams managing issues surrounding liquidity crises and business continuity. Liquidity crisis team members and alternates should have ready access to CFPs on-site and off-site.

9.3 Liquidity requirements

- 9.3.1**
- (1) This section applies to an Authorised Firm in Category 1 or 5.
 - (2) The Rules in this section apply, except as provided in (3), to an Authorised Firm on a solo basis.
 - (3) The DFSA may require an Authorised Firm to apply the requirements in this section to its Financial Group, if the Authorised Firm and its Financial Group are subject to consolidated supervision.

Global liquidity concession

- 9.3.2**
- (1) An Authorised Firm which carries on business in or from the DIFC through a Branch may apply to the DFSA for a global liquidity concession.
 - (2) An application for a global liquidity concession must be made in accordance with the requirements in section A9.1 of App9.
 - (23) If the DFSA grants a global liquidity concession to an Authorised Firm, that Authorised Firm need not comply with all or any of the quantitative liquidity requirements of this section as specified by the DFSA in the concession.
 - (4) The DFSA may specify the period for which a global liquidity concession is valid.

Guidance

~~Section A9.1 in App9 provides guidance in respect of the type of information upon which the DFSA will base its assessment of an application for a global liquidity concession.~~

HQLA requirement

- 9.3.3**
- An Authorised Firm must maintain an adequate level of HQLA to meet its liquidity needs for, at a minimum, a 30 calendar day period under a severe stress scenario.

Guidance

Rules A9.2.2 to A9.2.9 in App9 set out the conditions that must be met for assets to be treated as HQLA.

Liquidity Coverage Ratio

9.3.4 An Authorised Firm must, except as provided in Rule 9.3.8, maintain a LCR of at least the level specified in the table below from the date specified in the table.

Table - Minimum LCR levels

<u>Date</u>	<u>1st January 2015</u>	<u>1st January 2016</u>	<u>1st January 2017</u>	<u>1st January 2018</u>	<u>1st January 2019</u>
<u>Minimum LCR</u>	<u>60%</u>	<u>70%</u>	<u>80%</u>	<u>90%</u>	<u>100%</u>

Guidance

Under Rule 9.3.4, an Authorised Firm must maintain a minimum level of LCR of 60% starting on 1 January 2015. The minimum requirement will be increased subsequently in each following year in equal annual steps of 10% to reach 100% on and from 1 January 2019. Rule 9.3.4 sets minimum levels and is not intended to limit the generality of the requirement in Rule 9.3.3.

9.3.5 An Authorised Firm must calculate its LCR using the following formula and in accordance with the Rules in section A9.2 of App9.

$$\text{LCR} = \frac{\text{Value of stock of HQLA}}{\text{Total Net Cash Outflows over the next 30 calendar days}}$$

Guidance

1. Section A9.2 of App9 sets out how the value of stock of HQLA and Total Net Cash Outflows are to be calculated.
2. An Authorised Firm active in multiple currencies should:
 - a. maintain HQLA consistent with the distribution of its liquidity needs by currency;
 - b. assess its aggregate foreign currency liquidity needs and determine an acceptable level of currency mismatches; and
 - c. undertake a separate analysis of its strategy for each currency in which it has material activities, considering potential constraints in times of stress.

9.3.6 (1) The DFSA may by written notice to an Authorised Firm in relation to the LCR Requirement applying to it:

- (a) adjust the LCR Requirement;
 - (b) adjust requirements under section A9.2 of App9 for calculating its stock of HQLA or the Total Net Cash Outflows;
 - (c) alter the calculation methodologies or parameters for the purposes of the LCR Requirement;
 - (d) disapply the LCR Requirement; or
 - (e) impose additional requirements based on its assessment of the Liquidity Risk exposure of that Authorised Firm.
- (2) If the DFSA amends a requirement under (1)(a), (b), (c) or (e), the Authorised Firm must comply with the requirement as amended. If the DFSA disapplies a requirement under (1)(d), the Authorised Firm need not comply with that requirement.
- (3) The procedures in Schedule 3 to the Regulatory Law apply to a decision of the DFSA under (1)(a),(b),(c) or (e).
- (4) If the DFSA decides to exercise its power under (1)(a),(b),(c) or (e), the Authorised Firm may refer the matter to the FMT for review.

Liquid assets buffer

- 9.3.7** (1) An Authorised Firm must, except as provided under Rule 9.3.8, maintain a buffer of HQLA over the minimum level of LCR required under its LCR Requirement, appropriate to the nature, scale and complexity of its operations and in line with its Liquidity Risk tolerance.

- (2) In determining the size of its buffer of HQLA under (1), an Authorised Firm must also take into account the results of stress tests conducted under section 9.2A.

Guidance

1. For the purposes of Rule 9.3.7(2), an Authorised Firm should conduct its own stress tests to assess the level of liquidity it should hold beyond the minimum required under this section, and construct its own scenarios that could cause difficulties for its specific business activities. Such internal stress tests should incorporate longer periods than the one required under this section. Authorised Firms are expected to share the results of these additional stress tests with the DFSA.
2. As set out in the Guidance after Rule 9.2A.5, the DFSA may require an Authorised Firm to maintain an additional buffer of liquid assets in cases where the DFSA assesses that the Authorised Firm has failed to carry out stress tests effectively.

Liquidation of assets during periods of stress

- 9.3.8** During a period of financial or liquidity stress, an Authorised Firm may liquidate part of its stock of HQLA and use the cash generated to cover cash outflows. Its level of HQLA may fall below the levels required under its LCR Requirement and Rule 9.3.7 to the extent necessary to deal with cash outflows during that period.

Notification if LCR Requirement not met

- 9.3.9** An Authorised Firm must notify the DFSA in writing immediately if it does not meet, or becomes aware of circumstances that may result in it not meeting, its LCR Requirement (including during a period of stress referred to in Rule 9.3.8).

Guidance

1. An Authorised Firm should in its notification clearly explain:
 - a. the reasons for not meeting the limits;
 - b. measures that have been taken and will be taken to ensure it meets its LCR Requirement; and
 - c. its expectations regarding the potential duration of the situation.
2. An Authorised Firm that makes a notification should discuss with the DFSA what, if any, further steps it should take to deal with the situation.

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 time bands on a Maturity Ladder.

- 9.3.103** (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 ~~A9.2~~ and A9.3 of App9, the inflows (assets) and outflows (liabilities) which are, subject to their falling within one of the time bands, to be included in the Maturity Ladder and at what maturities;
 - (b) inserting each inflow (asset) and outflow (liability) into one or more of the following time bands on the Maturity Ladder:
 - (i) sight – 8 days; or
 - (ii) sight – 1 month; and
 - (c) subtracting outflows (liabilities) from inflows (assets) in each time band.

Measuring liquidity for Category 1 and Category 5

- 9.3.114** (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) PSIAu's; 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) PSIAu's net cumulative Maturity Mismatch % =
$$\frac{\text{Net cumulative Maturity Mismatch} \times 100}{\text{Total PSIAu's}}$$
 - (b) Total deposit liabilities net cumulative Maturity Mismatch % =

Net cumulative Maturity Mismatch x 100
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 each time band does not exceed the following:
- (a) sight – 8 days, negative 15%; and
 - (b) sight – 1 month, negative 25%.
- (43) ~~If An Authorised Firm must notify the DFSA in writing immediately if it exceeds or is likely to exceed one or both of the following net cumulative Maturity Mismatch limits referred to in (3), in respect of any of the means of funding it must immediately inform the DFSA in writing and clearly explain what steps the Authorised Firm will take to bring its liquidity position back within the limits:~~
- ~~(a) sight – 8 days, negative 15%; and~~
 - ~~(b) sight – 1 month, negative 25%.~~

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11 DISCLOSURE REQUIREMENTS

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11.3 Disclosure frequency, locations and process

Frequency

- 11.3.1** (1) The disclosures set out in this chapter must be made by the Authorised Firm at least once a year, other than disclosures of CET1 Capital, T1 Capital and T2 Capital, ~~and deductions from Capital Resources, Liquidity Coverage Ratio and Leverage Ratios~~ which must be made on a quarterly basis.
- (2) Reporting deadlines must be in accordance with quarterly and annual reporting obligations under the DFSA Rulebook.

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APP2 GENERAL REQUIREMENTS

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A2.4 Reporting to the DFSA

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Table 1 Authorised Firm Reporting Matrix

Form Number	Form Name	Domestic Firm or Branch	Authorised Firm Category	Frequency	Semi-annual consolidated reporting for Financial Groups
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B80	Liquidity	Domestic Firm and Branch	Category 1, 2 and 5	Quarterly only	Not applicable
<u>B90</u>	<u>Liquidity Coverage Ratio</u>	<u>Domestic Firm and Branch</u>	<u>Category 1 and 5</u>	<u>Quarterly and annually</u>	<u>Not applicable</u>
<u>B100</u>	<u>Leverage Ratio</u>	<u>Domestic Firm</u>	<u>Category 1, 2 and 5</u>	<u>Quarterly and annually</u>	<u>Not applicable</u>
.....

.....

APP9 LIQUIDITY

A9.1 Application for a global liquidity concession

- A9.1.1** (1) This Rule applies to an Authorised Firm carrying on business in or from the DIFC through a Branch that applies for a global liquidity concession under Rule 9.3.2.
- (2) The Authorised Firm must demonstrate to the DFSA that:
- (a) its Branch complies with all applicable liquidity systems and controls requirements in sections 9.2 and 9.2A;
 - (b) its head office is established in a jurisdiction where there are no legal constraints imposed by the home supervisor or any other authority on the provision of liquidity to its branch; and
 - (c) its head office is subject to equivalent or more restrictive liquidity requirements, than those imposed by the DFSA.
- (3) The DFSA may, when considering an application from the Authorised Firm for a global liquidity concession, impose additional or alternative conditions to those specified in (2) or disapply a condition in (2).

Guidance

1. An application for a global liquidity concession pursuant to Rule 9.3.2 should ~~comprise~~ include at least the following:
 4. a. a clear description of the home supervisor's requirements for managing, monitoring and controlling liquidity risk;
 2. b. a clear description ~~an explanation~~ of the systems and controls used by the head office to ensure the adequacy of the Branch's liquidity;
 3. c. a written assurance from the Authorised Firm's head office that it will:
 - ~~a-~~ i. ensure that adequate liquidity is available at all times to support the branch; ~~and~~
 - ii. notify the DFSA, at the same time as it notifies its home supervisor, of any material issues concerning its exposure to Liquidity Risk and issues in relation to its compliance with applicable liquidity limits, including its liquidity coverage ratio; and
 - ~~b-~~ iii. in the event of a liquidity crisis, provide the DFSA with all relevant information on the whole Authorised Firm's liquidity, and a list of any

known constraints on the head office, legal or otherwise, providing the branch with liquidity.

- d. a notification from the Authorised Firm’s home supervisor:
 - i. expressing no objection to the branch obtaining the DFSA’s liquidity concession or acknowledging the branch application to the DFSA for a global liquidity concession; and
 - ii. providing information about, and confirming, the quality of Liquidity Risk systems and controls and the liquidity exposures at the Authorised Firm’s head office.

- 2. Under Rule A9.1.1(2)(b), the DFSA will consider liquidity transfer restrictions (e.g. ring-fencing measures, non-convertibility of local currency, foreign exchange controls) imposed under applicable laws, regulations or supervisory requirements in jurisdictions in which a banking group operates which affect the availability of liquidity by inhibiting the transfer of HQLA and fund flows within the Group.

- A9.1.2** (1) An Authorised Firm that has been granted a global liquidity concession must provide the DFSA with ongoing assurance about its Liquidity Risk by:

- (a) submitting to the DFSA at least quarterly a copy of the LCR calculation for the Authorised Firm, as submitted by its head office to its home supervisor;
- (b) notifying the DFSA immediately of the results of every assessment which its home supervisor conducts which relates to the quality of liquidity systems and controls at its head office;
- (c) notifying the DFSA in writing immediately of any adverse finding or action taken by its home supervisor;
- (d) notifying the DFSA in writing immediately of any potential change in the branch funding strategy, business model or material potential change in its balance sheet structure; and
- (e) notifying the DFSA in writing immediately of any changes relating to its compliance with the conditions referred to in Rule A9.1.1.

- (2) The DFSA may at any time, based on its assessment of the Liquidity Risk exposures of an Authorised Firm, by written notice adjust or exclude any of the requirements in (1), impose additional requirements or cancel the global liquidity concession granted to the Authorised Firm.

A9.2 The Liquidity Coverage Ratio

Guidance

1. The objective of the LCR is to promote short-term resilience of an Authorised Firm's liquidity risk profile. The LCR aims to ensure that an Authorised Firm maintains an adequate level of unencumbered HQLA that can be converted into cash to meet its liquidity needs for a 30 calendar day period under a severe liquidity stress scenario.

2. The LCR is calculated under Rule 9.3.5 using the following formula:

$$\text{LCR} = \frac{\text{Value of stock of HQLA}}{\text{Total Net Cash Outflows over the next 30 calendar days}}$$

3. The LCR has two components:

- a. Value of the stock of HQLA in stressed conditions; and
- b. Total Net Cash Outflows, calculated according to the scenario parameters outlined in this section.

4. The stress scenario entails both institution-specific and systemic shocks including:

- a. the run-off of a proportion of retail deposits;
- b. a partial loss of unsecured wholesale funding capacity;
- c. a partial loss of secured, short-term financing with certain collateral and counterparties;
- d. additional contractual outflows that would arise from a downgrade in the Authorised Firm's public credit rating, where applicable, by up to and including three notches, including collateral posting requirements;
- e. increases in market volatility that affect the quality of collateral or potential future exposure of derivative positions and so require larger collateral haircuts or additional collateral, or lead to other liquidity needs;
- f. unscheduled draws on committed but unused credit and liquidity facilities that the Authorised Firm has provided to its clients; and
- g. the potential need for the Authorised Firm to buy back debt or honour non-contractual obligations to mitigate reputational risk.

A9.2.1 An Authorised Firm must calculate its LCR on an ongoing basis and separately for each significant currency. An Authorised Firm must report to the DFSA its aggregate LCR calculation in USD.

Guidance

A currency is considered significant if the aggregate liabilities denominated in that currency amount to 5% or more of the Authorised Firm's total liabilities.

High Quality Liquid Assets (HQLA)

Guidance

Assets that meet the conditions in Rules A9.2.2 to A9.2.9 are considered to be HQLA. Those assets are considered to be HQLA as they can be converted easily and immediately into cash at little or no loss of value. To qualify as HQLA, assets should be liquid in markets during a time of stress. In determining whether or not the market for an asset can be relied upon to raise liquidity during a time of stress, the following factors should be taken into account:

1. fundamental characteristics, for example:
 - a. low risk: high credit standing of the issuer and a low degree of subordination, low duration, low legal risk, low inflation risk, denomination in a convertible currency with low foreign exchange risk;
 - b. ease and certainty of valuation;
 - c. low correlation with risky assets, not subject to wrong-way risk; and
 - d. listing on a developed and recognised exchange.
2. market-related characteristics, for example:
 - a. active and sizable market, including active outright sale or repo markets at all times. This can be demonstrated through:
 - i. historical evidence of market breadth and market depth (low bid-ask spreads, high trading volumes, large and diverse number of market participants); or
 - ii. existence of robust market infrastructure (presence of multiple committed market makers);
 - b. low price volatility, including historical evidence of relative stability of market terms (e.g. prices and haircuts) and volumes during stressed periods; or
 - c. flight to quality, i.e. that historically the market has shown a tendency to move into these types of high quality assets in a systemic crisis.

HQLA – general operational requirements

A9.2.2 To be eligible as HQLA, assets in the portfolio of HQLA must be appropriately diversified in terms of type of assets, type of issuer and specific counterparty or issuer.

A9.2.3 To be eligible as HQLA, assets must meet the following requirements:

- (a) the assets must be under the control of the specific function or functions charged with managing the liquidity of the Authorised Firm who must have the continuous authority and legal and operational capability to liquidate any asset in the stock; and
- (b) a representative portion of the assets in the stock of HQLA must be liquidated periodically and at least annually by the Authorised Firm to test its access to the market, the effectiveness of its processes for liquidation, the availability of the assets, and to minimise the risk of negative signalling during a period of actual stress.

A9.2.4 To be eligible as HQLA, an asset must also meet the following requirements:

- (a) the asset must be unencumbered and free of legal, regulatory, contractual or other restrictions that affect the ability of the Authorised Firm to liquidate, sell, transfer, or assign the asset;
- (b) the asset must not be pledged, either explicitly or implicitly, to secure, collateralise or credit-enhance any transaction, nor be designated to cover operational costs (such as rents and salaries); and
- (c) an asset received in a reverse repo or securities financing transactions that is held at the Authorised Firm, is eligible for inclusion in the stock of HQLA only if the asset has not been rehypothecated and is legally and contractually available for the Authorised Firm's use.

Guidance

1. The requirements in Rules A9.2.2 to A9.2.4 are intended to ensure that the stock of HQLA is managed in such a way that the Authorised Firm can, and is able to demonstrate that it can, immediately use the assets as a source of contingent funds that is available to convert into cash to fill funding gaps between cash inflows and outflows at any time during the 30-day stress period, with no restriction on the use of the liquidity generated.
2. Under Rule A9.2.3(a), the control of the HQLA may be evidenced either by:
 - (a) maintaining assets in a separate pool managed by the identified liquidity management function (typically the treasurer) with the sole intent to use it as a source of contingent funds; or
 - (b) demonstrating that the relevant function can liquidate the asset at any point in the 30-day stress period and that the proceeds are available to the function throughout the 30-day stress period without directly conflicting with a stated business or risk management strategy.

3. Operational capability to liquidate assets referred to in Rule A9.2.3(b), requires procedures and appropriate systems to be in place. This includes providing the liquidity management function with access to all necessary information to liquidate any asset at any time. Liquidation of the asset should be executable operationally within the standard settlement period for the asset class in the relevant jurisdiction.

Caps on different types of HQLA

- A9.2.5** (1) Assets eligible to be included in the stock of HQLA for the purpose of the LCR calculation are classified under the following two categories:
- (a) Level 1 HQLA, consisting of the highest quality and most liquid assets; and
 - (b) Level 2 HQLA, including Level 2A HQLA and Level 2B HQLA, consisting of other high quality liquid assets.
- (2) When calculating the total stock of HQLA, an Authorised Firm must apply the following caps in respect of each category of assets:
- (a) Level 1 HQLA can be included in the total stock of HQLA without any limit (i.e. up to 100% of HQLA);
 - (b) Total Level 2 HQLA, including both Level 2A HQLA and Level 2B HQLA, can comprise only up to 40% of the total stock of HQLA; and
 - (c) Level 2B HQLA can comprise only up to 15% of the total stock of HQLA within the overall 40% limit on Level 2 HQLA in (b).
- (3) The caps on Level 2 HQLA and Level 2B HQLA must be determined after applying the haircuts required under Rules A9.2.7 and A9.2.8, and after unwinding the amounts of HQLA involved in short-term secured funding, secured lending and collateral swap transactions maturing within 30 calendar days that involve the exchange of HQLA.
- (4) The assets to be included in each category of HQLA must be restricted to assets being held or owned by the Authorised Firm on the first day of the stress period, irrespective of their residual maturity.

Guidance

1. The following Guidance is intended to illustrate how Rule A9.2.5 should be applied in practice.
2. Under Rule A9.2.5(3) the adjusted amounts of HQLA should be calculated as the amount of HQLA that would result after unwinding those short-term secured funding, secured lending and collateral swap transactions that involve the exchange of any HQLA for any other HQLA.

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3. The calculation of the stock of HQLA under Rule A9.2.5 can be expressed as the following formula:

Stock of HQLA = Level 1 HQLA + Level 2A HQLA + Level 2B HQLA – Adjustment for 15% cap – Adjustment for 40% cap

Where:

- a. Adjustment for 15% cap = Max (Adjusted Level 2B HQLA – 15/85 x(Adjusted Level 1 HQLA + Level 2A HQLA), Adjusted Level 2B HQLA - 15/60 x (Adjusted Level 1 HQLA, 0)
- b. Adjustment for 40% cap = Max ((Adjusted Level 2A HQLA + Adjusted Level 2B HQLA – Adjustment for 15% cap) - 2/3 x Adjusted Level 1 HQLA, 0)

Level 1 HQLA

- A9.2.6** (1) Level 1 HQLA must be valued at market value.
- (2) Level 1 HQLA consists of:
- (a) banknotes and coin;
- (b) central bank reserves, to the extent that such reserves are capable of being drawn down immediately in times of stress;
- (c) marketable securities representing claims on or claims guaranteed by sovereigns, central banks, Public Sector Entities (PSEs), the Bank for International Settlements, the International Monetary Fund, the European Central Bank and European Commission or Multilateral Development Banks (MDBs), and that satisfy all of the following conditions:
- (i) they are assigned a zero % risk-weight according to Chapter 4 and App4 of this Module;
- (ii) they are traded in large, deep and active repo or cash markets characterised by a low level of concentration;
- (iii) they have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions; and
- (iv) they are not an obligation of a financial institution or any of its associated entities;

- (d) in the case of sovereigns that are not eligible for zero % risk-weight, sovereign or central bank debt securities issued in domestic currencies by the sovereign or central bank in the country in which the liquidity risk is being taken or in the Authorised Firm's home jurisdiction, where those securities satisfy all of the conditions in paragraph (c) (ii)(iii) and (iv);
- (e) in the case of sovereigns that are not eligible for zero % risk-weight, domestic sovereign or central bank debt securities issued in foreign currencies, up to the amount of the Authorised Firm's stressed net cash outflows in that specific foreign currency stemming from the Authorised Firm's operations in the jurisdiction where the Authorised Firm's liquidity risk is being taken, where those securities satisfy all of the conditions in paragraph (c) (ii)(iii) and (iv); and
- (f) any other types of assets approved by the DFSA under Rule A9.2.9 as being eligible to be Level 1 HQLA.

Level 2A HQLA

- A9.2.7**
- (1) Level 2A HQLA must be valued at market value and subject to a 15% haircut.
 - (2) Level 2A HQLA consists of:
 - (a) marketable securities representing claims on or guaranteed by sovereigns, central banks, PSEs or MDBs that satisfy all of the following conditions:
 - (i) they are assigned a 20% risk-weight according to Chapter 4 and App4 of this Module;
 - (ii) they are traded in large, deep and active repo or cash markets characterised by a low level of concentration;
 - (iii) they have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions (i.e. maximum decline of price or increase in haircut over a 30-day period during a relevant period of significant liquidity stress not exceeding 10%); and
 - (iv) they are not an obligation of a financial institution or any of its associated entities;
 - (b) corporate debt securities (including commercial paper) and covered bonds that satisfy all of the following conditions:

- (i) in the case of corporate debt securities: they must not be issued by a financial institution or any of its associated entities and must include only plain vanilla assets (i.e. not include complex structured products or subordinated debt) whose valuation is readily available based on standard methods and does not depend on private knowledge;
 - (ii) in the case of covered bonds: they must not be issued by the Authorised Firm itself or any of its associated entities;
 - (iii) the assets must have a Credit Quality Grade of 1 from a recognised ECAI or, if the assets do not have a credit assessment by a recognised ECAI, they must be internally rated as having a probability of default (PD) corresponding to a Credit Quality Grade of 1;
 - (iv) they must be traded in large, deep and active repo or cash markets characterised by a low level of concentration; and
 - (v) they must have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions (i.e. maximum decline of price or increase in haircut over a 30-day period during a relevant period of significant liquidity stress not exceeding 10%); and
- (c) any other types of assets approved by the DFSA under Rule A9.2.9 as being eligible to be Level 2A HQLA.

Level 2B HQLA

- A9.2.8** (1) Level 2B HQLA must be valued at market value and subject to an appropriate haircut, as specified in (2), for each type of asset.
- (2) Level 2B HQLA consists of:
- (a) residential mortgage backed securities that satisfy all of the following conditions, subject to a 25% haircut:
 - (i) they are not issued by, and the underlying assets have not been originated by, the Authorised Firm itself or any of its affiliated entities;
 - (ii) they have a Credit Quality Grade of 1 from a recognised ECAI;
 - (iii) they are traded in large, deep and active repo or cash markets characterised by a low level of concentration;

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- (iv) they have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions, (i.e. maximum decline of price or increase in haircut over a 30-day period during a relevant period of significant liquidity stress not exceeding 20%);
 - (v) the underlying asset pool is restricted to residential mortgages and does not contain structured products;
 - (vi) the underlying mortgages are “full recourse” loans (i.e. in the case of foreclosure the mortgage owner remains liable for any shortfall in sales proceeds from the property) and have a maximum loan-to-value ratio (LTV) of 80% on average at issuance; and
 - (vii) the securitisations are subject to “risk retention” regulations which require issuers to retain an interest in the assets they securitise;
 - (b) corporate debt securities (including commercial paper) that satisfy all of the following conditions, subject to a 50% haircut:
 - (i) they are not issued by a financial institution or any of its affiliated entities;
 - (ii) they have a Credit Quality Grade of 2 or 3 from a recognised ECAI or, in the case the assets do not have a credit assessment by a recognised ECAI, are internally rated as having a probability of default (PD) corresponding to a Credit Quality Grade of 2 or 3;
 - (iii) they are traded in large, deep and active repo or cash markets characterised by a low level of concentration; and
 - (iv) they have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions, (i.e. maximum decline of price or increase in haircut over a 30-day period during a relevant period of significant liquidity stress not exceeding 20%);
 - (c) equity shares that satisfy all of the following conditions, subject to a 50% haircut:
 - (i) they are not issued by a financial institution or any of its affiliated entities;
 - (ii) they are exchange traded and centrally cleared;

- (iii) they are a constituent of the major stock index in the home jurisdiction, or where the liquidity risk is taken, as decided by the supervisor in the jurisdiction where the index is located;
 - (iv) they are denominated in the domestic currency of an Authorised Firm's home jurisdiction or in the currency of the jurisdiction where an Authorised Firm's liquidity risk is taken;
 - (v) they are traded in large, deep and active repo or cash markets characterised by a low level of concentration; and
 - (vi) they have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions, (i.e. maximum decline of price or increase in haircut over a 30-day period during a relevant period of significant liquidity stress not exceeding 40%); and
- (d) any other types of assets approved by the DFSA under Rule A9.2.9 as being eligible to be Level 2B HQLA.

Approval of other types of HQLA

- A9.2.9** (1) The DFSA may approve other types of assets (in addition to those specified in Rules A9.2.6 to A9.2.8) as being eligible to be included in the stock of HQLA for the purposes of the calculation of the LCR.
- (2) If the DFSA approves assets under (1), it must specify whether they are to be classified as Level 1 HQLA or Level 2 HQLA and the haircut, if any, to be applied to them.

Guidance

The DFSA may use its discretion under Rule A9.2.9 to approve other types of assets as HQLA including, but not limited to, Shar'iah compliant financial products. When the DFSA approves assets it may define the conditions that the assets must satisfy to be treated as HQLA. It must specify whether the assets are to be treated as Level 1 HQLA or Level 2A or 2B HQLA.

Other provisions relating to LCR calculation

- A9.2.10** For the purpose of calculating the LCR, if an eligible asset within HQLA becomes ineligible (e.g. due to a rating downgrade), an Authorised Firm is allowed to keep the asset in its stock of HQLA for an additional 30 calendar days to allow time to adjust its stock as needed or replace the asset.
- A9.2.11** For the purpose of calculating a consolidated LCR for a Financial Group, where applicable, qualifying HQLA held to meet statutory liquidity requirements at a legal entity or sub-consolidated level may be included in the stock at the

consolidated level only to the extent that the related risks are also reflected in the consolidated LCR. Any surplus of HQLA held at the legal entity can be included in the consolidated stock of HQLA only if those assets would also be freely available to the consolidated parent entity in times of stress.

A9.2.12 An Authorised Firm must be able to meet its liquidity needs in each currency in which it has a significant exposure. The currencies of the stock of HQLA of an Authorised Firm must be similar in composition to its liquidity needs by currency.

Total Net Cash Outflow

A9.2.13 (1) An Authorised Firm must calculate its Total Net Cash Outflow over the following 30 calendar days in accordance with the following formula:

$$\begin{aligned}
 &\text{Total Net Cash Outflows over the next 30 calendar days} \\
 &= \\
 &\quad \text{total expected cash outflows} \\
 &\quad - \\
 &\quad \text{whichever is the lesser amount of total expected cash inflows or 75\%} \\
 &\quad \text{of total expected cash outflows}
 \end{aligned}$$

(2) Total expected cash outflows are calculated by multiplying the outstanding balances of various categories or types of liabilities and off-balance sheet commitments by the rates at which they are expected to run off or be drawn down.

(3) Total expected cash inflows are calculated by multiplying the outstanding balances of various categories of contractual receivables by the rates at which they are expected to flow in.

(4) To ensure a minimum level of HQLA holdings at all times, total cash inflows are subject to an aggregate cap of 75% of total expected cash outflows.

A9.2.14 An Authorised Firm must not double-count items. That is, for assets included as part of the eligible stock of HQLA, the associated cash inflows arising from such assets must not be counted as cash inflows for the purpose of calculating the net cash outflows over the next 30 calendar days.

Cash Outflows

A9.2.15 The following table specifies, for each of the various categories or types of liabilities and off-balance sheet commitments, the rates at which they are expected to run off or be drawn down for the purpose of calculating the LCR.

Cash Outflows	
<u>Item</u>	<u>Factor</u>
<u>A. Retail Deposits:</u>	
<u>Demand deposit and term deposits (less than 30 days maturity):</u>	
• <u>Stable deposits</u>	<u>5%</u>
• <u>Less stable retail deposits</u>	<u>10%</u>
<u>Term deposits with residual maturity greater than 30 days</u>	<u>0%</u>
<u>B. Unsecured Wholesale Funding:</u>	
<u>Demand and term deposits (less than 30 days maturity) provided by small business customers:</u>	
• <u>Stable deposits</u>	<u>5%</u>
• <u>Less stable deposits</u>	<u>10%</u>
<u>Small business customers - Term deposits with residual maturity greater than 30 days with no legal right to withdraw or a withdrawal with a significant penalty</u>	<u>0%</u>
<u>Operational deposits generated by clearing, custody and cash management activities:</u>	<u>25%</u>
• <u>Portion covered by deposit insurance</u>	<u>5%</u>
<u>Cooperative banks in an institutional network (qualifying deposits with the centralised institution)</u>	<u>25%</u>
<u>Non-financial corporates, sovereigns, central banks, multilateral development banks and PSEs:</u>	<u>40%</u>
• <u>If the entire amount is fully covered by a deposit protection scheme</u>	<u>20%</u>
<u>Other legal entity customers</u>	<u>100%</u>
<u>C. Secured Funding:</u>	
• <u>Secured funding transactions with a central bank counterparty or backed by Level 1 HQLA with any counterparty</u>	<u>0%</u>

<u>Cash Outflows</u>	
<u>Item</u>	<u>Factor</u>
• <u>Secured funding transactions backed by Level 2A HQLA, with any counterparty</u>	<u>15%</u>
• <u>Secured funding transactions backed by non-Level 1 HQLA or non-Level 2A HQLA, with domestic sovereigns, multilateral development banks, or domestic PSEs as a counterparty</u>	<u>25%</u>
• <u>Backed by RMBS eligible for inclusion in Level 2B HQLA</u>	<u>25%</u>
• <u>Backed by other Level 2B HQLA</u>	<u>50%</u>
• <u>All other secured funding transactions</u>	<u>100%</u>
<u>D. Additional Requirements:</u>	
<u>Derivatives cash outflows</u>	<u>100%</u>
<u>Liquidity needs (e.g. collateral calls) related to financing transactions, derivatives and other contracts</u>	<u>100%</u>
<u>Market valuation changes on non-Level 1 HQLA posted collateral securing derivatives</u>	<u>20%</u>
<u>Excess collateral held by a bank related to derivative transactions that could contractually be called at any time by its counterparty</u>	<u>100%</u>
<u>Liquidity needs related to collateral contractually due from the reporting bank on derivatives transactions</u>	<u>100%</u>
<u>Increased liquidity needs related to derivative transactions that allow collateral substitution to non-HQLA assets</u>	<u>100%</u>
<u>Market valuation changes on derivatives transactions (largest absolute net 30-day collateral flows realised during the preceding 24 months)</u>	<u>100%</u>
<u>ABCP, SIVs, Conduits, etc:</u>	
• <u>Loss of funding on Asset Backed Securities, covered bonds and other structured financing instruments</u>	<u>100%</u>
• <u>Loss of funding on ABCP, SIVs, SPVs, etc</u>	<u>100%</u>
<u>Undrawn committed credit and liquidity facilities:</u>	

<u>Cash Outflows</u>	
<u>Item</u>	<u>Factor</u>
• <u>Credit and Liquidity Facilities: Retail and small and medium-sized enterprise clients</u>	<u>5%</u>
• <u>Credit Facilities: Non-financial corporates, sovereigns and central banks, PSEs, MDBs</u>	<u>10%</u>
• <u>Liquidity Facilities: Non-financial corporates, sovereigns and central banks, PSEs, MDBs</u>	<u>30%</u>
• <u>Credit and Liquidity Facilities: Banks subject to prudential supervision</u>	<u>40%</u>
• <u>Credit Facilities: Other financial institutions (include securities firms, insurance companies, fiduciaries and beneficiaries)</u>	<u>40%</u>
• <u>Liquidity Facilities: Other financial institutions (include securities firms, insurance companies, fiduciaries and beneficiaries)</u>	<u>100%</u>
• <u>Credit and Liquidity Facilities: Other legal entity customers</u>	<u>100%</u>
• <u>Other contractual obligations to financial institutions</u>	<u>100%</u>
• <u>Other contractual obligations to retail and non-financial corporate clients</u>	<u>100%</u>
<u>Other contingent funding obligations:</u>	
• <u>Non-contractual obligations related to potential liquidity draws from joint ventures or minority investments in entities</u>	<u>100%</u>
• <u>Trade finance-related obligations (including letters of credit and guarantees)</u>	<u>3%</u>
• <u>Unconditionally revocable "uncommitted" credit and liquidity facilities</u>	<u>5%</u>
• <u>Guarantees and letters of credit unrelated to trade finance obligations</u>	<u>10%</u>
<u>Non-contractual obligations:</u>	
• <u>Debt-buy back requests (incl. related conduits)</u>	<u>100%</u>
• <u>Structured products</u>	<u>10%</u>

Cash Outflows	
Item	Factor
• <u>Managed funds</u>	<u>10%</u>
• <u>Other non-contractual obligations</u>	<u>100%</u>
<u>Outstanding debt securities with remaining maturity > 30 days</u>	<u>100%</u>
<u>Non contractual obligations where customer short positions are covered by other customers' collateral</u>	<u>50%</u>
<u>Other contractual cash outflows</u>	<u>100%</u>

Guidance

1. The following Guidance sets out the DFSA's views about how the Table to Rule A9.2.15 should be applied to different items.

Retail Deposits:

2. Retail deposits should include deposits from individuals placed with an Authorised Firm. Deposits from legal entities, sole proprietorships or partnerships should be included in wholesale deposit categories. Deposits may include demand deposits and term deposits, unless otherwise excluded.
3. Under COB section 4.2, an Authorised Firm can only accept deposits from individuals who are Professional Clients.
4. Deposits from individuals are divided under the Table into 'stable' and 'less stable' deposits. Stable deposits should include the portion of deposits that are fully covered by an effective deposit insurance scheme or by a public guarantee that provides equivalent protection and where:
 - a. the depositor has other established relationships with the Authorised Firm that make deposit withdrawal highly unlikely; or
 - b. the deposits are in transactional accounts (e.g. accounts where salaries are automatically credited).
5. If an Authorised Firm is not able to readily identify which retail deposits would qualify as "stable" according to paragraph 4, it should place the full amount in the "less stable" buckets.
6. Less stable deposits should consist of the portion of deposits that do not meet the conditions in paragraph 4 and also include types of deposits more likely to be withdrawn in a time of stress. These should include high-value deposits (i.e. deposits above any deposit insurance limit), deposits from customers who do not have established relationships with an Authorised Firm that make the deposit withdrawal unlikely, deposits from sophisticated or high net worth individuals, deposits where the internet is integral to

the design, marketing and use of the account (on-line accounts) and deposits with promotional interest rates (i.e. that are heavily rate-driven).

7. Cash outflows related to retail term deposits with a residual maturity or withdrawal notice period of greater than 30 days should be excluded from total expected cash outflows only if the depositor has no legal right to withdraw deposits within the 30-day period of the LCR, or if early withdrawal results in a significant penalty that is materially greater than the loss of interest. If an Authorised Firm allows a depositor to withdraw such deposits despite a clause that says the depositor has no legal right to withdraw, the entire category of these funds should be treated as demand deposits.

Unsecured wholesale funding:

8. Unsecured wholesale funding should consist of liabilities and general obligations raised from non-natural persons (i.e. legal entities, including sole proprietorships and partnerships) and not collateralised by legal rights to specifically designated assets owned by the Authorised Firm accepting the deposit in the case of bankruptcy, insolvency, liquidation or resolution. Obligations related to derivative contracts should be excluded from this category.
9. The wholesale funding included in the LCR should consist of all funding that is callable within the LCR's period of 30 days or that has its earliest possible contractual maturity date within this period (such as maturing term deposits and unsecured debt securities), as well as funding with an undetermined maturity. This should include all funding with options that are exercisable at the investor's discretion within the 30-day period.
10. Wholesale funding that is callable by the funds provider subject to a contractually defined and binding notice period longer than the 30-day period should not be included.
11. Unsecured wholesale funding provided by small and medium-sized enterprise customers should be treated as deposits from individuals where:
 - a. the deposits and other extensions of funds made by non-financial small and medium-sized enterprise customers are managed as retail accounts and are generally considered as having similar liquidity risk characteristics to retail accounts; and
 - b. the total aggregated funding raised from a small and medium-sized enterprise customer is less than USD 1 million (on a consolidated basis where applicable).

Operational deposits

12. Operational deposits should consist of those deposits where customers place, or leave, deposits with an Authorised Firm to facilitate their access and ability to use payment and settlement systems and otherwise make payments. Balances can be included only if the customer has a substantive dependency on the Authorised Firm and the deposit is required for such activities.
13. Qualifying activities in this context refer to clearing, custody or cash management activities where the customer is reliant on the Authorised Firm to perform these services as an independent third-party intermediary in order to fulfil its normal banking activities over the next 30 days. These services should be provided to institutional customers under a legally binding agreement and the termination of such agreements should be subject either to a notice period of at least 30 days or to significant switching costs to be borne by the customer if the operational deposits are moved before 30 days.

14. Qualifying operational deposits generated by such an activity should consist of deposits which are:
- a. by-products of the underlying services provided by the Authorised Firm;
 - b. not offered by the Authorised Firm in the wholesale market in the sole interest of offering interest income; and
 - c. held in specifically designated accounts and priced without giving an economic incentive to the customer to leave excess funds on these accounts.
15. Any excess balances that could be withdrawn without jeopardising these clearing, custody or cash management activities should not qualify as operational deposits.

Liquidity facilities

16. A liquidity facility should consist of any committed, undrawn back-up facility that would be used to refinance the debt obligations of a customer in situations where such a customer is unable to roll over that debt in financial markets. The amount of any commitment to be treated as a liquidity facility should consist of the amount of the outstanding debt issued by the customer (or proportionate share of a syndicated facility) maturing within a 30-day period that is backstopped by the facility. Any additional capacity of the facility should be treated as a committed credit facility. General working capital facilities for corporate entities (e.g. revolving credit facilities in place for general corporate or working capital purposes) should not be classified as liquidity facilities, but as credit facilities.
17. Despite paragraph 16, any facilities provided to hedge funds, money market funds and special purpose funding vehicles, or other vehicles used to finance an Authorised Firm's own assets, should be captured in their entirety as a liquidity facility to a financial institution.

Unrestricted PSIA's and other Shari'a compliant products

18. For the purposes of calculating cash outflows, Unrestricted PSIA's should be treated similarly to the relevant category of deposits specified in the Table. The appropriate run-off factor for a PSIA will depend on the contractual withdrawal rights of the investment account holders and whether it is a retail or wholesale account.
19. For commodity Murabaha transactions, a run-off factor of 100% should be applied to the balance of the Murabaha payable, if the remaining term of the contract does not exceed 30 days. If early withdrawal of the original amount is allowed at the discretion of the Authorised Firm with no mark-up, then the applicable run-off factor will be the same as that for the relevant category of deposit or Unrestricted PSIA under the Table.

Cash Inflows

- A9.2.16** (1) When considering its available cash inflows, an Authorised Firm may include contractual inflows from outstanding exposures only if they are fully performing and there is no reasonable basis to expect a default within the 30-day period. Contingent inflows are not included in total net cash inflows.

(2) Where an Authorised Firm is overly reliant on cash inflows from one or a limited number of wholesale counterparties, the DFSA may set an alternative limit on the level of cash inflows that can be included in the LCR.

A9.2.17 (1) The DFSA may allow an Authorised Firm to recognise as cash inflow, access to a parent entity’s funds via a committed funding facility if the Authorised Firm is a subsidiary of a foreign bank. In such instances, the committed funding facility from the parent entity must meet both of the following criteria:

(a) the facility must be an irrevocable commitment and must be appropriately documented; and

(b) the facility must be quantified.

(2) A committed funding facility from a parent entity referred to in (1) can be recognised as a cash inflow only from day 16 of the LCR scenario. The cash inflow from a parent entity can be sufficient in size to cover only net cash outflows against items with a maturity or next call date between days 16 and 30 of the LCR.

A9.2.18 The following table specifies, for each of the various categories and types of contractual receivables, the rates at which they are expected to flow in for the purpose of the calculation of the LCR:

<u>Cash Inflows</u>	
<u>Item</u>	<u>Factor</u>
<u>Maturing secured lending (incl. reverse repos and securities borrowing), backed by the following as collateral:</u>	-
• <u>Level 1 HQLA</u>	<u>0%</u>
• <u>Level 2A HQLA</u>	<u>15%</u>
• <u>Level 2B HQLA - eligible RMBS</u>	<u>25%</u>
• <u>Level 2B HQLA - Other assets</u>	<u>50%</u>
• <u>Margin lending backed by all other collateral</u>	<u>50%</u>
• <u>All other assets</u>	<u>100%</u>
• <u>Credit or liquidity facilities provided to the reporting Bank</u>	<u>0%</u>

Cash Inflows	
<ul style="list-style-type: none"> • <u>Operational deposits held at other financial institutions (including deposits held at centralised institution of network of co-operative banks)</u> 	0%
<u>Other inflows by counterparty</u>	
<ul style="list-style-type: none"> • <u>Amounts receivable from retail counterparties</u> 	50%
<ul style="list-style-type: none"> • <u>Amounts receivable from non-financial wholesale counterparties, from transactions other than those listed in the above inflow categories</u> 	50%
<ul style="list-style-type: none"> • <u>Amounts receivable from financial institutions and central banks, from transactions other than those listed in the above inflow categories</u> 	100%
<ul style="list-style-type: none"> • <u>Net derivative receivables</u> 	100%
<ul style="list-style-type: none"> • <u>Other contractual cash inflows</u> 	100%

Guidance

Maturing secured lending, including reverse repos and securities borrowing

1. An Authorised Firm should assume that maturing reverse repurchase or securities borrowing agreements secured by Level 1 HQLA will be rolled over and will not give rise to any cash inflows (zero %). Maturing reverse repurchase or securities borrowing agreements secured by Level 2 HQLA should be modelled as cash inflows, equivalent to the relevant haircut for the specific assets. An Authorised Firm is assumed not to roll-over maturing reserve repurchase or securities borrowing agreements secured by non-HQLA assets and can assume it will receive 100% of the cash related to those agreements. Collateralised loans extended to customers for the purpose of taking leveraged trading positions, i.e. margin loans, should be modelled with a 50% cash inflow from contractual inflows made against non-HQLA collateral.

2. An exception to paragraph 1 is the situation where, if the collateral obtained through reverse repo, securities borrowing or collateral swaps, which matures within the 30-day period, is re-used (i.e. rehypothecated) and is tied up for 30 days or longer to cover short positions. An Authorised Firm should then assume that such reverse repo or securities borrowing arrangements will be rolled over and will not give rise to any cash inflows (zero %), reflecting its need to continue to cover the short position or to repurchase the relevant securities.

3. An Authorised Firm should manage its collateral so that it is able to fulfil obligations

to return collateral whenever the counterparty decides not to roll-over any reverse repo or securities lending transaction. This is especially the case for non-HQLA collateral, since such outflows are not captured in the LCR framework.

Lines of credit

4. Lines of credit, liquidity facilities and other contingent funding facilities that an Authorised Firm holds at other institutions for its own purposes should be assumed to be able to be drawn and so such facilities should receive a zero % inflow rate.

Inflows by counterparty

5. All inflows should be taken only at the latest possible date, based on the contractual rights available to counterparties. Inflows from loans that have no specific maturity should not be included, with the exception of minimum payments of principal, fee or interest associated with an open maturity loan.
6. Operational deposits: a zero % inflow rate should apply to deposits held at other financial institutions for operational purposes.

Other cash inflows

7. Other contractual cash inflows: other contractual cash inflows should be included under this category. Cash inflows related to non-financial revenues should not be taken into account in the calculation of the net cash outflows for the purposes of the LCR. These items should receive an inflow rate of 100%.

A9.32 The Maturity Mismatch approach Including inflows (assets) and outflows (liabilities) in the timebands

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

- A9.32.1** (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 only if there is a likelihood that the conditions necessary to trigger them will not be fulfilled.
- (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.

A9.3 Including marketable assets in the Maturity Ladder

Including marketable assets in the Maturity Ladder

- A9.3.21** (1) Assets which are readily marketable are included in 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 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.
- (4) The discount factor to be applied to types of marketable assets must be determined by reference to the following table:

	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 months' residual maturity, including treasury bills; and eligible local authority paper and eligible bank bills.	0%
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%

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

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APP11 PUBLIC DISCLOSURE REQUIREMENTS

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Table 11 – Interest Rate Risk in the Non-Trading Book

Qualitative Disclosures	(a)	A description of the key assumptions made by the Authorised Firm including assumptions regarding loan prepayments and behaviour of non-maturity deposits, and frequency with which interest rate risk in the Non-Trading Book is measured, in addition to the general disclosures set out in Chapter 9 in respect of interest rate risk in the Non-Trading Book.
Quantitative Disclosures	(b)	The changes in earnings or economic value (or relevant measure used by the authorised firm) for upward and downward rate shocks according to the internal method of the Authorised Firm for measuring interest rate risk in the Non-Trading Book, broken down by currency, where applicable.

Table 12 – Leverage Ratios

<u>Qualitative Disclosures</u>	(a)	<u>The source of material differences between the bank's total balance sheet assets in their financial statements and on-balance sheet exposures in the common disclosure template in Form B100.</u>
<u>Quantitative Disclosures</u>	(b)	<u>A comparison of the Authorised Firm's total accounting asset amounts and Leverage Ratio exposures using the summary comparison template in Form B100.</u>
	(c)	<u>A breakdown of the main Leverage Ratio regulatory elements using the common disclosure template in Form B100.</u>