Banking Business Prudential Rules 2014 (BANK)

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Banking Business Prudential Rules 2014

made under the

Financial Services Regulations

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Chapter 1  General

Part 1.1  Preliminary

1.1.1  Introduction

(1) These rules are the Banking Business Prudential Rules 2014 (or BANK).

(2) These rules establish the prudential framework for banking business firms. They are based on the Basel Accords and the Basel Core Principles for Effective Banking Supervision issued by the Basel Committee on Banking Supervision.

Note  The Basel Committee is the primary global standard-setter for the prudential regulation of banks and provides a forum for cooperation on banking supervisory matters. Its mandate is to strengthen the regulation, supervision and practices of banks and regulators worldwide and thereby enhance financial stability.

1.1.2  Commencement

These rules commence on 1 January 2015.

1.1.3  Effect of definitions, notes and examples

(1) A definition in the glossary to these rules also applies to any instructions or document made under these rules.

(2) A note in or to these rules is explanatory and is not part of these rules. However, examples and guidance are part of these rules.

(3) An example is not exhaustive, and may extend, but does not limit, the meaning of these rules or the particular provision of these rules to which it relates.

Note  Under FSR, art 17 (4), guidance is indicative of the view of the Regulatory Authority at the time and in the circumstances in which it was given.

1.1.3A  References to particular currencies

In these rules, the specification of an amount of money in a particular currency is also taken to specify the equivalent sum in any other currency at the relevant time.

1.1.4  Application of these rules—general

Except as stated otherwise, these rules apply to an entity that has, or is applying for, an authorisation to conduct banking business.
These rules apply to a banking business firm regardless of whether the firm conducts other regulated activities—see rules 1.3.2 (2) and 1.3.3 (2). The following Rules also apply to such a firm:

- if the *Investment Management and Advisory Rules 2014 (INMA)* also applies to it—those Rules
- in relation to its dealings with customers—CIPR.

Rules that are of general application also apply (for example, *Governance and Controlled Functions Rules 2012* and *Anti-Money Laundering and Combating Terrorist Financing Rules 2010*).

It is possible for a firm both to be authorised as a banking business firm under these rules (that is, as a deposit-taker or an investment dealer) and to hold an authorisation under INMA. Both these rules and INMA would apply to such a firm to some degree. In relation to such a firm, however, the capital requirements in these rules apply. If that firm complies with the capital requirements in these rules, it is taken to comply with the minimum capital and liquid assets requirements in INMA—see INMA, rule 3.3.1 (2).

### 1.1.5 Application of these rules—branches

1. Chapter 3 (capital adequacy and capital requirements) does not apply to a banking business firm that is a branch insofar as that chapter would require the branch to hold capital.

2. However, the Regulatory Authority may require a branch to have capital resources or to comply with any other capital requirement if the authority considers it necessary or desirable to do so in the interest of effective supervision of the branch.

### 1.1.6 Requirement for policy also requires procedures and systems

In these rules, a requirement for a banking business firm to have a policy also requires such a firm to have the procedures, systems, processes, controls and limits needed to give effect to the policy.

### 1.1.7 Responsibility for principles

1. A banking business firm’s governing body is responsible for the firm’s compliance with the principles and requirements set out in these rules.

2. The governing body must ensure that the firm’s senior management establishes and implements policies to give effect to these rules. The governing body must approve significant policies and any changes to them (other than formal changes) and must ensure that the policies are fully integrated with each other.

*Note 1* The significant policies relate to the adequacy of capital and the management of prudential risk and group risk, as set out in the following Chapters.
Note 2 For the requirements for an authorised firm’s general risk management strategy—see CTRL, rule 4.1.4.

(3) The governing body must review the firm’s significant policies from time to time, taking into account changed operating circumstances, activities and risks. The interval between reviews must be appropriate for the nature, scale and complexity of the firm’s business, but must not be longer than 12 months.

(4) The governing body must ensure that the policies are made known to, and understood by, all relevant staff.

1.1.8 Evaluation of information given to firm
A banking business firm’s governing body must evaluate the suitability and effectiveness of the information and reports that it and the firm’s senior management receive under these rules. The test of suitability and effectiveness is whether the information and reports are suitable for effectively overseeing and implementing the principles and requirements set out in these rules.

1.1.9 Stress-testing
In carrying out stress-testing and developing its stress-testing scenarios, a banking business firm must consider the Basel Committee’s recommended standards for stress-testing.
Part 1.2 Principles relating to banking business

1.2.1 Principle 1—capital adequacy
A banking business firm must have capital, of adequate amount and appropriate quality, for the nature, scale and complexity of its business and for its risk profile.

1.2.2 Principle 2—credit risk and problem assets
(1) A banking business firm must have an adequate credit risk management policy that takes into account the firm’s risk tolerance, its risk profile and the market and macroeconomic conditions.
(2) The firm must have adequate policies for the early identification and management of problem assets, and the maintenance of adequate provisions and reserves.

1.2.3 Principle 3—transactions with related parties
A banking business firm must enter into transactions with related parties on an arm’s-length basis in order to avoid conflicts of interest.

1.2.4 Principle 4—concentration risk
A banking business firm must have adequate policies to identify, measure, evaluate, manage and control or mitigate concentrations of risk in a timely way.

1.2.5 Principle 5—market risk
A banking business firm must have an adequate market risk management policy that takes into account the firm’s risk tolerance, its risk profile, the market and macroeconomic conditions and the risk of a significant deterioration in market liquidity. The firm must have adequate policies to identify, measure, evaluate, manage and control or mitigate market risk in a timely way.

1.2.6 Principle 6—operational risk
A banking business firm must have an adequate operational risk management policy that takes into account the firm’s risk tolerance, its risk profile and market and macroeconomic conditions. The firm must have adequate policies to identify, measure, evaluate, manage and control or mitigate operational risk in a timely way.
1.2.7 Principle 7—interest rate risk in the banking book
A banking business firm must have an adequate management policy for interest rate risk in the banking book that takes into account the firm’s risk tolerance, its risk profile and the market and macroeconomic conditions. The firm must have policies to identify, measure, evaluate, manage and control or mitigate interest rate risk in the banking book on a timely basis.

1.2.8 Principle 8—liquidity risk
A banking business firm must have prudent and appropriate quantitative and qualitative liquidity requirements. The firm must have policies that enable the firm to comply with those requirements and to manage liquidity risk prudently.

1.2.9 Principle 9—group risk
A banking business firm must effectively manage risks arising from its membership in a group.

Note For the governing body’s responsibilities relating to:
- capital adequacy—see rule 3.1.3
- credit risk and problem assets—see rule 4.1.4
- transactions with related parties—see rule 4.8.4
- concentration risk—see rule 5.1.4
- market risk—see rule 6.1.5
- operational risk—see rule 7.1.2
- IRRBB—see rule 8.1.4
- liquidity risk—see rule 9.1.5
- group risk—see rule 10.1.4.
Part 1.3  Banking business firms

1.3.1  Introduction

(1)  *Banking business* comprises the activities of deposit taking, providing credit facilities and dealing in investments as principal. An authorised firm that has an authorisation to conduct any of those activities is a *banking business firm*.

(2)  However, an authorised firm that is an Islamic bank or Islamic investment dealer (within the respective meanings of the *Islamic Banking Business Prudential Rules 2015*) is not a banking business firm.

*Note*  An authorised firm that is an Islamic bank or Islamic investment dealer is an *Islamic banking business firm*—see the *Islamic Banking Business Prudential Rules 2015*.

(3)  A banking business firm may be a deposit-taker or an investment dealer.

*Guidance*  A firm that conducts any of the activities that make up banking business, or a combination of those activities, will need to consider the extent to which its business model is subject to the prudential requirements set out in these rules. These rules are designed to address the different prudential risks that could arise from the broad range of business models, risk appetites and risk profiles of banking business firms.

For example, a firm that solely conducts the activity of dealing in investments as principal (that is, an investment dealer) will need to consider the extent to which its activities in buying, selling, subscribing to or underwriting investments attract prudential risks that are subject to the requirements of these rules. In contrast, a firm that is a deposit-taker and that also deals in investments as principal would be subject to a broader range of prudential requirements. In both examples, these rules apply in accordance with the nature, scale and complexity of the firm’s business.

1.3.2  Deposit-taker

(1)  An authorised firm is a *deposit-taker* if it is authorised to conduct either or both of the regulated activities of deposit taking and providing credit facilities.

(2)  A firm is a deposit-taker even if it is also authorised to conduct any other regulated activity or activity. The authorisation for deposit taking or providing credit facilities makes the firm a deposit-taker.

1.3.3  Investment dealer

(1)  An authorised firm is an *investment dealer* if:

   (a)  it is authorised to conduct the regulated activity of dealing in investments as principal; and

   (b)  it is not a deposit-taker.
(2) A firm is an investment dealer even if it is also authorised to conduct any other regulated activity (except deposit taking and providing credit facilities). The authorisation for dealing in investments (and the absence of an authorisation that would make it a deposit-taker) makes the firm an investment dealer.

1.3.5 **Legal form that firms must take**

(1) A deposit-taker must be:

(a) a limited liability company incorporated under the *Companies Regulations 2005*; or

(b) a branch registered with the QFC Companies Registration Office.

(2) An investment dealer must be:

(a) a limited liability company incorporated under the *Companies Regulations 2005*;

(b) a branch registered with the QFC Companies Registration Office; or

(c) a limited liability partnership incorporated under the *Limited Liability Partnerships Regulations 2005*.

*Note* **Branch** is defined in the glossary.
Chapter 2  Prudential reporting requirements

2.1.1  Introduction
(1) This Chapter sets out the prudential reporting requirements for a banking business firm.

(2) Prudential returns of a banking business firm must reflect the firm’s management accounts, financial statements and ancillary reports. A firm’s returns, accounts, statements and reports must all be prepared using the same standards and practices, and must be easily reconcilable with one another.

(3) A return is referred to as a solo return if it reflects 1 firm’s accounts, statements and reports.

(4) A consolidated return deals with the accounts, statements and reports of a firm consolidated with those of the other members of its financial group.

Note  Financial group is defined in rule 10.1.2 (2) and is used for consolidated reporting instead of ‘corporate group’.

2.1.2  Information about financial group
If directed by the Regulatory Authority, a banking business firm must give the authority the following information about its financial group:

(a) details about the entities in the group;
(b) the structure of the group;
(c) how the group is managed;
(d) any other information that the authority requires.

2.1.3  Financial group and prudential risk
(1) If a banking business firm is part of a financial group, credit risk, market risk, operational risk, IRRBB and liquidity risk (collectively referred to as prudential risk) apply on a consolidated basis to the firm and the other members that make up the financial group.

(2) Done on a consolidated basis means done not just to include the financial activities or items of the firm but those of the other members of its financial group as well.

Note  A banking business firm must have systems to enable it to calculate its financial group capital requirement and resources—see rule 10.1.3 (3). The firm must ensure that its financial group capital resources exceed its financial group capital requirement—see rule 10.2.2 (1).
2.1.4 Preparing returns

(1) A banking business firm must prepare the prudential returns that it is required to prepare by notice published by the Regulatory Authority on an approved website. Such a notice may also require banking business firms to give other information to the authority.

(2) The firm must give the return to the Regulatory Authority within the period stated in the notice.

(3) The Regulatory Authority may, by written notice:
   (a) require a firm to prepare additional prudential returns;
   (b) exempt a firm from a requirement to prepare annual, biannual, quarterly or monthly returns (or a particular return); or
   (c) extend the period within which to give a return.

(4) An exemption may be subject to 1 or more conditions. The firm must comply with any condition attached to an exemption.

(5) The firm must prepare and give prudential returns in accordance with the Regulatory Authority’s instructions. The instructions may require that the return be prepared or given through the authority’s electronic submission system.

(6) The instructions may be set out in these rules, in the return itself, in a separate document published by the authority on an approved website or by written notice. These instructions, wherever or however they are given, are collectively referred to as instructions for preparing returns.

Note Instructions may be in the form of formulae or blank spaces that the firm must use or fill in and that automatically compute the amounts to be reported.

2.1.5 Giving information

(1) The Regulatory Authority may, by written notice, require a banking business firm to give it information additional to that required under these rules.

(2) A banking business firm must give information to the Regulatory Authority in accordance with the authority’s instructions and within the period stated in the notice. The authority may extend the period within which to give the information.

(3) The Regulatory Authority may exempt a banking business firm from giving information. The firm must comply with any condition attached to an exemption.
2.1.6 Accounts and statements to use international standards

(1) A banking business firm must prepare and keep its financial accounts and statements in accordance with IFRS, US GAAP or other accounting standards approved in writing by the Regulatory Authority.

(2) If the firm decides to prepare and keep its financial accounts and statements in accordance with a standard other than the one it has previously used, it must notify the authority in writing before beginning to do so.

2.1.7 Signing returns

(1) A prudential return must be signed by 2 individuals.

(2) If the individuals approved to exercise the finance function and the senior executive function for the firm are available, they must sign the return. If either or both of those individuals is or are unable to sign, the return must be signed by 1 or 2 of the individuals approved to exercise the following functions:

- the risk management function;
- the compliance oversight function;
- the executive governance function.

(3) In subrule (2), finance function, senior executive function, risk management function, compliance oversight function and executive governance function have the same meanings as in CTRL.

2.1.8 Firm to notify authority

(1) A banking business firm must notify the Regulatory Authority if it becomes aware, or has reasonable grounds to believe, that the firm has breached, or is about to breach, a prudential requirement.

(2) In particular, the firm must notify the authority as soon as practicable of:

- any breach (or foreseen breach) of its minimum capital requirement;
- any concern (including because of projected losses) it has about its capital adequacy;
- any indication of significant adverse change in the market pricing of, or trading in, the capital instruments of the firm or its financial group (including pressure on the firm to purchase its own equity or debt);
- any other significant adverse change in its capital; and
- any significant departure from its ICAAP.
Note For a banking business firm’s ICAAP—see rule 3.1.5.

(3) The firm must also notify the authority of any measures taken or planned to deal with any breach, prospective breach or concern.
Chapter 3  Capital adequacy

Part 3.1  General

3.1.1  Introduction

(1) This Chapter sets out capital adequacy requirements.

(2) A banking business firm’s total regulatory capital is the sum of its tier 1 capital and tier 2 capital. The categories and elements of regulatory capital, as well as the limits, restrictions and adjustments to which they are subject are set out in this Chapter.

(3) Capital supports the firm’s operation by providing a buffer to absorb losses from its activities and, in the event of problems, it enables the firm to continue to operate in a sound and viable manner while the problems are resolved. Capital management must be an integral part of a banking business firm’s credit risk management process and must align the firm’s risk tolerance and risk profile with its capacity to absorb losses.

Note For the governing body’s responsibilities in relation to capital management and capital adequacy—see rule 3.1.3 (2).

3.1.2  Chapter 3 and its application to branches

(1) This chapter does not apply to a banking business firm that is a branch insofar as this chapter would require the branch to hold capital.

(2) A branch is required to comply with the reporting requirements under this chapter. In relation to the branch’s ICAAP, the branch may rely on the head office’s ICAAP (if available) to demonstrate compliance.

3.1.3  Governing body’s responsibilities

(1) A banking business firm’s governing body must consider whether the minimum financial resources required by these rules are adequate to ensure that there is no significant risk that the firm’s liabilities cannot be met as they fall due. The firm must obtain additional financial resources if its governing body considers that the minimum required does not adequately reflect the risks of its business.

(2) The governing body is also responsible for:

   (a) ensuring that capital management is part of the firm’s overall risk management and is aligned with its risk tolerance and risk profile;

   (b) ensuring that the firm has, at all times, financial resources of the kinds and amounts required by these rules;
Note  Financial resources is a broader concept than capital resources. Financial resources could include liquid assets (such as cash in hand), irrevocable lines of credit and irrevocable guarantees.

(c) ensuring that the firm has capital, of adequate amount and appropriate quality, for the nature, scale and complexity of its business and for its risk profile;

(d) ensuring that the amount of capital it has exceeds its minimum capital requirement;

(e) monitoring the adequacy and appropriateness of the firm’s systems and controls and the firm’s compliance with them; and

(f) approving the firm’s ICAAP and any significant changes to it.

Guidance

1 A banking business firm’s risk management strategy will usually refer to risk tolerance although risk appetite may also be used. The terms ‘risk tolerance’ and ‘risk appetite’ embrace all relevant definitions used by different institutions and supervisory authorities. These 2 terms are used interchangeably to describe both the absolute risks a firm is open to take (which some may call risk appetite) and the actual limits within its risk appetite that a firm pursues (which some call risk tolerance).

2 If the firm is a member of a financial group, the authority expects the capital of the financial group to be apportioned among the group’s members, based on the allocation of risks between them.

3.1.4 Systems and controls

(1) A banking business firm must have adequate systems and controls to allow it to calculate and monitor its minimum capital requirement.

(2) The systems and controls must be in writing and must be appropriate for the nature, scale and complexity of its business and for its risk profile.

(3) The systems and controls must enable the firm to show at all times whether it complies with this Chapter.

(4) The systems and controls must enable the firm to manage available capital in anticipation of events or changes in market conditions.

(5) The systems and controls must include ICAAP, and the firm must have contingency arrangements to maintain or increase its capital in times of stress.

3.1.5 Internal capital adequacy assessment

(1) A banking business firm’s internal capital adequacy assessment process or ICAAP is the process by which the firm continuously demonstrates that it has implemented methods and procedures to ensure
that it has adequate capital resources to support the nature and level of its risks.

(2) A firm’s ICAAP (and any significant changes to it) must be in writing and must have been approved by the firm’s governing body. A copy of the ICAAP must be given to the Regulatory Authority on request.

(3) An ICAAP must reflect the nature, scale and complexity of the firm’s operations and must include:

(a) adequate policies and staff to continuously identify, measure, evaluate, manage and control or mitigate the risks arising from its activities, and monitor the capital held against such risks;

(b) a strategy for ensuring that adequate capital is maintained over time, including specific capital targets set out in the context of its risk tolerance, risk profile and capital requirements;

(c) plans for how capital targets are to be met and the means available for obtaining additional capital, if required;

(d) procedures for monitoring its compliance with its capital requirements and capital targets;

(e) triggers to alert senior management to, and specified actions to avert and rectify, possible breaches of capital requirements;

(f) procedures for reporting on the ICAAP and its outcomes to the firm’s governing body and senior management, and for ensuring that the ICAAP is taken into account in making business decisions;

(g) policies about the effect on capital of significant risks not covered by explicit capital requirements;

(h) triggers, scope and procedures for reviewing the ICAAP under rule 1.1.7 (3) and in the light of changed conditions and factors affecting the firm’s risk tolerance, risk profile and capital;

(i) procedures for stress-testing and the review of stress scenarios;

(j) procedures for reporting the results of reviews; and

(k) an adequate recovery plan for restoring the firm’s financial situation after a significant deterioration.

(4) In addition to the periodic review under rule 1.1.7 (3), a firm’s ICAAP must be reviewed by an appropriately qualified person at least once every 3 years. The person must be independent of the conduct of the firm’s capital management.

3.1.6 Use of internal models

(1) The Regulatory Authority’s requirements for banking business firms to maintain adequate capital and manage prudential risk are based on the
approaches set out by the Basel Committee on Banking Supervision in the Basel Accords. The Accords allow firms to use internal models to assess capital adequacy and prudential risk, and this rule governs the use of such models.

(2) A firm must not use its own model to assess capital adequacy or prudential risk unless the Regulatory Authority has approved the model. The authority may approve a model subject to 1 or more conditions.

(3) In making its decision, the authority will take into account:
   (a) the nature, scale and complexity of the firm’s business;
   (b) the standards proposed by the firm, the rigour of its compliance with them, and the ease with which the authority can assess that compliance;
   (c) whether the model can be relied upon as a reasonable reflection of the risks undertaken by the firm; and
   (d) any other matter that the authority considers relevant.

(4) The authority may revoke the approval if it is satisfied that the firm has failed to comply with any condition specified by the authority or any standard proposed by the firm.

(5) The firm must not stop using an approved model, or make significant changes to it, without the authority’s approval.

*Note*  The use of internal models to measure IRRBB is allowed under rule 8.1.5 (b).
Part 3.2 Initial and ongoing capital requirements

Division 3.2.A Required capital and ratios

3.2.1 Introduction

(1) A banking business firm is expected to meet minimum risk-based capital requirements for exposure to credit risk, market risk and operational risk. The firm’s capital adequacy ratios (consisting of CET 1 ratio, total tier 1 ratio and total capital ratio) are calculated by dividing its regulatory capital by total risk-weighted assets.

(2) Total risk-weighted assets of a banking business firm is the sum of:

(a) the firm’s risk-weighted on-balance-sheet and off-balance-sheet items calculated in accordance with Part 4.4; and

(b) 12.5 times the sum of the firm’s market and operational risk capital requirements (to the extent that each of those requirements applies to the firm).

Note For the calculation of the firm’s market and operational risk capital requirements—see rules 6.1.1 (3) and 7.1.7, respectively.

(3) In this Part:

consolidated subsidiary, of a banking business firm, means:

(a) a subsidiary of the firm; or

(b) a subsidiary of a subsidiary of the firm.

3.2.2 Required tier 1 capital on authorisation

An entity must have, at the time it is authorised, tier 1 capital at least equal to the base capital requirement for the activity applied for. The Regulatory Authority will not grant an authorisation unless it is satisfied that the entity complies with this requirement.

3.2.3 Required ongoing capital

(1) A banking business firm must have at all times capital at least equal to the higher of:

(a) its base capital requirement; and

(b) its risk-based capital requirement.

Note A firm whose minimum capital requirement is its risk-based capital requirement is subject to the additional requirement to maintain a capital conservation buffer—see rule 3.3.2.

(2) The amount of capital that a firm must have is its minimum capital requirement.
3.2.4 Base capital requirement

The base capital requirement for a banking business firm is:

(a) for a deposit-taker—QR 35 million; or

(b) for an investment dealer—QR7 million.

3.2.5 Risk-based capital requirement

The risk-based capital requirement for a banking business firm is the sum of:

(a) its credit risk capital requirement;

(b) its market risk capital requirement; and

(c) its operational risk capital requirement.

3.2.6 Capital adequacy ratios

(1) A banking business firm’s capital adequacy is measured against 3 capital ratios expressed as percentages of its total risk-weighted assets.

(2) A firm’s minimum capital adequacy ratios are:

   (a) a CET 1 capital ratio of 4.5%;

   (b) a tier 1 capital ratio of 6%; and

   (c) a regulatory capital ratio of 8%.

   \[\text{Note} \quad \text{Under rule 3.3.2, at least 2.5\% (by way of a capital conservation buffer) must be held by a banking business firm in addition to the minimum capital adequacy ratios. The firm’s CET 1 capital plus capital conservation buffer must therefore be no less than 7\% of its total risk-weighted assets.}\]

(3) The Regulatory Authority may, if it believes it is prudent to do so, increase any or all of a firm’s minimum capital adequacy ratios. The authority will notify the firm in writing about a new capital adequacy ratio and the timeframe for meeting it.

(4) A firm must maintain at all times capital adequacy ratios higher than the required minimum so that adequate capital is maintained in the context of the firm’s risk tolerance, risk profile and capital requirements, and as an additional buffer to absorb losses and problems from market volatility. These higher ratios are the firm’s risk-based capital adequacy ratios.

Division 3.2.B Elements of regulatory capital

3.2.7 Regulatory capital

(1) The regulatory capital of a firm is the sum of its tier 1 capital and tier 2 capital.
(2) **Tier 1 capital** is the sum of a firm’s CET 1 capital and additional tier 1 capital. Tier 1 capital is also known as going-concern capital because it is meant to absorb losses while the firm is viable.

*Note* For the elements of CET 1 capital and additional tier 1 capital—see rules 3.2.8 and 3.2.10.

(3) **Tier 2 capital** is the sum of the elements set out in rule 3.2.12. Tier 2 capital is also known as gone-concern capital because it is meant to absorb losses after the firm ceases to be viable.

(4) For these rules, the 3 categories of regulatory capital are CET 1 capital, additional tier 1 capital and tier 2 capital.

### 3.2.8 Common equity tier 1 capital

**Common equity tier 1 capital** (or **CET 1 capital**) is the sum of the following elements:

(a) common shares issued by a banking business firm that satisfy the criteria in rule 3.2.9 for classification as common shares (or the equivalent for non-joint stock companies);

(b) share premium resulting from the issue of instruments included in CET 1 capital;

*Note* Share premium is also known as stock surplus and constitutes additional paid-in capital.

(c) retained earnings;

(d) accumulated other comprehensive income and other disclosed reserves (for example, the foreign currency translation reserve mentioned in rule 6.2.2 (4));

(e) common shares, issued by a consolidated subsidiary of the firm and held by third parties, that satisfy the criteria in rule 3.2.16 for inclusion in CET 1 capital;

(f) regulatory adjustments applied in the calculation of CET 1 capital in accordance with Division 3.2.D.

*Note* Retained earnings and other comprehensive income include appropriated profit or loss.

### 3.2.9 Criteria for classification as common shares

(1) An instrument issued by a banking business firm is classified as a common share and included in CET 1 capital if all of the criteria in subrules (2) to (15) are satisfied.

(2) The instrument is the most subordinated claim in case of the liquidation of the firm.
(3) The holder of the instrument is entitled to a claim on the residual assets that is proportional to its share of issued capital, after all senior claims have been repaid in liquidation. The claim must be unlimited and variable and must be neither fixed nor capped.

(4) The principal amount of the instrument is perpetual and never repayable except in liquidation. Discretionary repurchases and other discretionary means of reducing capital allowed by law do not constitute repayment.

*Note* Under rule 3.3.6, the Regulatory Authority’s approval is required for a reduction in capital.

(5) The firm does nothing to create an expectation at issuance that the instrument will be bought back, redeemed or cancelled. The statutory or contractual terms do not provide anything that might give rise to such an expectation.

(6) Distributions are paid out of distributable items of the firm (including retained earnings) and the amount of distributions:

(a) is not tied or linked to the amount paid in at issuance; and

(b) is not subject to a contractual cap (except to the extent that a firm may not pay distributions that exceed the amount of its distributable items).

(7) There are no circumstances under which the distributions are obligatory. Non-payment of distributions does not constitute default.

(8) Distributions are paid only after all legal and contractual obligations have been met and payments on more senior capital instruments have been made. There are no preferential distributions and in particular none for any other elements classified as the highest quality issued capital.

(9) It is the issued capital that takes the first and proportionately greatest share of any losses as they occur. Within the highest quality capital, each instrument absorbs losses on a going-concern basis proportionately and equally with all the others.

*Note* This criterion is taken to be satisfied even if the instrument includes a permanent write-down mechanism.

(10) The paid-in amount is recognised as equity capital (rather than as a liability) for determining balance-sheet insolvency.

(11) The paid-in amount is classified as equity in accordance with the relevant accounting standards.

*Note* For the firm’s choice and use of accounting standards—see rule 2.1.6.

(12) The instrument is directly issued and paid-in, and the firm has not directly or indirectly funded the purchase of the instrument.
(13) The paid-in amount is neither secured nor covered by a guarantee of the firm or a related party, nor subject to any other arrangement that legally or economically enhances the seniority of the holder’s claim in relation to the claims of the firm’s creditors.

(14) The instrument is issued only with the approval of the owners of the firm, either given directly by the owners or, if permitted by the applicable law, given by its governing body or by other persons authorised by the owners.

(15) The instrument is clearly and separately disclosed on the firm’s balance sheet.

3.2.10 Additional tier 1 capital

Additional tier 1 capital is the sum of the following elements:

(a) instruments issued by a banking business firm that satisfy the criteria in rule 3.2.11 for inclusion in additional tier 1 capital (and are not included in CET 1 capital);

(b) share premium resulting from the issue of instruments included in additional tier 1 capital;

Note Share premium is also known as stock surplus and constitutes additional paid-in capital.

(c) instruments, issued by consolidated subsidiaries of the firm and held by third parties, that satisfy the criteria in rule 3.2.17 for inclusion in additional tier 1 capital (and are not included in CET 1 capital);

(d) regulatory adjustments applied in the calculation of additional tier 1 capital in accordance with Division 3.2.D.

3.2.11 Criteria for inclusion in additional tier 1 capital

(1) An instrument is included in additional tier 1 capital if all of the criteria in subrules (2) to (16) are satisfied.

(2) The instrument is paid-in.

(3) The instrument is the most subordinated claim after those of depositors, general creditors and holders of the subordinated debt of the firm.

(4) The paid-in amount is neither secured nor covered by a guarantee of the firm or a related party, nor subject to any other arrangement that legally or economically enhances the seniority of the holder’s claim in relation to the claims of the firm’s creditors.

(5) The instrument is perpetual. It has no maturity date and there are no step-ups or other incentives to redeem.
(6) If the instrument is callable by the firm, it can only be called 5 years or more after the instrument is paid-in and only with the approval of the Regulatory Authority. The firm must not do anything to create an expectation that the exercise of the option will be approved, and, if the exercise is approved, the firm:

(a) must replace the called instrument with capital of the same or better quality and at conditions sustainable for the income capacity of the firm; or

(b) must demonstrate to the authority that its capital will exceed the firm’s minimum capital requirement after the option is exercised.

(7) A repayment of principal through repurchase, redemption or other means must be approved by the Regulatory Authority. The firm must not assume, or create a market expectation, that such approval will be given.

(8) The instrument must provide for the firm to have at all times discretion not to make a distribution or pay a dividend or coupon. The exercise of the discretion must not impose restrictions on the firm (except in relation to distributions to common shareholders) and must not constitute default.

(9) Dividends and coupons must be paid out of distributable items.

(10) The instrument must not have a credit-sensitive-dividend feature under which a dividend or coupon is periodically reset based (wholly or partly) on the firm’s credit standing.

(11) The instrument must not contribute to the firm’s liabilities exceeding its assets if such a balance-sheet test forms part of any insolvency law applying in the jurisdiction where the instrument was issued.

(12) An instrument classified as a liability for accounting purposes must have principal loss absorption through conversion to common shares, or a write-down mechanism that allocates losses to the instrument, at a pre-specified trigger point. The conversion must be made in accordance with rule 3.2.14.

(13) A write-down of the instrument has the following effects:

(a) reducing the claim of the instrument in liquidation;

(b) reducing the amount repaid when a call option is exercised;

(c) reducing or eliminating dividend or coupon payments on the instrument.

(14) Neither the firm nor a related party over which the firm exercises control has purchased the instrument, nor has the firm directly or indirectly funded the purchase of the instrument.
Chapter 3  Capital adequacy  
Part 3.2  Initial and ongoing capital requirements

Rule 3.2.12

(15) The instrument has no features that hinder recapitalisation. For example, it must not require the firm to compensate investors if a new instrument is issued at a lower price during a specified period.

(16) If the instrument is issued by a special purpose vehicle, the proceeds are immediately available without limitation to the firm through an instrument that satisfies the other criteria for additional tier 1 capital.

Note For the treatment of instruments issued by a special purpose vehicle—see rule 3.2.19.

3.2.12 Tier 2 capital

Tier 2 capital is the sum of the following elements:

(a) instruments issued by the firm that satisfy the criteria in rule 3.2.13 for inclusion in tier 2 capital (and are not included in tier 1 capital);

(b) share premium resulting from the issue of instruments included in tier 2 capital;

Note Share premium is also known as stock surplus and constitutes additional paid-in capital.

(c) instruments, issued by consolidated subsidiaries of the firm and held by third parties, that satisfy the criteria in rule 3.2.18 for inclusion in tier 2 capital (and are not included in tier 1 capital);

(d) regulatory adjustments applied in the calculation of tier 2 capital in accordance with Division 3.2.D;

(e) general provisions or general reserves held against future, presently unidentified losses (but only up to a maximum of 1.25% of risk-weighted assets for credit risk, calculated using the standardised approach in Part 4.3).

Note General provisions and reserves are freely available to meet losses that subsequently materialise and therefore qualify for inclusion in tier 2 capital. In contrast, provisions for identified deterioration of particular assets or known liabilities, whether individual or grouped, should be excluded because they would not be available to meet losses.

3.2.13 Criteria for inclusion in tier 2 capital

(1) An instrument is included in tier 2 capital if all the criteria in subrules (2) to (11) are satisfied.

(2) The instrument is paid-in.

(3) The instrument is the most subordinated claim after those of depositors, general creditors and holders of the subordinated debt of the firm.

(4) The paid-in amount is neither secured nor covered by a guarantee of the firm or a related party, nor subject to any other arrangement that legally
or economically enhances the seniority of the holder’s claim in relation to the claims of the firm’s depositors and general creditors.

(5) The original maturity of the instrument is at least 5 years.

(6) The recognition in regulatory capital in the remaining 5 years before maturity is amortised on a straight line basis and there are no step-ups or other incentives to redeem.

(7) If the instrument is callable by the firm, it can only be called 5 years or more after the instrument is paid-in and only with the approval of the Regulatory Authority. The firm must not do anything to create an expectation that the exercise of the option will be approved, and, if the exercise is approved, the firm:
   (a) must replace the called instrument with capital of the same or better quality and at conditions sustainable for the income capacity of the firm; or
   (b) must demonstrate to the authority that its capital will exceed the firm’s minimum capital requirement after the option is exercised.

(8) The holder has no right to accelerate future scheduled payments of coupon or principal, except in bankruptcy or liquidation.

(9) The instrument does not have a credit-sensitive-dividend feature under which a dividend or coupon is periodically reset based (wholly or partly) on the firm’s credit standing.

(10) Neither the firm nor a related party over which the firm exercises control has purchased the instrument, nor has the firm directly or indirectly funded the purchase of the instrument.

(11) If the instrument is issued by a special purpose vehicle, the proceeds are immediately available without limitation to the firm through an instrument that satisfies the other criteria for tier 2 capital.

Note For the treatment of instruments issued by a special purpose vehicle—see rule 3.2.19.

3.2.14 Requirements—loss absorption at point of non-viability

(1) This rule applies to an additional tier 1 or tier 2 instrument issued by a banking business firm. It sets out additional requirements to ensure loss absorption at the point of non-viability.

(2) The terms and conditions of an instrument must give the Regulatory Authority the discretion to direct that the instrument be written-off or converted to common equity on the happening of a trigger event.

(3) The firm must be able to issue the required number of shares specified in the instrument if a trigger event happens. The issuance of any new shares because of a trigger event must happen before any public sector
injection of capital so that capital provided by the public sector is not
diluted.

(4) **Trigger event**, in relation to the firm that issued the instrument, is the
earliest of:

(a) a decision of the Regulatory Authority that a write-off (without
which the firm would become non-viable) is necessary; and

(b) a decision by the relevant authority in Qatar to make a public sector
injection of capital, or give equivalent support (without which injection or support the firm would become non-viable, as
determined by that authority).

(5) If the firm is a member of a financial group and the firm wishes the
instrument to be included in the group’s capital in addition to its solo
capital, the trigger event must be the earliest of:

(a) the decision in subrule (4) (a);

(b) the decision in subrule (4) (b);

(c) a decision, by the relevant authority in the firm’s home
jurisdiction, that a write-off (without which the firm would become
non-viable) is necessary; and

(d) a decision, by the relevant authority in the jurisdiction of the
financial regulator that regulates the parent entity of the firm, to
make a public sector injection of capital, or give equivalent support, in that jurisdiction (without which injection or support the
firm would become non-viable, as determined by that authority).

(6) Any compensation paid to the holder of an instrument because of a
write-off must be paid immediately in the form of common shares (or
the equivalent for non-joint-stock companies).

(7) If the firm is a member of a financial group, any common shares paid as
compensation to the holder of the instrument must be common shares
of the firm or of the parent entity of the group.

**Guidance**

Conversion or write-off under this rule would be limited to the extent necessary to
enable the Regulatory Authority to conclude that the firm is viable without further
conversion or write-off.

**Division 3.2.C  Inclusion of third parties’ interests**

**3.2.15  Introduction**

This Division sets out the criteria and formulae for the inclusion, in a
banking business firm’s regulatory capital, of interests held by third
parties.
3.2.16 **Criteria for third party interests—common equity tier 1 capital**

(1) For rule 3.2.8 (e), a common share, issued by a consolidated subsidiary of a banking business firm and held by a third party as a non-controlling interest, may be included in the firm’s CET 1 capital if:

(a) the share would be included in the firm’s CET 1 capital had it been issued by the firm; and

(b) the subsidiary that issued the share is itself a deposit-taker or investment dealer (or an equivalent entity in its home jurisdiction).

(2) The amount to be included in the consolidated CET 1 capital of a banking business firm is calculated in accordance with the following formula:

\[ NCI - ((CET1_s - Min) \times SS) \]

where:

- \( NCI \) is the total of the non-controlling interests of third parties in a consolidated subsidiary of the firm.
- \( CET1_s \) is the amount of CET 1 capital of the subsidiary.
- \( Min \) is the lower of:
  - (a) \( 1.07 \times (\text{minimum CET 1 capital requirement of the subsidiary}) \); and
  - (b) \( 1.07 \times (\text{the part of the consolidated minimum CET 1 capital requirement that relates to the subsidiary}) \).

- \( SS \) means the percentage of the shares in the subsidiary (being shares included in CET 1 capital) held by those third parties.

3.2.17 **Criteria for third party interests—additional tier 1 capital**

(1) For rule 3.2.10 (c), an instrument (including a common share) issued by a consolidated subsidiary of a banking business firm and held by a third party as a non-controlling interest may be included in the firm’s additional tier 1 capital if the instrument would be included in the firm’s additional tier 1 capital had it been issued by the firm.

*Note* Any amount already included in CET 1 capital must not be included in additional tier 1 capital—see rule 3.2.10 (c).
(2) The amount to be included in the consolidated additional tier 1 capital of a banking business firm is calculated in accordance with the following formula:

\[ NCI - ((T1_s - Min) \times SS) \]

where:

- \( NCI \) is the total of the non-controlling interests of third parties in a consolidated subsidiary of the firm.
- \( T1_s \) is the amount of additional tier 1 capital of the subsidiary.
- \( Min \) is the lower of:
  (a) \( 1.07 \times (\text{minimum additional tier 1 capital requirement of the subsidiary}) \); and
  (b) \( 1.07 \times (\text{the part of the consolidated minimum additional tier 1 capital requirement that relates to the subsidiary}) \).

- \( SS \) means the percentage of the shares in the subsidiary (being shares included in additional tier 1 capital) held by those third parties.

3.2.18 Criteria for third party interests—tier 2 capital

(1) For rule 3.2.12 (c), an instrument (including a common share and any other tier 1 capital instrument) issued by a consolidated subsidiary of a banking business firm and held by a third party as a non-controlling interest may be included in the firm’s tier 2 capital if the instrument would be included in the firm’s tier 2 capital had it been issued by the firm.

Note Any amount already included in CET 1 capital or additional tier 1 capital must not be included in tier 2 capital—see rule 3.2.12 (c).

(2) The amount to be included in the consolidated tier 2 capital of a banking business firm is calculated in accordance with the following formula:

\[ NCI - ((T2_s - Min) \times SS) \]

where:

- \( NCI \) is the total of the non-controlling interests of third parties in a consolidated subsidiary of the firm.
- \( T2_s \) is the amount of tier 2 capital of the subsidiary.
- \( Min \) is the lower of:
  (a) \( 1.07 \times (\text{minimum tier 2 capital requirement of the subsidiary}) \); and
  (b) \( 1.07 \times (\text{the part of the consolidated minimum tier 2 capital requirement that relates to the subsidiary}) \).

- \( SS \) means the percentage of the shares in the subsidiary (being shares included in tier 2 capital) held by those third parties.
3.2.19  Treatment of third party interests from special purpose vehicles

(1) An instrument issued out of a special purpose vehicle and held by a third party must not be included in a banking business firm’s CET 1 capital. Such an instrument may be included in the firm’s additional tier 1 or tier 2 capital (and treated as if it had been issued by the firm itself directly to the third party), if:

(a) the instrument satisfies the criteria for inclusion in the relevant category of regulatory capital; and

(b) the only asset of the special purpose vehicle is its investment in the capital of the firm and that investment satisfies the criterion in rule 3.2.11 (16) or 3.2.13 (11) for the immediate availability of the proceeds.

(2) An instrument described in subrule (1) that is issued out of a special purpose vehicle through a consolidated subsidiary of a banking business firm may be included in the firm’s consolidated additional tier 1 or tier 2 capital if the instrument satisfies the criteria in rule 3.2.17 or 3.2.18, as the case requires. Such an instrument is treated as if it had been issued by the subsidiary itself directly to the third party.

Division 3.2.D  Regulatory adjustments

Subdivision 3.2.D.1  General

3.2.20  Introduction

(1) Regulatory adjustments to a banking business firm’s capital may be required to avoid double-counting, or artificial inflation, of its capital. They may also be required in relation to assets that cannot readily be converted into cash.

(2) Adjustments can be made to all 3 categories of regulatory capital, but most of them are to CET 1 capital.

3.2.21  Approaches to valuation and adjustment

(1) A banking business firm must use the same approach for valuing regulatory adjustments to its capital as it does for balance-sheet valuations. An item that is deducted from capital must be valued in the same way as it would be for inclusion in the firm’s balance sheet.

(2) The firm must use the corresponding deduction approach and the threshold deduction rule in making adjustments to its capital.
3.2.22 Definitions for Division 3.2.D

In this Division:

**entity concerned** means any of the following entities:

(a) a banking business firm;
(b) any other financial or insurance entity;
(c) an entity over which a banking business firm exercises control.

*Note*  *Exercise control* is defined in the glossary.

**significant investment**, by a banking business firm in an entity concerned, means an investment of 10% or more in the common shares, or other instruments that qualify as capital, of the entity concerned.  

**Investment** includes a direct, indirect and synthetic holding of capital instruments.

Subdivision 3.2.D.2 Adjustments to common equity tier 1 capital

3.2.23 Form of adjustments

Adjustments to CET 1 capital must be made in accordance with this Subdivision. Regulatory adjustments are generally in the form of deductions, but they may also be in the form of recognition or derecognition of items in the calculation of a firm’s capital.

3.2.24 Goodwill and intangible assets

A banking business firm must deduct from CET 1 capital the amount of its goodwill and other intangible assets (except mortgage servicing rights). The amount must be net of any related deferred tax liability that would be extinguished if the goodwill or assets become impaired or derecognised under IFRS or any other relevant accounting standards.

*Note* For the treatment of mortgage servicing rights—see rule 3.2.41 (Deductions from common equity tier 1 capital).

3.2.25 Deferred tax assets

1. A banking business firm must deduct from CET 1 capital the amount of deferred tax assets (except those that relate to temporary differences) that depend on the future profitability of the firm.

2. A deferred tax asset may be netted with a deferred tax liability only if the asset and liability relate to taxes levied by the same taxation authority and offsetting is explicitly permitted by that authority. A deferred tax liability must not be used for netting if it has already been netted against a deduction of goodwill, other intangible assets or defined benefit pension assets.
Note  Any deferred tax liability that may be netted must be allocated pro rata between deferred tax assets under this rule and those under the threshold deduction rule. For the treatment of deferred tax assets that relate to temporary differences (for example, allowance for credit losses)—see rule 3.2.41 (Deductions from common equity tier 1 capital).

3.2.26 Cash flow hedge reserve
In the calculation of CET 1 capital, a banking business firm must derecognise the amount of the cash flow hedge reserve that relates to the hedging of items that are not fair valued on the balance sheet (including projected cash flows).

3.2.27 Cumulative gains and losses from changes to own credit risk
In the calculation of CET 1 capital, a banking business firm must derecognise all unrealised gains and unrealised losses that have resulted from changes in the fair value of liabilities that are due to changes in the firm’s own credit risk.

3.2.28 Defined benefit pension fund assets
(1) A banking business firm must deduct from CET 1 capital the amount of a defined benefit pension fund that is an asset on the firm’s balance sheet. The amount must be net of any related deferred tax liability that would be extinguished if the asset becomes impaired or derecognised under IFRS or any other relevant accounting standards.

(2) The firm may apply to the Regulatory Authority for approval to offset from the deduction any asset in the defined benefit pension fund to which the firm has unrestricted and unfettered access. Such an asset must be assigned the risk-weight that would be assigned if it were owned directly by the firm.

3.2.29 Securitisation gains on sale
In the calculation of CET 1 capital, a banking business firm must derecognise any increase in equity capital or CET 1 capital from a securitisation or resecuritisation transaction (for example, an increase associated with expected future margin income resulting in a gain-on-sale).

3.2.30 Higher capital imposed on overseas branch
(1) If a banking business firm has an overseas branch, the firm must deduct from CET 1 capital whichever is the higher of any capital requirement imposed by the Regulatory Authority or the financial regulator in the jurisdiction in which the branch is located.
(2) This rule does not apply if the overseas branch is a consolidated entity of the banking business firm. A branch is a *consolidated entity* if it is included in the firm’s consolidated returns.

(3) Despite subrule (2), if the financial regulator in the jurisdiction in which a branch is located imposes a capital requirement for the foreign branch, a banking firm must deduct from CET 1 capital the amount of any shortfall between the actual capital held by the foreign branch and that capital requirement.

### 3.2.31 Assets lodged or pledged to secure liabilities

(1) A banking business firm must deduct from CET 1 capital the amount of any assets lodged or pledged by the firm if:

(a) the assets were lodged or pledged to secure liabilities incurred by the firm; and 

(b) the assets are not available to meet the liabilities of the firm.

(2) The Regulatory Authority may determine that, in the circumstances, the amount of assets lodged or pledged need not be deducted from the firm’s CET 1 capital. The determination must be in writing.

### 3.2.32 Acknowledgments of debt

(1) A banking business firm must deduct from CET 1 capital the net present value of an acknowledgement of debt outstanding issued by it to directly or indirectly fund instruments that qualify as CET 1 capital.

(2) This rule does not apply if the acknowledgement is subordinated in rank similar to that of instruments that qualify as CET 1 capital.

### 3.2.33 Accumulated losses

A banking business firm must deduct from CET 1 capital the amount of any accumulated losses.

### Subdivision 3.2.D.3 Deductions from categories of regulatory capital

#### 3.2.34 Deductions using corresponding deduction approach

(1) The deductions that must be made from CET 1 capital, additional tier 1 capital or tier 2 capital under the corresponding deduction approach are set out in this Subdivision. A banking business firm must examine its holdings of index securities and any underlying holdings of capital to determine whether any deductions are required as a result of such indirect holdings.
(2) Deductions must be made from the same category for which the capital would qualify if it were issued by the banking business firm itself or, if there is not enough capital at that category, from the next higher category.

Example
If the amount of tier 2 capital is insufficient to cover the amount of deductions from that category, the shortfall must be deducted from additional tier 1 capital and, if additional tier 1 capital is still insufficient, the remaining amount must be deducted from CET 1 capital.

(3) The corresponding deduction approach applies regardless of whether the positions or exposures are held in the banking book or trading book.

3.2.35 Investments in own shares and capital instruments

(1) A banking business firm must deduct direct or indirect investments in its own common shares or own capital instruments (except those that have been derecognised under IFRS or any other relevant accounting standards). The firm must also deduct any of its own common shares or instruments that it is contractually obliged to purchase.

(2) The gross long positions may be deducted net of short positions in the same underlying exposure only if the short positions involve no counterparty risk. However, gross long positions in its own shares resulting from holdings of index securities may be netted against short positions in its own shares resulting from short positions in the same underlying index, even if those short positions involve counterparty risk.

3.2.36 Reciprocal cross holdings

A banking business firm must deduct reciprocal cross holdings in shares, or other instruments that qualify as capital, of an entity concerned.

3.2.37 Non-significant investments—aggregate is less than 10% of firm’s common equity tier 1 capital

(1) This rule applies if:

(a) a banking business firm makes a non-significant investment in an entity concerned;

(b) the entity concerned is an unconsolidated entity (that is, the entity is not one that is included in the firm’s consolidated returns);

(c) the firm does not own 10% or more of the common shares of the entity concerned; and
(d) after applying all other regulatory adjustments, the total of the deductions required to be made under this rule is less than 10% of the firm’s CET 1 capital.

(2) A banking business firm must deduct any investments in common shares, or other instruments that qualify as capital, of an entity concerned.

(3) The amount to be deducted is the net long position (that is, the gross long position net of short positions in the same underlying exposure if the maturity of the short position either matches the maturity of the long position or has a residual maturity of at least 1 year).

(4) Underwriting positions held for more than 5 business days must also be deducted.

(5) If a capital instrument is required to be deducted and it is not possible to determine whether it should be deducted from CET 1 capital, additional tier 1 capital or tier 2 capital, the deduction must be made from CET 1 capital.

3.2.38 Non-significant investments—aggregate is 10% or more of firm’s common equity tier 1 capital

(1) This rule applies if, after applying all other regulatory adjustments, the total of the deductions required to be made under rule 3.2.37 is 10% or more of the firm’s CET 1 capital.

(2) A banking business firm must deduct the amount by which the total of the deductions required to be made under rule 3.2.37 exceeds 10% of the firm’s CET 1 capital. This amount to be deducted is referred to as the excess.

(3) How much of the excess gets to be deducted from each category of regulatory capital under the corresponding deduction approach is calculated in accordance with the following formula:

\[
Excess \times \frac{A}{B}
\]

where:

- \(A\) is the amount of CET 1 capital, additional tier 1 capital or tier 2 capital of the banking business firm, as the case requires.
- \(B\) is the total capital holdings of the firm.
### 3.2.39 Significant investments

1. This rule applies if:
   a. a banking business firm makes a significant investment in an entity concerned;
   b. the entity concerned is an unconsolidated entity (that is, the entity is not one that is included in the firm’s consolidated returns); and
   c. the firm owns 10% or more of the common shares of the entity concerned.

2. A banking business firm must deduct the total amount of investments in the entity concerned (other than investments in common shares, or other instruments that qualify as CET 1 capital, of the entity).

   **Note** For the treatment of investments in common shares, or other instruments that qualify as CET 1 capital, of an entity concerned, see rule 3.2.41 (Deductions from common equity tier 1 capital).

3. The amount to be deducted is the net long position (that is, the gross long position net of short positions in the same underlying exposure if the maturity of the short position either matches the maturity of the long position or has a residual maturity of at least 1 year).

4. Underwriting positions held for more than 5 business days must also be deducted.

5. If a capital instrument is required to be deducted and it is not possible to determine whether it should be deducted from CET 1 capital, additional tier 1 capital or tier 2 capital, the deduction must be made from CET 1 capital.

### 3.2.40 Firms may use estimates or exclude deductions

1. If it is impractical for a banking business firm to examine and monitor the firm’s exposures to the capital of entities concerned (including through holdings of indexed securities), the firm may apply to the Regulatory Authority for approval to use an estimate of such exposures. The authority will grant such an approval only after the firm satisfies the authority that the estimate is conservative, well-founded and reasonable.

2. A banking business firm may also apply to the Regulatory Authority for approval not to deduct an investment made to resolve, or provide financial assistance to reorganise, a distressed entity.
Chapter 3  Capital adequacy  
Part 3.2  Initial and ongoing capital requirements  

Rule 3.2.41

Subdivision 3.2.D.4  Threshold deduction rule

3.2.41  Deductions from common equity tier 1 capital

(1)  In addition to the other deductions to CET 1 capital under this Chapter, deductions may be required to CET 1 capital under the threshold deduction rule.

(2)  The threshold deduction rule provides recognition for particular assets that are considered to have some limited capacity to absorb losses. The following items come within the threshold deduction rule:
   (a)  significant investments in the common shares, or other instruments that qualify as CET 1 capital, of an unconsolidated entity concerned;
   (b)  mortgage servicing rights;
   (c)  deferred tax assets that relate to temporary differences (for example, allowance for credit losses).

(3)  Instead of full deduction, the items that come within the threshold deduction rule receive limited recognition when calculating CET 1 capital. The total of each of the items in subrule (2) do not require adjustment from CET 1 capital and are risk-weighted at 300% (for items listed on a recognised exchange) or 400% (for items not so listed) provided that:
   (a)  each item is no more than 10% of the firm’s CET 1 capital (net of all regulatory adjustments except those under this Subdivision); or
   (b)  in total, the 3 items are no more than 15% of the firm’s CET 1 capital (net of all regulatory adjustments except those under this Subdivision).

(4)  A banking business firm must deduct from CET 1 capital any amount in excess of the threshold in subrule (3) (a) or (b).
Part 3.3  

Capital buffers and other requirements

3.3.1  Introduction

(1) The capital adequacy framework contains 2 additional measures for conserving capital through the capital conservation buffer and the counter-cyclical capital buffer.

(2) The capital conservation buffer promotes the conservation of capital and the build-up of a buffer above the minimum in times of economic growth and credit expansion, so that the buffer can be drawn down in periods of stress. It imposes an obligation to restrict a firm’s distributions when capital falls below the capital conservation buffer minimum.

(3) The counter-cyclical capital buffer is a macroprudential tool that can be used to mitigate the build-up of a system-wide risk such as excess aggregate credit growth. It is intended to ensure that the banking system has a buffer of capital to protect it against future potential losses.

(4) These 2 buffers and other requirements on capital are set out in this Part.

3.3.2  Capital conservation buffer

(1) A banking business firm whose risk-based capital requirement is higher than its base capital requirement must maintain a minimum capital conservation buffer of:

   (a) 2.5% of the firm’s total risk-weighted assets; or
   
   (b) a higher amount that the Regulatory Authority may, by written notice, set from time to time.

(2) A firm’s capital conservation buffer must be made up of CET 1 capital above the amounts used to meet the firm’s CET 1 capital ratio, tier 1 capital ratio and regulatory capital ratio in rule 3.2.6 (2).

3.3.3  Capital conservation ratios

(1) If a banking business firm’s capital conservation buffer falls below the required minimum, the firm must immediately conserve its capital by restricting its distributions.

   Note: A payment made by a firm that does not reduce its CET 1 capital is not a distribution for the purposes of this Part. Distributions include, for example, dividends, share buybacks and discretionary bonus payments.

(2) This rule sets out, in column 3 of table 3.3.3, the minimum capital conservation ratios for banking business firms that are required to maintain a capital conservation buffer. Capital conservation ratio is the
percentage of earnings that a firm must not distribute if its CET1 capital ratio falls within the corresponding ratio in column 2 of that table.

(3) **Earnings** means distributable profits calculated before deducting elements subject to the restrictions on distributions. Earnings must be calculated after notionally deducting the tax that would have been payable had none of the distributable items been paid.

*Note* The effect of calculating earnings after tax is that the tax consequence of the distribution is reversed out.

(4) A banking business firm must have adequate systems and controls to ensure that the amount of distributable profits and maximum distributable amount are calculated accurately. The firm must be able to demonstrate that accuracy if directed by the Regulatory Authority.

(5) If the firm is a member of a financial group, the capital conservation buffer applies at group level.

### Table 3.3.3 Minimum capital conservation ratios

<table>
<thead>
<tr>
<th>Column 1 item</th>
<th>Column 2 CET1 capital ratio</th>
<th>Column 3 minimum capital conservation ratio (% of earnings)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>4.5% to 5.125%</td>
<td>100</td>
</tr>
<tr>
<td>2</td>
<td>&gt; 5.125% to 5.75%</td>
<td>80</td>
</tr>
<tr>
<td>3</td>
<td>&gt; 5.75% to 6.375%</td>
<td>60</td>
</tr>
<tr>
<td>4</td>
<td>&gt; 6.375% to 7.0%</td>
<td>40</td>
</tr>
<tr>
<td>5</td>
<td>&gt; 7%</td>
<td>0</td>
</tr>
</tbody>
</table>

**Examples of application of table**

Assume that a firm’s minimum CET1 capital ratio is 4.5% and an additional 2.5% capital conservation buffer (which must be made up of CET1 capital) is required for a total of 7% CET1 capital ratio. Based on table 3.3.3:

1. If a firm’s CET1 capital ratio is 4.5% or more but no more than 5.125%, the firm needs to conserve 100% of its earnings.
2. If a firm’s CET1 capital ratio is more than 5.125% or more but no more than 5.75%, the firm needs to conserve 80% of its earnings and must not distribute more than 20% of those earnings by way of dividends, share buybacks and discretionary bonus payments.
3. A firm with a CET1 capital ratio of more than 7% can distribute 100% of its earnings.

### 3.3.4 Powers of Regulatory Authority

(1) The Regulatory Authority may impose a restriction on capital distributions by a firm even if the amount of the firm’s CET1 capital is
greater than its CET 1 capital ratio and required capital conservation buffer.

(2) The Regulatory Authority may, by written notice, impose a limit on the period during which a banking business firm may operate within a specified capital conservation ratio.

(3) A banking business firm may apply to the Regulatory Authority to make a distribution in excess of a limit imposed by this Part. The authority will grant approval only if it is satisfied that the firm has appropriate measures to raise capital equal to, or greater than, the amount the firm wishes to distribute above the limit.

### 3.3.5 Counter-cyclical capital buffer

(1) If imposed by the Regulatory Authority, the counter-cyclical capital buffer would require a firm to have additional CET 1 capital against possible future losses from system-wide risks such as excess credit growth.

(2) The Regulatory Authority may, by written notice, require banking business firms to have additional CET 1 capital as a counter-cyclical capital buffer. The buffer set by the authority will not exceed 2.5% of total risk-weighted assets.

(3) The Regulatory Authority will notify banking business firms of any decision to set, or increase, a counter-cyclical capital buffer within a reasonable period of not more than 1 year before the date when the decision takes effect. However, a decision to remove or decrease a counter-cyclical capital buffer will take effect immediately.

(4) If a counter-cyclical capital buffer applies to a firm, the capital conservation ratios (and capital distribution restrictions) in rule 3.3.3 apply to the firm as if its minimum capital conservation buffer were increased by the amount of the counter-cyclical capital buffer.

### 3.3.6 Capital reductions

(1) A banking business firm must not reduce its capital and reserves without the Regulatory Authority’s written approval.

**Examples of ways to reduce capital**

- a share buyback or the redemption, repurchase or repayment of capital instruments issued by the firm
- trading in the firm’s own shares or capital instruments outside an arrangement agreed with the authority
- a special dividend.

(2) A banking business firm planning a reduction must prepare a forecast (for at least 2 years) showing its projected capital after the reduction.
The firm must satisfy the authority that the firm’s capital will still comply with these rules after the reduction.

3.3.7 Authority can require other matters

Despite anything in these rules, the Regulatory Authority may require a banking business firm to have capital resources, comply with any other capital requirement or use a different approach to, or method for, capital management. The authority may also require a firm to carry out stress-testing at any time.

Note Under FSR, article 16, the Regulatory Authority may modify or waive the application of a prudential requirement to an authorised firm or firms.
Part 3.4 Leverage ratio

3.4.1 Introduction

The leverage ratio is a simple, transparent, non-risk-based measure to help restrict the build-up of leverage in the banking system. Excessive leverage can expose banking businesses to higher financial risk, with potential damage to the overall financial system, and to the economy if a de-leveraging process takes place.

3.4.2 Objectives of leverage ratio requirements

The leverage ratio supplements the risk-based capital requirements of the rest of this Chapter. The objectives of limiting banking business firms’ leverage ratios are as follows:

(a) to constrain the build-up of leverage in the banking sector, to help avoid destabilising deleveraging that can damage the broader financial system and the economy;

(b) to reinforce the risk-based requirements in Parts 3.1 to 3.3 with a simple, non-risk-based backstop measure;

(c) to serve as a broad measure of the sources of leverage, both on and off the balance-sheet.

3.4.3 How to calculate leverage ratio

A banking business firm’s leverage ratio $LR$ is calculated by means of the following formula:

$$LR = \frac{\text{tier 1 capital}}{\text{total exposure measure}} \times 100$$

where:

* tier 1 capital has the meaning given by rule 3.2.7 (2).
* total exposure measure is the total amount of all the firm’s exposures, calculated in accordance with rule 3.4.5.

3.4.4 Minimum leverage ratio

(1) A banking business firm must maintain a leverage ratio of at least 3%.

(2) The Regulatory Authority may direct a banking business firm to maintain a leverage ratio higher than 3% if the Authority considers it necessary to do so because of the firm’s risk profile or other particular circumstances.
3.4.5 How to calculate total exposure measure—general

(1) A banking business firm’s total exposure measure is the sum of:
   (a) on-balance-sheet exposures (except on-balance-sheet derivatives exposures and SFT exposures) (see rule 3.4.7);
   (b) its derivatives exposures (see rules 3.4.12 to 3.4.17);
   (c) its SFT exposures (see rules 3.4.18 and 3.4.19); and
   (d) its off-balance-sheet exposures (see rule 3.4.20).

Guidance

SFT exposures are exposures from securities financing transactions such as repurchase agreements, reverse repurchase agreements, security lending and borrowing, and margin lending contracts, where the value of the contracts depends on the market valuation of securities and the contracts are typically subject to margin agreements.

(2) When a banking business firm is calculating its total exposure measure, it must follow the accounting standard that the firm normally uses, except that:
   (a) on-balance-sheet, non-derivatives exposures must be included net of specific provisions or accounting valuation adjustments;
   (b) except as specified otherwise in this Part, the firm must not take account of physical or financial collateral, guarantees or other credit risk mitigation techniques; and
   (c) loans and deposits must not be netted.

Note For the permitted accounting standards, see rule 2.1.6.

3.4.6 Modification of calculation

(1) The Regulatory Authority may, by written notice, modify the calculation of a banking business firm’s total exposure measure by, for example:
   (a) allowing the firm not to take account of a particular exposure or class of exposures;
   (b) directing the firm to apply a different risk-weight to an exposure or class of exposures;
   (c) directing the firm to take account of an exposure or class of exposures that would not otherwise be taken account of.

(2) The Authority may give a notice under subrule (1) on the application of the firm or on the Authority’s own initiative.
3.4.7 How to calculate on-balance-sheet exposures

(1) When a banking business firm calculates its total exposure measure, it must include all on-balance-sheet items on the assets side of its balance-sheet, including the collateral of derivatives contracts and securities financing contracts.

(2) On-balance-sheet non-derivative assets must be measured using their balance-sheet (that is, unweighted) values less deductions for associated provisions.

(3) If the firm holds an asset in a fiduciary capacity, it may exclude the asset if the asset meets the accounting criteria for de-recognition and, if applicable, the accounting criteria for deconsolidation.

(4) Items that are deducted completely from the firm’s tier 1 capital (such as goodwill) must also be deducted from its total exposure measure.

(5) The amount of an investment in the capital of an unconsolidated financial entity that is wholly or partly deducted from the firm’s CET 1 or additional tier 1 capital under the corresponding deduction approach (set out in Subdivision 3.2.D.3) or the threshold deduction approach (set out in Subdivision 3.2.D.4) must be deducted from the firm’s total exposure measure. An unconsolidated financial entity is a financial entity (that is, an entity involved in banking or other financial activity, or insurance) that is not included in the firm’s consolidated returns.

(6) Liability items must not be deducted from the firm’s total exposure measure.

3.4.8 Effect of trade-date accounting

(1) In calculating its on-balance-sheet exposures, a banking business firm that uses trade-date accounting must reverse out any offsetting that is recognised under the applicable accounting standard between cash receivables for unsettled sales and cash payables for unsettled purchases.

(2) The firm may offset between those receivables and payables (regardless of whether the offsetting is recognised under the applicable accounting standard) if the following conditions are met:

(a) the assets bought and sold that are associated with the payables and receivables are fair valued through income and are included in the firm’s trading book;

(b) the contracts are settled on a delivery-versus-payment (DVP) basis.
3.4.9 **Effect of settlement-date accounting**
A banking business firm that uses settlement-date accounting must calculate its on-balance-sheet exposures as set out in rule 3.4.20.

3.4.10 **Treatment of cash pooling arrangements**

(1) For the purpose of calculating a banking business firm’s on-balance-sheet exposures, if the firm operates a cash pooling arrangement that entails a transfer at least daily of the balances of each participating customer’s account into a single balance, the customers’ account balances are taken to be transformed into a single balance on the transfer if, after the transfer, the firm is not liable for the balances individually.

**Guidance**
Thus, the basis of the leverage ratio exposure is the single account balance and not those of the individual customer accounts.

(2) If the transfer does not occur daily, a transformation into a single account balance is taken to occur, and the single account balance may be taken as the basis of the exposure measure, if all of the following conditions are met:

(a) as well as providing for the individual customers’ accounts, the arrangement provides for a single account into which all the participating customers’ account balances can be transferred;

(b) the firm:
   (i) has a legally enforceable right to transfer each participating customer’s account balance into a single account so that the bank is not liable for the balances individually, and
   (ii) at any time, the firm has the discretion and is able to do so;

(c) the Regulatory Authority considers that the customers’ account balances are transferred to a single account sufficiently often;

(d) either:
   (i) there are no maturity mismatches among the customers’ accounts; or
   (ii) all of those accounts are either overnight or on demand;

(e) the firm pays interest and charges fees based on the combined balance of the customers’ accounts that are covered by the arrangement.

(3) If the conditions in subrule (2) are not met, the firm’s leverage ratio exposure measure must be based on the individual balances of the participating customer accounts.
3.4.11 Calculation of derivatives exposure—single derivative contracts not covered by eligible bilateral netting agreement

For a single derivative contract that is not covered by an eligible bilateral netting agreement, a banking business firm must calculate its exposure as follows:

\[ \text{exposure} = 1.4 \times (RC + PFCE) \]

where:

\[ RC = \max \{ (V - CVM_r + CVM_p), 0 \} \]

(in which \( V \) is the mark-to-market value of the contract; \( CVM_r \) is any cash variation margin received that meets the conditions set out in rule 3.4.17 and does not reduce \( V \) under the relevant accounting standard; and \( CVM_p \) is any cash variation margin provided by the firm that meets those conditions).

\( PFCE \) is the potential future credit exposure add-on amount over the remaining life of the contract, calculated as set out in rule 4.4.11.

3.4.12 Calculation of derivatives exposure—contracts covered by eligible bilateral netting agreement

(1) For contracts covered by an eligible bilateral netting agreement, a banking business firm must calculate its derivatives exposure as follows:

\[ \text{exposure} = NRC + PFCE_{adj} \]

where:

\[ NRC = \max \{ \sum M_i, 0 \} \]

(in which \( \sum M_i \) is the sum of the positive and negative mark-to-market values of all the contracts covered by the agreement).

\( PFCE_{adj} \) is the potential future credit exposure in relation to the contracts covered by the relevant netting agreement (see rule 3.4.13).

(2) A bilateral netting agreement is an eligible bilateral netting agreement if:

(a) it is in writing;

(b) it creates a single legal obligation that covers all contracts and collateral to which it applies, so that, if the counterparty fails to perform due to default, liquidation or bankruptcy or other similar circumstances, each party has the following rights:

(i) the right to terminate and close-out, in a timely way, all contracts covered by the agreement;

(ii) the right to net gains and losses on contracts (including the value of any collateral) terminated and closed out under the
agreement so that the firm would have either a claim to receive or an obligation to pay only the net sum of the close-out values of the individual contracts;

 Note For forward contracts, swaps, options and similar derivative contracts, this right would include the positive and negative mark-to-market values of the individual contracts.

(iii) the right to liquidate or set-off collateral;

(c) it is supported by a written, reasoned legal opinion that in the event of a counterparty’s default, liquidation, insolvency, bankruptcy or other similar circumstances:

   (i) the relevant courts and authorities would find that the other party’s claims and obligations are limited to the single net sum determined in the agreement; and

   (ii) in particular, in the insolvency or external administration of the counterparty, the netting will be recognised under all relevant laws, so that it would not be possible for a liquidator or other external administrator of the counterparty to claim a gross amount from the other party while only being liable to pay a dividend in insolvency to that party (as separate money flows); and

 (d) it is not subject to a walkaway clause.

(3) A banking business firm that has obtained a legal opinion about the enforceability of a netting agreement:

   (a) must ensure that the opinion is not based on unduly restrictive assumptions or subject to unduly restrictive qualifications;

   (b) must review the assumptions regarding the enforceability of the agreement and must ensure they are specific, factual and adequately explained in the opinion; and

   (c) must review and assess all assumptions, qualifications and omissions in the opinion to decide whether they give rise to any doubt about the enforceability of the agreement.

(4) If the legal opinion covers a group of which the firm is a member, the firm may rely on the opinion in relation to a netting agreement to which the firm is a party, if the group and the firm have satisfied themselves that the opinion applies to the agreement.

(5) A banking business firm must not rely on a netting agreement if there is any doubt about whether the agreement is enforceable.

(6) A banking business firm may rely on a general legal opinion about the enforceability of a netting agreement in a particular jurisdiction if the
firm is satisfied that the opinion applies to a netting agreement of that type.

(7) A banking business firm must satisfy itself that a netting agreement and its supporting general legal opinion apply to each counterparty, to each contract and product type undertaken with the counterparty, and in all jurisdictions where contracts are originated.

3.4.13 Calculating PFCE_{adj}

(1) PFCE_{adj}, in relation to the contracts covered by a particular eligible bilateral netting agreement, is calculated by the formula:

\[
PFCE_{adj} = 0.4 \times (PFCE_{\text{gross}}) + 0.6 \times (NGR \times PFCE_{\text{gross}})
\]

where \(PFCE_{\text{gross}}\) and \(NGR\) are calculated according to the standardised approach for measuring counterparty credit risk.

Guidance

The standardised approach for measuring counterparty credit risk is set out in Annex 4 of the Basel II framework (June 2006), as amended by:

(i) Basel III: A global regulatory framework for more resilient banks and banking systems (June 2011), available at www.bis.org/publ/bcbs189.pdf;

(ii) The standardised approach for measuring counterparty credit risk exposures (April 2014), available at www.bis.org/publ/bcbs279.pdf; and


Note \(NGR\) reflects the risk-reducing portfolio effects of netted contracts in relation to current credit exposure.

(2) When calculating \(PFCE_{\text{gross}}\), the firm may treat matching contracts included in a netting agreement as a single contract with a notional principal equivalent to the net receipts on the contracts. For that purpose, matching contracts means forward foreign exchange and other similar market-related contracts in which the notional principal is equivalent to cash flows, and those cash flows fall due on the same value date and are in the same currency.

(3) The firm must calculate \(NGR\) in relation to a particular eligible bilateral netting agreement using either the counterparty-by-counterparty approach (set out in subrule (4)), or the aggregate approach (set out in subrule (6)). The firm must use 1 approach consistently, and must notify the Regulatory Authority of the approach that it uses.

(4) Under the counterparty-by-counterparty approach, \(NGR\) is applied to each counterparty to calculate the exposure for contracts covered by the netting agreement with that counterparty:

\[
NGR = \frac{NCCE}{GCCE}.
\]
Chapter 3  
Part 3.4  
Leverage ratio

Rule 3.4.14

where

\[ NCCE = \max \{ \sum M_i, 0 \} \] (in which \( \sum M_i \) is the sum of all positive and negative mark-to-market values of all individual contracts covered by the relevant netting agreement (that is, positive mark-to-market values of contracts may be offset against negative mark-to-market values on other contracts covered by the netting agreement)).

\( GCCE \) has the same meaning as in subrule (1).

(5) In calculating \( GCCE \), negative mark-to-market values for individual contracts with a counterparty may not be used to offset positive mark-to-market values for other contracts with that counterparty.

(6) Under the aggregate approach, a single NGR is calculated and applied to all counterparties in calculating the exposure for contracts with each of those counterparties:

\[ NGR = \frac{NCCE_{aggregate}}{GCCE_{aggregate}}, \]

where:

\( NCCE_{aggregate} \) is the sum of all NCCEs of all contracts with all counterparties subject to the netting agreement.

\( GCCE_{aggregate} \) is the sum of all of the GCCEs for all contracts of all counterparties subject to the netting agreement.

(7) In calculating \( GCCE_{aggregate} \), negative mark-to-market values of contracts with a particular counterparty may not be used to offset positive mark-to-market values of contracts with that counterparty or any other counterparty included in the aggregate calculations.

3.4.14 Cross-product netting not permitted

Cross-product netting (that is, netting between derivatives and securities financing contracts) is not permitted. If a banking business firm is a party to a cross-product netting agreement that otherwise meets the criteria for an eligible bilateral netting agreement, the firm may perform netting separately in each product category if all the other conditions for netting in the category are met.

3.4.15 Treatment of written credit derivatives

(1) The effective notional amount for a written credit derivative that is leveraged or otherwise enhanced by the structure of the contract is obtained by adjusting the notional amount of the contract in accordance with this rule, to reflect the true exposure that results from the leverage or enhancement.
(2) The effective notional amount may be reduced in either or both of the following ways:
   (a) by the negative change in fair value amount that has been incorporated into the calculation of tier 1 capital in relation to the derivative;
   (b) by the effective notional amount of an offsetting purchased credit derivative on the same reference entity, if the conditions set out in subrule (3) are satisfied.

(3) The conditions for paragraph (2) (b) are the following:
   (a) the written and the offsetting derivatives refer to the same legal entity;
   (b) the remaining maturity of the offsetting derivatives is equal to or greater than the remaining maturity of the written derivatives;
   (c) for single-name credit derivatives:
      (i) the credit protection purchased is on a reference obligation that ranks equally with, or is junior to, the reference obligation of the written derivatives; and
      (ii) a credit event on the senior reference asset would result in a credit event on the subordinated reference asset;
   (d) for tranched products, the purchased protection is on a reference obligation with the same level of seniority;
   (e) if the firm purchases protection on a pool of reference names, the protection is economically equivalent to buying protection separately on each individual name in the pool, and the pool of reference entities and the level of subordination in both contracts are identical.

(4) When the effective notional amount is included in the exposure as described in subrule (2), and a deduction of offsetting purchased credit derivatives is made (see subrule (2) (b)), the effective notional amount of the offsetting credit protection must also be reduced by any resulting positive change in the firm’s tier 1 capital.

(5) When the effective notional amount is included in the exposure as described in subrule (2), but no deduction of offsetting purchased credit derivatives is made (see subrule (2) (b)):
   (a) if an eligible bilateral netting agreement applies, the firm may deduct the individual PFCE add-on amount from $PFCE_{gross}$; or
   (b) if no such netting agreement applies, the firm may set PFCE for rule 3.4.13 to 0.
(6) However, no adjustments may be made to NGR.

**3.4.16 Treatment of collateral**

(1) When a banking business firm is calculating its derivatives exposures, the firm must not deduct collateral that it has received from counterparties.

(2) The firm must gross up its exposures by the amount of any collateral provided by the firm if the provision of the collateral has reduced the value of the firm’s balance-sheet assets under the relevant accounting standard.

**3.4.17 Treatment of cash variation margin**

(1) If all of the following conditions are met, a banking business firm may treat the cash portion of variation margin exchanged between counterparties as a form of pre-settlement payment:

   (a) either of the following is true:

      (i) the trades are cleared through a qualifying central counterparty;

      Note For the meaning of qualifying central counterparty, see the Glossary.

      (ii) the cash received by the counterparty is not segregated;

   (b) the variation margin is calculated and exchanged every day, based on mark-to-market valuation of derivatives positions;

   (c) the variation margin is received in the same currency as the currency of settlement of the relevant derivative contract;

   (d) the variation margin exchanged is the full amount that would be necessary to fully extinguish the mark-to-market exposure of the derivative, subject to the threshold and minimum transfer amounts applicable to the counterparty;

   (e) derivative contracts and variation margins are covered by a single master netting agreement (MNA) between the counterparties;

   (f) the MNA explicitly stipulates that the counterparties agree to settle net any payment obligations covered by it, taking into account any variation margin received or provided if a credit event occurs involving either counterparty;

   (g) the MNA is legally enforceable and effective in all the relevant jurisdictions, including in the event of default, bankruptcy or insolvency.

(2) If the conditions in subrule (1) are met, the firm may use the cash portion of the variation margin received to reduce the replacement cost portion
(that is, \(NRC\) or \(RC\), defined in rules 3.4.11 and 3.4.13 respectively) of the exposure, and may deduct the resulting receivables assets from the exposure, as follows:

(a) if the firm receives cash variation margin from a counterparty, it may reduce only the replacement cost portion of the exposure amount of the derivatives asset by the amount of cash received if the positive mark-to-market value of the derivatives contract or contracts has not already been reduced by that amount;

(b) if the firm provides cash variation margin to a counterparty, it may deduct the resulting receivable from its exposure, if the cash variation margin has been recognised as an asset.

3.4.18 SFT exposures—firm acting as principal

(1) When a banking business firm is acting as a principal in a securities financing contract, its total exposure measure must include the sum of:

(a) its gross SFT assets as recognised for accounting purposes, adjusted in accordance with subrule (2); and

(b) a measure of exposure to counterparty credit risk (CCR), calculated in accordance with subrule (3).

(2) The firm’s gross SFT assets as recognised for accounting purposes are adjusted as follows:

(a) by excluding the value of any securities, received under a securities financing contract, that the firm has recognised as an asset on its balance-sheet;

(b) cash payables and cash receivables in securities financing contracts with the same counterparty may be measured net if all the following criteria are met:

(i) the contracts have the same explicit final settlement date;

(ii) the right to set off the amount owed to the counterparty against the amount owed by it is legally enforceable both currently in the normal course of business and in the event of default, insolvency or bankruptcy;

(iii) either:

(A) the firm and the counterparty intend to settle net or settle simultaneously; or

(B) the contracts are subject to a settlement mechanism that results in the functional equivalent of net settlement (that is, the cash flows of the contracts are equivalent to a single net amount on the settlement date).
(3) The measure of exposure to CCR is calculated as follows:
   (a) for exposures covered by a qualifying master netting agreement, the current exposure is:
       \[ \max \{ \sum E_i - \sum C_i, 0 \} \]
       where:
       \( \sum E_i \) is the total fair value of securities and cash lent to the counterparty for all contracts covered by the agreement.
       \( \sum C_i \) is the total fair value of cash and securities received from the counterparty for those contracts;
   (b) if there is no qualifying master netting agreement, the current exposure for contracts with a counterparty must be calculated contract by contract.

(4) A bilateral netting agreement is a **qualifying master netting agreement** for paragraph (3) (a) only if:
   (a) it is legally enforceable in each relevant jurisdiction on an event of default, regardless of whether the counterparty is insolvent or bankrupt;
   (b) it provides the non-defaulting party with the right to terminate and close out, in a timely way, all contracts under the agreement on an event of default, including the insolvency or bankruptcy of the counterparty;
   (c) it provides for the netting of gains and losses on contracts (including the value of any collateral) terminated and closed out under it so that a single net amount is owed by one party to the other; and
   (d) it allows for the prompt monetisation or setoff of collateral on an event of default.

(5) Positions held in the firm’s banking book may be netted against positions held in its trading book only if both of the following conditions are satisfied:
   (a) all the contracts are marked to market daily;
(b) any collateral is recognised as eligible financial collateral in the banking book.

*Note* For the meaning of *eligible financial collateral*, see the Glossary and rule 4.5.7.

(6) For a securities financing contract that is treated, under the relevant accounting standard, as a sale, the firm must reverse all the sales-related accounting entries, and then calculate its exposure as if the contract had been treated as a financing contract under subrules (1) to (3) for the purposes of determining its SFT exposures.

### 3.4.19 SFT exposures—firm acting as agent

(1) If a banking business firm that is acting as an agent in a securities financing contract provides an indemnity or guarantee to a customer or counterparty for any difference between the value of the security or cash that the customer has lent and the value of the collateral that the borrower has provided, the firm must calculate its exposure in accordance with rule 3.4.18 (3).

(2) The firm may apply the treatment in subrule (1) only if:

- (a) the firm’s exposure to the contract is limited to the guaranteed difference between the value of the security or cash that its customer has lent and the value of the collateral that the borrower has provided; and

- (b) the firm does not own or control the underlying cash or security.

(3) If the firm is exposed to the underlying security or cash in the contract to a greater extent than a guarantee for the difference, the firm must include, in the exposure, a further exposure equal to the full amount of the security or cash.

*Example*

The firm might be further exposed by managing collateral received in its own name or on its own account rather than on the customer’s or borrower’s account, by on-lending or managing unsegregated collateral, cash or securities.

*Note* When a banking business firm that is acting as agent in a securities financing contract does not provide an indemnity or guarantee to any of the parties, the firm has no exposure to the contract, and must set the relevant exposure to zero.

### 3.4.20 Other off-balance-sheet exposures

(1) When a banking business firm calculates its total exposure measure, it must include all off-balance-sheet items (for example, letters of credit, guarantees, commitments that are cancellable (either conditionally or unconditionally) and liquidity facilities).
(2) If the firm is the sponsor or originator of a securitisation, securitised assets that are de-recognised from the firm’s balance-sheet are not to be taken into account.

(3) To calculate its other off-balance-sheet exposures, the firm must apply the applicable credit conversion factor (CCF) set out in table 3.4.20 to the gross notional amount of the exposure.

(4) For an undertaking to provide a commitment on an off-balance-sheet item, the firm must apply the lower of the 2 applicable CCFs.

Table 3.4.20 CCFs for other off-balance-sheet exposures

<table>
<thead>
<tr>
<th>Item</th>
<th>Exposure</th>
<th>CCF</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Commitments (other than securitisation liquidity facilities) with an original maturity of up to 1 year</td>
<td>20%</td>
</tr>
<tr>
<td>2</td>
<td>Commitments (other than securitisation liquidity facilities) with an original maturity of over 1 year</td>
<td>50%</td>
</tr>
<tr>
<td>3</td>
<td>Commitments that are unconditionally cancellable at any time without notice, or that effectively provide for automatic cancellation if the borrower’s creditworthiness deteriorates</td>
<td>10%</td>
</tr>
<tr>
<td>4</td>
<td>Direct credit substitutes (for example, general guarantees of indebtedness (including standby letters of credit serving as financial guarantees for loans and securities) and acceptances (including endorsements with the character of acceptances))</td>
<td>100%</td>
</tr>
<tr>
<td>5</td>
<td>Forward asset purchases, forward deposits and partly-paid shares and securities that represent commitments with certain drawdown</td>
<td>100%</td>
</tr>
<tr>
<td>6</td>
<td>Certain contract-related contingent items (for example, performance bonds, bid bonds, warranties and standby letters of credit related to particular contracts)</td>
<td>50%</td>
</tr>
<tr>
<td>7</td>
<td>Note issuance facilities and revolving underwriting facilities</td>
<td>50%</td>
</tr>
<tr>
<td>Item</td>
<td>Exposure</td>
<td>CCF</td>
</tr>
<tr>
<td>------</td>
<td>--------------------------------------------------------------------------</td>
<td>--------------------------</td>
</tr>
<tr>
<td>8</td>
<td>Short-term self-liquidating trade letters of credit arising from the movement of goods (for example, documentary credits collateralised by the underlying shipment)</td>
<td>20% (for both issuing and confirming firms)</td>
</tr>
<tr>
<td>9</td>
<td>Off-balance-sheet securitisation exposures (except an eligible liquidity facility or an eligible servicer cash advance facility)</td>
<td>100%</td>
</tr>
<tr>
<td>10</td>
<td>Eligible liquidity facilities and eligible servicer cash advance facilities</td>
<td>50%</td>
</tr>
<tr>
<td>11</td>
<td>Liquidity facilities and servicer cash advance facilities (if undrawn and able to be unconditionally cancelled without notice)</td>
<td>10%</td>
</tr>
</tbody>
</table>

(5) For items 9 and 10 in table 3.4.20, an eligible liquidity facility or eligible servicer cash advance facility is one that complies with all of the following conditions:

(a) the extent of the facility is expressly stated in a written agreement, and there is no explicit or implied recourse to the firm beyond the specified contractual obligations;

(b) the facility is provided on an arm’s-length basis, is subject to the firm’s normal credit approval and review processes and is transacted on market terms and conditions;

(c) the facility is limited to a specified amount;

(d) either the facility has a fixed termination date, or both of the following are true:
   
   (i) the facility ends at the earlier of:
      
      (A) the scheduled maturity of the securitisation; and
      
      (B) the date on which the securitisation winds up;
      
   (ii) the firm has the right, at its absolute discretion, to withdraw from the commitment at any time after a reasonable period of notice;

(e) subject to reasonable qualifications, the SPE and investors concerned have the express right to select another party to provide the facility;
(f) the facility is documented in a manner that clearly separates it from any other facility or service provided by the firm, so that the firm’s obligations under the facility stand alone;

(g) the facility documentation clearly identifies and limits the circumstances under which it may be drawn;

(h) drawdowns under the facility are limited to the total of:
   (i) the amount that is likely to be fully repaid from the liquidation of the underlying exposures; and
   (ii) any credit enhancements provided by parties other than the originator;

(i) the facility does not cover any losses incurred in a pool before a drawdown under the facility;

(j) in the case of a liquidity facility, it is not structured in a way that results in significant continuous drawdown;

(k) the facility is subject to an asset quality test that precludes it from being drawn to cover credit risk exposures that are in default;

(l) in the case of a liquidity facility, if the facility is required to fund externally rated securities, it can only be used to fund securities that are rated investment grade by an ECRA at the time of funding;

(m) the facility cannot be drawn after all applicable credit enhancements from which it would benefit have been exhausted;

(n) repayments of draws on the facility:
   (i) are not subordinated to investors’ claims (other than claims in relation to interest rate or currency derivative contracts, fees or other such payments), and
   (ii) are not subject to waiver or deferral.
Chapter 4  Credit risk

Part 4.1  General

4.1.1  Introduction

(1) This Chapter sets out the requirements for a banking business firm’s credit risk management policy (including credit risk assessments and the use of ratings from ECRAs) to implement the risk-based framework for capital adequacy and the early identification and management of problem assets.

(2) This Chapter also deals with the following means to determine regulatory capital and control or mitigate credit risk:
   (a) the risk-weighted assets approach;
   (b) CRM techniques;
   (c) provisioning.

(3) To guard against abuses and to address conflicts of interest, this Chapter requires transactions with related parties to be at arm’s length.

4.1.2  Credit risk

Credit risk is:

(a) the risk of default by counterparties; and
(b) the risk that an asset will lose value because its credit quality has deteriorated.

Guidance
Credit risk may result from on-balance-sheet and off-balance-sheet exposures, including loans and advances, investments, inter-bank lending, derivative transactions, securities financing transactions and trading activities. It can exist in a firm’s trading book or banking book.

4.1.3  Requirements—management of credit risk and problem assets

(1) A banking business firm must manage credit risk by adopting a prudent credit risk management policy that allows its credit risk to be identified, measured, evaluated, managed and controlled or mitigated.

(2) The policy must also provide for problem assets to be recognised, measured and reported. The policy must set out the factors that must be taken into account in identifying problem assets.
(3) *Problem assets* include impaired credits and other assets if there is reason to believe that the amounts due may not be collectable in full or in accordance with their terms.

### 4.1.4 Role of governing body—credit risk

A banking business firm’s governing body must ensure that the firm’s credit risk management policy enables the firm to obtain a comprehensive firm-wide view of its credit risk and covers the full credit lifecycle (including credit underwriting, credit evaluation, and the management of the firm’s trading and banking activities).
Part 4.2 Credit risk management policy

4.2.1 Credit risk management policy

(1) A banking business firm must establish and implement a credit risk management policy:

(a) that is appropriate for the nature, scale and complexity of its business and for its risk profile; and

(b) that enables the firm to identify, measure, evaluate, manage and control or mitigate credit risk.

(2) The objective of the policy is to give the firm the capacity to absorb any existing and estimated future losses arising from credit risk.

4.2.2 Policies—general credit risk environment

A banking business firm’s credit risk management policy must establish:

(a) a well-documented and effectively-implemented process for assuming credit risk that does not rely unduly on external credit ratings;

(b) well-defined criteria for approving credit (including prudent underwriting standards), and renewing, refinancing and restructuring existing credit;

(c) a process for identifying the approving authority for credit, given its size and complexity;

(d) effective credit risk administration, including:

   (i) regular analysis of counterparties’ ability and willingness to repay; and

   (ii) monitoring of documents, legal covenants, contractual requirements, and collateral and other CRM techniques;

(e) effective systems for the accurate and timely identification, measurement, evaluation, management and control or mitigation of credit risk, and reporting to the firm’s governing body and senior management;

(f) procedures for tracking and reporting exceptions to, and deviations from, credit limits or policies;

(g) prudent and appropriate credit limits that are consistent with the firm’s risk tolerance, risk profile and capital; and

(h) effective controls for the quality, reliability and relevance of data and validation procedures.
## Guidance

Depending on the nature, scale and complexity of a banking business firm’s credit risk, and how often it provides credit or incurs credit risk, the firm’s credit risk management policy should include:

- (a) how the firm defines and measures credit risk;
- (b) the firm’s business aims in incurring credit risk, including:
  - identifying the types and sources of credit risk that the firm will permit itself to be exposed to (and the limits on that exposure) and those that it will not;
  - setting out the degree of diversification that the firm requires, the firm’s tolerance for risk concentrations and the limits on exposures and concentrations; and
  - stating the risk-return trade-off that the firm is seeking to achieve;
- (c) the kinds of credit to be offered, and ceilings, pricing, profitability, maximum maturities and ratios for each kind of credit;
- (d) a ceiling for the total credit portfolio (in terms, for example, of loan-to-deposit ratio, undrawn commitment ratio, a maximum amount or a percentage of the firm’s capital);
- (e) portfolio limits for maximum gross exposures by region or country, by industry or sector, by category of counterparty (such as banks, non-bank financial entities and corporate counterparties), by product, by counterparty and by connected counterparties;
- (f) limits, terms and conditions, approval and review procedures and records kept for lending to connected counterparties;
- (g) types of collateral, loan-to-value ratios and criteria for accepting guarantees;
- (h) the detailed limits for credit risk, and a credit risk structure, that:
  - takes into account all significant risk factors, including intra-group exposures;
  - is commensurate with the scale and complexity of the firm’s activities; and
  - is consistent with the firm’s business aims, historical performance, and the amount of capital it is willing to risk;
- (i) procedures for:
  - approving new products and activities that give rise to credit risk;
  - regular risk position and performance reporting; and
  - approving and reporting exceptions to limits;
- (j) allocating responsibilities for implementing the credit risk management policy and monitoring adherence to, and the effectiveness of, the policy; and
- (k) the required information systems, staff and other resources.
4.2.3 Policies—credit decisions

(1) A banking business firm’s credit risk management policy must ensure that credit decisions are free of conflicts of interest and are made on an arm’s-length basis. In particular, the credit approval and credit review functions must be independent of the credit initiation function.

Guidance

1. This rule does not prevent arrangements such as an employee loan scheme, so long as the policy ensures that the scheme’s terms, conditions and limits are generally available to employees and adequately address the risks and conflicts that arise from loans under it.

2. The credit risk management policy of a banking business firm should clearly set out who has the authority to approve loans to employees. The authority of a credit committee or credit officer should be appropriate for the products or portfolio and should be commensurate with the committee’s or officer’s credit experience and expertise.

3. Each authority to approve should be reviewed regularly to ensure that it remains appropriate for current market conditions and the committee’s or officer’s performance.

4. A banking business firm’s remuneration policy should be consistent with its credit risk management policy and should not encourage officers to attempt to generate short-term profits by taking an unacceptably high level of risk.

(2) The policy must state that decisions relating to the following are made at the appropriate level of the firm’s senior management or governing body:

(a) exposures exceeding a stated amount or percentage of the firm’s capital;

(b) exposures that, in accordance with criteria set out in the policy, are especially risky;

(c) exposures that are outside the firm’s core business.

Guidance

1. The level at which credit decisions are made should vary depending on the kind and amount of credit and the nature, scale and complexity of the firm’s business. For some firms, a credit committee with formal terms of reference might be appropriate; for others, individuals with pre-assigned limits would do.

2. A banking business firm should ensure, through periodic independent audits, that the credit approval function is properly managed and that credit exposures comply with prudential standards and internal limits. The results of audits should be reported directly to the governing body, credit committee or senior management, as appropriate.

4.2.4 Policies—monitoring, testing and access

(1) A banking business firm’s credit risk management policy must provide for monitoring the total indebtedness of each counterparty and any risk
factors that might result in default (including any significant unhedged foreign exchange risk).

(2) The policy must include stress-testing the firm’s credit exposures at intervals appropriate for the nature, scale and complexity of the firm’s business and for its risk profile. It must also include a yearly review of stress scenarios, and procedures to make any necessary changes arising from the review.

Note The firm’s ICAAP sets out how these monitoring and testing are to be achieved. ICAAP includes procedures to continuously identify, measure, evaluate, manage and control or mitigate the risks arising from the firm’s activities, and the capital held against such risks—see rules 3.1.4 and 3.1.5.

(3) A firm must give the Regulatory Authority full access to information in its credit portfolio. The firm must also give the authority access to staff involved in assuming, managing and reporting on credit risk.
Part 4.3 Credit risk assessment

4.3.1 Introduction
This Part sets out a standardised approach for credit risk assessment and requires a banking business firm to establish and implement policies to identify, measure, evaluate, manage and control or mitigate credit risk and to calculate its credit risk capital requirement.

Guidance
1. Credit risk assessment under this Part is different from the evaluation (often called credit assessment) made by a firm as part of its credit approval process.
2. Credit assessment is part of the firm’s internal commercial decision-making for approving or refusing credit; it consists of the evaluation of a prospective counterparty’s repayment ability. In contrast, credit risk assessment is done by the firm (using ratings and risk-weights set out in these rules) as part of calculating its credit risk capital requirement.

4.3.2 Policies—credit risk assessment
A banking business firm must establish and implement appropriate policies to enable it to assess credit risk when the credit is granted or the risk is incurred and afterwards. In particular, the policies must enable the firm:
(a) to measure credit risk (including the credit risk of off-balance-sheet items, such as derivatives, in credit equivalent terms);
(b) to effectively use its internal credit risk assessment;
(c) to rate and risk-weight a counterparty;
(d) to monitor the condition of individual credits;
(e) to administer its credit portfolio, including keeping the credit files current, getting up-to-date financial information on counterparties, and the electronic storage of important documents;
(f) to ensure that the value of collateral and the value of the other CRM techniques used by the firm are assessed regularly;
(g) to assess whether its CRM techniques are effective; and
(h) to calculate its credit risk capital requirement.

Guidance
A banking business firm involved in loan syndications or consortia should not rely on other parties’ assessments of the credit risk involved but should carry out a full assessment based on its own credit risk management policy.

4.3.3 Categories of credits
(1) Unless a banking business firm has established something more detailed, the firm must classify credits into 1 of the 5 categories in
Nothing in the table prevents a banking business firm from classifying a credit under a higher risk category than the table requires.

(2) Unless there is good reason not to do so, the same category must be given to all credit exposures to the same counterparty.

Table 4.3.3 Categories of credit

<table>
<thead>
<tr>
<th>column 1 item</th>
<th>column 2 category</th>
<th>column 3 description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>performing</td>
<td>In this category, there is no uncertainty about timely repayment of the outstanding amounts. This category comprises credits that are currently in regular payment status with prompt payments.</td>
</tr>
<tr>
<td>2</td>
<td>special mention</td>
<td>This category comprises: (a) credits with deteriorating or potentially deteriorating credit quality that may adversely affect the counterparty’s ability to make scheduled payments on time; (b) credits that are 30 to 90 days in arrears; (c) credits showing weakness arising from the customer’s financial position; (d) credits affected by market circumstances or any other industry-related concerns; and (e) credits that have been restructured and are not classified into a higher risk category.</td>
</tr>
<tr>
<td>3</td>
<td>substandard</td>
<td>This category comprises: (a) credits that show definite deterioration in credit quality and impaired repayment ability of the counterparty; and (b) credits that are 91 to 180 days in arrears.</td>
</tr>
</tbody>
</table>
### Rule 4.3.4

<table>
<thead>
<tr>
<th>column 1 item</th>
<th>column 2 category</th>
<th>column 3 description</th>
</tr>
</thead>
</table>
| 4             | doubtful          | This category comprises:  
(a) credits that show significant credit quality deterioration, worse than those in the substandard category, to the extent that the prospect of full recovery of all the outstanding amounts is questionable and the probability of a credit loss is high (though the exact amount of loss cannot be determined yet); and  
(b) credits that are 181 to 270 days in arrears. |
| 5             | loss              | This category comprises:  
(a) credits that are assessed as uncollectable;  
(b) credits where the probability of recovering the amount due is very low; and  
(c) credits that are more than 270 days in arrears. |

### 4.3.4 Policies—problem assets

A banking business firm’s credit risk management policy must facilitate the firm’s collection of past-due obligations, and its management of problem assets through:

(a) monitoring of their credit quality;  
(b) early identification and ongoing oversight; and  
(c) review of their classification, provisioning and write-offs.

### 4.3.5 Impaired credits

1. **Impaired credit** means a credit that is categorised as substandard, doubtful or loss. For the purpose of applying risk-weights, interest is suspended on an impaired credit.

2. A large exposure that is an impaired credit must be managed individually in terms of its valuation, categorisation and provisioning.

*Note* For large exposures—see rule 5.3.1. For the provisioning of impaired credits—see rule 4.7.3.
(3) The review of impaired credits and other problem assets may be done individually, or by class, but must be done at least once a month.

4.3.6 Restructuring, refinancing and re-provisioning of credits

(1) A credit is a *restructured credit* if it has been re-aged, extended, deferred, renewed, rewritten or placed in a workout program. Unless there is good reason to do so, a restructured credit can never be classified as performing.

(2) A restructured credit may be reclassified to a more favourable category, but only by 1 rating up from its category before the restructure. The credit may be reclassified 1 further category up after 180 days of satisfactory performance under the terms of the new contract.

(3) The refinancing of a special mention or impaired credit must not be used to reclassify the credit to a more favourable category.

*Note* A banking business firm must not restructure, refinance or reclassify assets with a view to circumventing the requirements on provisioning—see rule 4.7.5.

(4) The Regulatory Authority may require a special mention credit to be managed individually, and may set a higher level of provision for the credit, if the authority is of the view that market circumstances or any other industry-related concerns require such action.

*Note* For the provisioning of special mention credits—see rule 4.7.3.

4.3.7 Using external credit rating agencies

(1) A banking business firm must use only a solicited credit risk rating determined by an ECRA in determining the risk-weights for the firm’s exposures.

(2) A rating is a *solicited rating* if the rating was initiated and paid for by the issuer of the instrument, the rated counterparty or any other entity in the same corporate group as the issuer or rated counterparty.

(3) The firm must use the ratings determined by an ECRA consistently and in accordance with these rules and its credit risk management policy.

*Example*

A firm that chooses to use ratings determined by an ECRA for exposures belonging to a class must consistently use those ratings for all the exposures belonging to that class. The firm must not selectively pick between ECRAs or ratings in determining risk-weights.

(4) Unsolicited ratings must not be used except with the written approval of the Regulatory Authority or in accordance with a direction of the authority. The authority may give a written direction setting out conditions that must be satisfied before a firm may use an unsolicited rating.
(5) The firm must ensure that the relevant rating takes into account the total amount of the exposure (that is, the principal and any interest due).

4.3.7A Multiple assessments

(1) If there is only 1 assessment by an ECRA for a particular claim or asset, that assessment must be used to determine the risk-weight of the claim or asset.

(2) If there are 2 assessments by ECRAs and the assessments map into different risk weights, the higher risk-weight must be applied.

(3) If there are 3 or more assessments with different risk weights, the assessments corresponding to the 2 lowest risk-weights should be referred to, and the higher of those 2 risk-weights must be applied.

4.3.8 Choosing between issuer and issue ratings

(1) If a banking business firm invests in an instrument with an issue-specific rating, the risk-weight to be applied to the instrument must be based on that rating.

(2) If the firm invests in an unrated instrument and the issuer of the instrument is assigned a rating that results in a lower risk-weight than the risk-weight normally applied to an unrated position, the firm may apply the lower risk-weight to the instrument but only if the claim for the instrument has the same priority as, or is senior to, the claims to which the issuer rating relates. If the instrument is junior to the claims to which the issuer rating relates, the firm must apply the risk-weight normally applied to an unrated position.

(3) If the firm invests in an unrated instrument and the issuer of the instrument is assigned a rating that results in a higher risk-weight than the risk-weight normally applied to an unrated position, the firm must apply the higher risk-weight to the instrument if the claim for that instrument has the same priority as, or is junior to, the claims to which the issuer rating relates.

4.3.9 Ratings within financial group

A banking business firm must not use a credit risk rating for 1 entity in a financial group to determine the risk-weight for an unrated entity in the same group. If the rated entity has guaranteed the unrated entity’s exposure to the firm, the guarantee may be recognised for risk-weighting purposes if it satisfies the criteria in Division 4.5.C.
4.3.10 Using foreign currency and domestic currency ratings

If an issuer rating is assigned to a counterparty and a banking business firm applies a risk-weight to an unrated position based on the rating of an equivalent exposure to the same counterparty:

(a) the firm must use that counterparty’s domestic-currency rating for any exposure denominated in the currency of the counterparty’s place of residence or incorporation; and

(b) the firm must use that counterparty’s foreign-currency rating for any exposure denominated in a foreign currency.

4.3.11 Using short-term ratings

(1) A short-term credit risk rating must be used only for short-term claims relating to banks and corporations (such as those arising from the issuance of commercial paper). The rating is taken to be issue-specific and must be used only to assign risk-weights for claims arising from a rated facility.

(2) If a short-term rated exposure is assigned a risk-weight of 50%, an unrated short-term exposure to the same counterparty cannot be assigned a risk-weight lower than 100%.

(3) If a short-term facility of an issuer is assigned a risk-weight of 150% based on the facility’s credit risk rating, all unrated claims of the issuer (whether long-term or short-term) must be assigned a risk-weight of 150%.
Part 4.4  Risk-weighted assets approach

Division 4.4.A  General

4.4.1  Requirement to risk-weight

(1) A banking business firm must apply risk-weights to its on-balance-sheet and off-balance-sheet items using the risk-weighted assets approach.

(2) Risk-weights are based on credit ratings or fixed risk-weights and are broadly aligned with the likelihood of counterparty default. A firm may use the ratings determined by an ECRA if allowed to do so by these rules.

4.4.2  Relation to CRM techniques

If a claim or asset to which a risk-weight must be applied by a banking business firm is secured by eligible financial collateral or a guarantee (or there is mortgage indemnity insurance, or a credit derivative instrument or netting agreement), the CRM techniques in Part 4.5 may be used to reduce the firm’s credit risk capital requirement.

4.4.3  Risk-weight to be applied

A banking business firm must apply the risk-weight set out in this Part for a claim or asset.

4.4.4  Firm must assess all credit exposures

(1) A banking business firm must assess all credit exposures (rated or unrated) to determine whether the risk-weights applied to them are appropriate. The determination must be based on each exposure’s inherent risk.

(2) If there are reasonable grounds to believe that the inherent risk of an exposure is significantly higher than that implied by the risk-weight assigned to it, the firm must consider the higher risk (and apply a higher risk-weight) in calculating the credit risk capital requirement.

(3) A banking business firm must not rely only on a rating determined by an ECRA to assess the risks associated with an exposure. The firm must also carry out its own credit risk assessment of each exposure.

4.4.5  Commitments included in calculation

A banking business firm must take into account all commitments in calculating its credit risk capital requirement, whether or not those commitments contain material adverse change clauses or other provisions that are intended to relieve the firm of its obligations under particular conditions.
Chapter 4  Credit risk
Part 4.4  Risk-weighted assets approach

Rule 4.4.6

4.4.6  Authority can determine risk-weights and impose requirements

(1) Despite anything in these rules, the Regulatory Authority may determine the risk-weighted amount of a particular on-balance-sheet or off-balance-sheet item of a banking business firm if the authority considers that the firm has not risk-weighted the item appropriately. The determination must be in writing.

(2) The authority may also impose specific capital requirements or limits on significant risk exposures, including those that the authority considers have not been adequately transferred or mitigated.

Division 4.4.B  Risk-weighted assets approach—on-balance-sheet items

4.4.7  Calculating total risk-weighted items

(1) A banking business firm’s total risk-weighted on-balance-sheet items is the sum of the risk-weighted amounts of each of its on-balance-sheet items.

(2) The risk-weighted amount of an on-balance-sheet item is calculated by multiplying its exposure (after taking into account any applicable CRM technique) by the applicable risk-weight in table 4.4.7A.

(3) If column 3 of table 4.4.7A states that the risk weight is “based on ECRA rating”, the applicable risk-weight for the claim or asset is that in table 4.4.7B. If a claim or asset’s risk-weight is to be based on the ECRA rating and there is no such rating from an ECRA, the firm must apply the risk-weight in the last column of table 4.4.7B.

(4) For table 4.4.7A, investment property is land, a building or part of a building (or any combination of land and building) held to earn rentals or for capital appreciation or both.

(5) Investment property does not include property held for use in the production or supply of goods or services, for administrative purposes, or for sale in the ordinary course of business. A real estate asset owned by a banking business firm as a result of a counterparty default is treated as ‘other item’ and risk-weighted at 100% but only for a period of 3 years starting from the date when the firm records the asset on its books.
### Table 4.4.7A Risk-weights for on-balance-sheet items

<table>
<thead>
<tr>
<th>column 1 item</th>
<th>column 2 description of claim or assets</th>
<th>column 3 risk-weight %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 cash</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(a) notes, gold bullion</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>(b) cash items in the process of collection</td>
<td>20</td>
</tr>
<tr>
<td>2 claims on sovereigns</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>(a) claims on Qatar including Qatar Central Bank</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>(b) claims on GCC sovereigns including respective central banks</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>(c) claims on other sovereigns</td>
<td>based on ECRA rating</td>
</tr>
<tr>
<td>3 claims on public sector enterprises:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(a) claims on non-commercial public sector enterprises in Qatar</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>(b) claims on non-commercial public sector enterprises in other GCC countries, denominated in the relevant enterprise’s domestic currency</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>(c) claims on non-commercial public sector enterprises in other GCC countries, not denominated in the relevant enterprise’s domestic currency</td>
<td>based on ECRA rating</td>
</tr>
<tr>
<td></td>
<td>(d) claims on other sovereign non-commercial public sector enterprises</td>
<td>based on ECRA rating</td>
</tr>
<tr>
<td></td>
<td>(e) claims on commercial public sector enterprises</td>
<td>based on ECRA rating</td>
</tr>
<tr>
<td>4 claims on multilateral development banks:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(a) claims on multilateral development banks eligible for 0% risk-weight</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>(b) claims on other multilateral development banks</td>
<td>based on ECRA rating</td>
</tr>
<tr>
<td>column 1 item</td>
<td>column 2 description of claim or assets</td>
<td>column 3 risk-weight %</td>
</tr>
<tr>
<td>---------------</td>
<td>----------------------------------------</td>
<td>------------------------</td>
</tr>
<tr>
<td>5</td>
<td>claims on banks (financial undertakings)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(a) claims on banks with an original maturity of more than 3 months</td>
<td>based on ECRA rating</td>
</tr>
<tr>
<td></td>
<td>(b) claims on banks with an original maturity of 3 months or less</td>
<td>based on ECRA rating</td>
</tr>
<tr>
<td>6</td>
<td>claims on securities and investment entities</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(a) claims on securities and investment entities that are subject to capital requirements similar to banks</td>
<td>based on ECRA rating</td>
</tr>
<tr>
<td></td>
<td>(b) claims on securities and investment entities that are not subject to capital requirements similar to banks</td>
<td>based on ECRA rating</td>
</tr>
<tr>
<td>7</td>
<td>claims on corporates</td>
<td>based on ECRA rating</td>
</tr>
<tr>
<td>8</td>
<td>claims on small and medium enterprises</td>
<td>100</td>
</tr>
<tr>
<td>9</td>
<td>claims on securitisation exposures</td>
<td>based on ECRA rating</td>
</tr>
<tr>
<td>10</td>
<td>claims secured against mortgages</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(a) residential mortgages</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(i) if the loan-to-value ratio is 0% to 80%</td>
<td>35</td>
</tr>
<tr>
<td></td>
<td>(ii) if the loan-to-value ratio is more than 80% but less than 100%</td>
<td>75</td>
</tr>
<tr>
<td></td>
<td>(iii) if the loan-to-value ratio is 100% or more</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>(b) commercial mortgages</td>
<td>100</td>
</tr>
<tr>
<td>11</td>
<td>Unsettled and failed transactions—delivery-versus-payment transactions:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(a) 5 to 15 days</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>(b) 16 to 30 days</td>
<td>625</td>
</tr>
<tr>
<td>column 1 item</td>
<td>column 2 description of claim or assets</td>
<td>column 3 risk-weight %</td>
</tr>
<tr>
<td>---------------</td>
<td>-----------------------------------------------------------------------------</td>
<td>------------------------</td>
</tr>
<tr>
<td></td>
<td>(c) 31 to 45 days</td>
<td>937.5</td>
</tr>
<tr>
<td></td>
<td>(d) 46 or more days</td>
<td>1250</td>
</tr>
<tr>
<td>12</td>
<td>Unsettled and failed transactions—non-delivery-versus-payment transactions</td>
<td>100</td>
</tr>
<tr>
<td>13</td>
<td>investments in funds</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(a) rated funds</td>
<td>based on ECRA rating</td>
</tr>
<tr>
<td></td>
<td>(b) unrated funds that are listed</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>(c) unrated funds that are unlisted</td>
<td>150</td>
</tr>
<tr>
<td>14</td>
<td>equity exposures</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(a) equity exposures that are not deducted from capital and are listed on a</td>
<td>300</td>
</tr>
<tr>
<td></td>
<td>recognised exchange</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(b) equity exposures that are not deducted from capital and are not listed on</td>
<td>400</td>
</tr>
<tr>
<td></td>
<td>a recognised exchange</td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>investment property</td>
<td>150</td>
</tr>
<tr>
<td>16</td>
<td>all other items</td>
<td>100</td>
</tr>
</tbody>
</table>

**Note for table 4.4.7A**

The Basel Committee on Banking Supervision (BCBS) publishes a list of multilateral development banks that qualify for 0% risk weight. The list was originally included in the document *Basel II: International Convergence of Capital Measurement and Capital Standards: A Revised Framework—Comprehensive Version*, published by the BCBS on 30 June 2006 (available at http://www.bis.org/publ/bcbs128.pdf), and has been updated by BCBS newsletters. BCBS newsletters are available at http://www.bis.org/list/bcbs_nl/index.htm.

As at November 2016 the list is as follows:

- the African Development Bank
- the Asian Development Bank
- the Caribbean Development Bank
- the Council of Europe Development Bank
- the European Bank for Reconstruction and Development
- the European Investment Bank
the European Investment Fund
- the Inter-American Development Bank
- the International Development Association
- the International Finance Facility for Immunization
- the Islamic Development Bank
- the Nordic Investment Bank

Examples of MDBs that do not qualify for 0% risk weight are:
- the Arab Bank for Economic Development in Africa
- the Asian Infrastructure Investment Bank
- the Black Sea Trade and Development Bank
- the Development Bank of Latin America
- the Central American Bank for Economic Integration
- the Development Bank of Central African States
- the East African Development Bank
- the Economic Cooperation Organization Trade and Development Bank
- the Eurasian Development Bank
- the International Finance Facility for Immunisation
- the International Fund for Agricultural Development
- the International Investment Bank
- the New Development Bank
- the OPEC Fund for International Development
- the West African Development Bank.

Table 4.4.7B Risk-weights based on ratings determined by ECRAs

<table>
<thead>
<tr>
<th>Item</th>
<th>Description of claim or asset</th>
<th>AAA to AA-</th>
<th>A+ to A-</th>
<th>BBB+ to BBB-</th>
<th>BB+ to BB-</th>
<th>B+ to B-</th>
<th>below B-</th>
<th>Unrated</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>claims on other sovereigns</td>
<td>0</td>
<td>20</td>
<td>50</td>
<td>100</td>
<td>100</td>
<td>150</td>
<td>100</td>
</tr>
</tbody>
</table>

Note: In table 4.4.7B, the ratings are shown according to Standard & Poor’s conventions. If a claim or asset is not rated by Standard & Poor’s, its rating must be mapped to the equivalent Standard & Poor’s rating.
<table>
<thead>
<tr>
<th>Item</th>
<th>description of claim or asset</th>
<th>AAA to AA-</th>
<th>A+ to A-</th>
<th>BBB+ to BBB-</th>
<th>BB+ to BB-</th>
<th>B+ to B-</th>
<th>below B-</th>
<th>unrated</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>claims on non-commercial public sector enterprises in other GCC countries, not denominated in the relevant enterprise’s domestic currency</td>
<td>0</td>
<td>20</td>
<td>50</td>
<td>100</td>
<td>100</td>
<td>150</td>
<td>100</td>
</tr>
<tr>
<td>3</td>
<td>claims on other sovereign non-commercial public sector enterprises -</td>
<td>20</td>
<td>50</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>150</td>
<td>100</td>
</tr>
<tr>
<td>4</td>
<td>claims on commercial public sector enterprises</td>
<td>20</td>
<td>50</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>150</td>
<td>100</td>
</tr>
<tr>
<td>5</td>
<td>claims on multilateral development banks not eligible for 0% risk-weight</td>
<td>20</td>
<td>50</td>
<td>50</td>
<td>100</td>
<td>100</td>
<td>150</td>
<td>50</td>
</tr>
<tr>
<td>6</td>
<td>claims on banks with an original maturity of more than 3 months</td>
<td>20</td>
<td>50</td>
<td>50</td>
<td>100</td>
<td>100</td>
<td>150</td>
<td>50</td>
</tr>
</tbody>
</table>
### Rule 4.4.8

<table>
<thead>
<tr>
<th>Item</th>
<th>description of claim or asset</th>
<th>AAA to AA-</th>
<th>A+ to A-</th>
<th>BBB+ to BBB-</th>
<th>BB+ to BB-</th>
<th>B+ to B-</th>
<th>below B-</th>
<th>unrated</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>claims on banks with an original maturity of 3 months or less</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>50</td>
<td>50</td>
<td>150</td>
<td>20</td>
</tr>
<tr>
<td>8</td>
<td>claims on securities and investment entities that are subject to capital requirements similar to banks</td>
<td>20</td>
<td>50</td>
<td>50</td>
<td>100</td>
<td>100</td>
<td>150</td>
<td>50</td>
</tr>
<tr>
<td>9</td>
<td>claims on securities and investment entities that are not subject to capital requirements similar to banks</td>
<td>20</td>
<td>50</td>
<td>100</td>
<td>100</td>
<td>150</td>
<td>150</td>
<td>100</td>
</tr>
<tr>
<td>10</td>
<td>claims on corporates</td>
<td>20</td>
<td>50</td>
<td>100</td>
<td>100</td>
<td>150</td>
<td>150</td>
<td>100</td>
</tr>
<tr>
<td>11</td>
<td>securitisation exposures</td>
<td>50</td>
<td>100</td>
<td>100</td>
<td>150</td>
<td>150</td>
<td>250</td>
<td>150</td>
</tr>
<tr>
<td>12</td>
<td>investments in rated funds</td>
<td>20</td>
<td>50</td>
<td>100</td>
<td>100</td>
<td>150</td>
<td>150</td>
<td>n/a</td>
</tr>
</tbody>
</table>

#### 4.4.8 Specialised lending

1. A specialised lending exposure is risk-weighted one rating less favourable than the rating that would apply, under table 4.4.7B, to the counterparty to the transaction (or to the party to whom that counterparty has the right of recourse).
(2) **Specialised lending** is a lending transaction that complies with the following requirements:

(a) the purpose of the loan is to acquire an asset;

(b) the cash flow generated by the collateral is the loan’s exclusive (or almost exclusive) source of repayment;

(c) the loan represents a significant liability in the borrower’s capital structure;

(d) the credit risk is determined primarily by the variability of the cash flow generated by the collateral (rather than the independent capacity of a broader commercial enterprise).

*Note* Specialised lending is associated with the financing of projects where the repayment depends on the performance of the underlying collateral. There are 5 sub-classes of specialised lending:

(a) project finance—financing industrial projects based on the projected cash flows of the project;

(b) object finance—financing physical assets based on the projected cash flows obtained primarily through the rental or lease of the assets;

(c) commodities finance—financing the reserves, receivables or inventories of exchange-traded commodities where the exposure is paid back based on the sale of the commodity (rather than by the borrower from independent funds);

(d) income-producing real estate finance—financing real estate that is usually rented or leased out by the debtor to generate cash flow to repay the exposure; and

(e) high-volatility commercial real estate finance—financing commercial real estate which demonstrates a much higher volatility of loss rates compared to other forms of specialised lending.

### 4.4.9 Risk-weights for unsecured part of claim that is past due for more than 90 days

(1) The risk-weight for the unsecured part of a claim (other than a claim secured by an eligible residential mortgage) that is past due for more than 90 days is:

(a) 150% if the specific provisions are less than 20% of the past due claim;

(b) 100% if the specific provisions are 20% or more, but less than 50%, of the past due claim; or

(c) 50% if the specific provisions are 50% or more of the past due claim.
(2) The risk-weight for the unsecured part of a claim secured by an eligible residential mortgage that is past due for more than 90 days is:

(a) 100% if the specific provisions are less than 20% of the past due claim; or

(b) 50% if the specific provisions are 20% or more of the past due claim.

(3) In this rule:

eligible residential mortgage means a mortgage on a residential property that is, or will be:

(a) occupied by the counterparty for residential use; or

(b) rented out (on a non-commercial basis) for residential use.

Division 4.4.C Risk-weighted assets approach—off-balance-sheet items

4.4.10 Calculating total risk-weighted items

(1) A banking business firm’s total risk-weighted off-balance-sheet items is the sum of the risk-weighted amounts of its market-related and non-market-related off-balance-sheet items. An off-balance-sheet item must be converted to a credit equivalent amount before it can be risk-weighted.

(2) The risk-weighted amount of an off-balance-sheet item is calculated as follows:

- first, convert the notional principal amount of the item to its on-balance-sheet equivalent (credit equivalent amount).

Note For the conversion of market-related items—see rules 4.4.11 to 4.4.13. For the conversion of non-market-related items—see rules 4.4.15 to 4.4.17.

- second, multiply the resulting credit equivalent amount by the risk-weight in Division 4.4.B applicable to the claim or asset.

(3) A banking business firm must include derivatives and all market-related off-balance-sheet items (including on-balance-sheet unrealised gains on market-related off-balance-sheet items) in calculating its risk-weighted credit exposures.

(4) A market-related item must be valued at its current market price.

4.4.11 How to convert notional amounts—market-related items

(1) A banking business firm must calculate the credit equivalent amount of each of its market-related items. Unless the item is covered by an eligible netting agreement, the credit equivalent amount of a market-
related off-balance-sheet item is the sum of the current credit exposure and the potential future credit exposure from the item.

(2) **Current credit exposure** is the absolute mark-to-market value (or replacement cost) of the item.

(3) **Potential future credit exposure** (also known as ‘the add-on’) is the amount calculated by multiplying the notional principal amount of the item by the relevant credit conversion factor in table 4.4.11. The **notional principal amount** of an item is the reference amount used to calculate payment streams between counterparties to the item.

### Table 4.4.11 Credit conversion factors for market-related off-balance-sheet items

<table>
<thead>
<tr>
<th>column 1 item</th>
<th>column 2 description of claim or asset</th>
<th>column 3 credit conversion factor %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>interest rate contracts</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(a) residual maturity 1 year or less</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>(b) residual maturity &gt; 1 year to 5 years</td>
<td>0.5</td>
</tr>
<tr>
<td></td>
<td>(c) residual maturity &gt; 5 years</td>
<td>1.5</td>
</tr>
<tr>
<td>2</td>
<td>foreign exchange and gold contracts</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(a) residual maturity 1 year or less</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>(b) residual maturity &gt; 1 year to 5 years</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>(c) residual maturity &gt; 5 years</td>
<td>7.5</td>
</tr>
<tr>
<td>3</td>
<td>equity contracts</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(a) residual maturity 1 year or less</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>(b) residual maturity &gt; 1 year to 5 years</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>(c) residual maturity &gt; 5 years</td>
<td>10</td>
</tr>
<tr>
<td>4</td>
<td>precious metal contracts (other than gold)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(a) residual maturity 1 year or less</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>(b) residual maturity &gt; 1 year to 5 years</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>(c) residual maturity &gt; 5 years</td>
<td>8</td>
</tr>
<tr>
<td>5</td>
<td>other commodity contracts (other than precious metals)</td>
<td></td>
</tr>
<tr>
<td>column 1 item</td>
<td>column 2 description of claim or asset</td>
<td>column 3 credit conversion factor</td>
</tr>
<tr>
<td>---------------</td>
<td>---------------------------------------</td>
<td>----------------------------------</td>
</tr>
<tr>
<td>(a)</td>
<td>residual maturity 1 year or less</td>
<td>10</td>
</tr>
<tr>
<td>(b)</td>
<td>residual maturity &gt; 1 year to 5 years</td>
<td>12</td>
</tr>
<tr>
<td>(c)</td>
<td>residual maturity &gt; 5 years</td>
<td>15</td>
</tr>
<tr>
<td>6</td>
<td>other market-related contracts</td>
<td></td>
</tr>
<tr>
<td>(a)</td>
<td>residual maturity 1 year or less</td>
<td>10</td>
</tr>
<tr>
<td>(b)</td>
<td>residual maturity &gt; 1 year to 5 years</td>
<td>12</td>
</tr>
<tr>
<td>(c)</td>
<td>residual maturity &gt; 5 years</td>
<td>15</td>
</tr>
</tbody>
</table>

(4) A potential future credit exposure must be based on an effective, rather than an apparent, notional principal amount. If the stated notional principal amount of an item is leveraged or enhanced by the structure of the item, the firm must use the effective notional principal amount in calculating the potential future credit exposure.

(5) No potential future credit exposure is calculated for a single-currency floating/floating interest rate swap. The credit exposure from such an interest rate swap must be based on mark-to-market values.

4.4.12 Credit conversion factors for items with terms subject to reset

(1) For an item that is structured to settle outstanding exposures after specified payment dates on which the terms are reset (that is, the mark-to-market value of the item becomes zero on the specified dates), the period up to the next reset date must be taken to be the item’s residual maturity. For an interest rate item of that kind that is taken to have a residual maturity of more than 1 year, the credit conversion factor to be applied must not be less than 0.5% even if there are reset dates of a shorter maturity.

(2) For an item with 2 or more exchanges of principal, the credit conversion factor must be multiplied by the number of remaining exchanges under the item.

4.4.13 Credit conversion factors for single-name swaps

(1) The credit conversion factors for a protection buyer in a single-name credit default swap or single-name total-rate-of-return swap are set out
in column 3 of table 4.4.13. The credit conversion factors for a protection seller are set out in column 4 of that table.

(2) The protection seller in a single-name credit default swap or single-name total-rate-of-return swap is subject to the add-on factor for a closed-out single-name swap only if the protection buyer becomes insolvent while the underlying asset is still solvent. The add-on must not be more than the amount of unpaid premiums.

(3) In this rule:

*qualifying reference obligation* includes obligations arising from items relating to:

(a) securities that are rated investment grade by at least 2 ECRA.s; or

(b) securities that are unrated (or rated investment grade by only 1 ECRA), but:

(i) are approved by the Regulatory Authority, on application by the banking business firm, to be of comparable investment quality; and

(ii) are issued by an issuer that has its equity included in a main index used in a recognised exchange.

<table>
<thead>
<tr>
<th>Table 4.4.13 Credit conversion factors for single-name swaps</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>column 1</strong></td>
</tr>
<tr>
<td><strong>item</strong></td>
</tr>
<tr>
<td>---------</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>2</td>
</tr>
<tr>
<td>3</td>
</tr>
<tr>
<td>4</td>
</tr>
</tbody>
</table>
4.4.14 Policies—foreign exchange rollovers

(1) A banking business firm must have policies for entering into and monitoring rollovers on foreign exchange transactions. The policies must restrict the firm’s capacity to enter into such rollovers, and must be approved by the Regulatory Authority.

(2) The firm must notify the Regulatory Authority if it enters into a rollover outside the approved policy. The authority may direct how the rollover is to be treated for capital adequacy purposes.

(3) The firm must not enter into a transaction at an off-market price, unless the transaction is a historical rate rollover on a foreign exchange transaction.

(4) A historical rate rollover on a foreign exchange transaction may be entered into at an off-market price (instead of current market price).

4.4.15 How to convert contracted amounts—non-market-related items

(1) A banking business firm must calculate the credit equivalent amount of each of its non-market-related items. Unless the item is a default fund guarantee in relation to clearing through a central counterparty, the credit equivalent amount of a non-market-related off-balance-sheet item is calculated by multiplying the contracted amount of the item by the relevant credit conversion factor in table 4.4.15.

(2) If the firm arranges a repurchase or reverse repurchase or a securities lending or borrowing transaction between a customer and a third party and provides a guarantee to the customer that the third party will perform its obligations, the firm must calculate the credit risk capital requirement as if it were the principal.

Table 4.4.15 Credit conversion factors for non-market-related off-balance-sheet items

<table>
<thead>
<tr>
<th>column 1 item</th>
<th>column 2 kind of item</th>
<th>column 3 credit conversion factor %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>direct credit substitutes</td>
<td>100</td>
</tr>
<tr>
<td>2</td>
<td>performance-related contingencies</td>
<td>50</td>
</tr>
<tr>
<td>3</td>
<td>trade-related contingencies</td>
<td>20</td>
</tr>
<tr>
<td>4</td>
<td>lending of securities, or lodging securities as collateral</td>
<td>100</td>
</tr>
<tr>
<td>column 1 item</td>
<td>column 2 kind of item</td>
<td>column 3 credit conversion factor %</td>
</tr>
<tr>
<td>---------------</td>
<td>-----------------------</td>
<td>-------------------------------------</td>
</tr>
<tr>
<td>5</td>
<td>assets sold with recourse</td>
<td>100</td>
</tr>
<tr>
<td>6</td>
<td>forward asset purchases</td>
<td>100</td>
</tr>
<tr>
<td>7</td>
<td>partly paid shares and securities</td>
<td>100</td>
</tr>
<tr>
<td>8</td>
<td>placements of forward deposits</td>
<td>100</td>
</tr>
<tr>
<td>9</td>
<td>note issuance and underwriting facilities</td>
<td>50</td>
</tr>
<tr>
<td>10</td>
<td>commitments with certain drawdown</td>
<td>100</td>
</tr>
<tr>
<td>11</td>
<td>commitments with uncertain drawdowns (for example, undrawn formal standby facilities and credit lines) with an original maturity of 1 year or less</td>
<td>20</td>
</tr>
<tr>
<td>12</td>
<td>commitments with uncertain drawdowns with an original maturity of more than 1 year</td>
<td>50</td>
</tr>
<tr>
<td>13</td>
<td>commitments that can be unconditionally cancelled at any time without notice (for example, undrawn overdraft and credit card facilities for which any outstanding unused balance is subject to review at least once a year)</td>
<td>0</td>
</tr>
</tbody>
</table>

(3) For item 4 of table 4.4.15, an exposure from lending securities, or lodging securities as collateral, may be treated as a collateralised transaction.

4.4.16 **Credit equivalent amount of undrawn commitments**

In calculating the credit equivalent amount of a non-market-related off-balance-sheet item that is an undrawn (or partly drawn) commitment, a banking business firm must use the undrawn amount of the commitment.

4.4.17 **Irrevocable commitment—off-balance-sheet facilities**

For an irrevocable commitment to provide an off-balance-sheet facility, the original maturity must be taken to be the period from the commencement of the commitment until the associated facility expires.

**Example**

An irrevocable commitment with an original maturity of 6 months with an associated facility that has a nine-month term is taken to have an original maturity of 15 months.
Part 4.5 Credit risk mitigation

Division 4.5.A General

4.5.1 Introduction

A banking business firm is able to obtain capital relief by using CRM techniques. CRM techniques must be viewed as complementary to, rather than a replacement for, thorough credit risk assessment.

Note Under rule 4.4.2, if a claim or asset to which a risk-weight must be applied is secured by eligible financial collateral or guarantee (or there is a mortgage indemnity insurance, or a credit derivative instrument or netting agreement) this Part on credit risk mitigation may be used to reduce the credit risk capital requirement of the firm.

4.5.2 Choice of CRM techniques

(1) CRM techniques include:

(a) accepting collateral, standby letters of credit and guarantees;
(b) using credit derivatives or other derivative instruments;
(c) using netting agreements; and
(d) purchasing insurance.

Note Credit risk mitigation using collateral and guarantees is usually dealt with at the time credit is granted. In contrast, credit derivatives and netting agreements are often used after the credit is granted, or used to manage the firm’s overall portfolio risk.

Guidance

1 A banking business firm should not rely excessively on collateral or guarantees to mitigate credit risk. While collateral or guarantees may provide secondary protection to the firm if the counterparty defaults, the primary consideration for credit approval should be the counterparty’s repayment ability.

2 A banking business firm that provides mortgages at high loan-to-value ratios should consider the need for alternative forms of protection against the risks of such lending, including mortgage indemnity insurance, to protect itself against the risk of a fall in the value of the property.

(2) In choosing a CRM technique, the firm must consider:

(a) the firm’s knowledge of, and experience in using, the technique;
(b) the cost-effectiveness of the technique;
(c) the type and financial strength of the counterparties or issuers;
(d) the correlation of the technique with the underlying credits;
(e) the availability, liquidity and realisability of the technique;
(f) the extent to which documents in common use (for example, the ISDA Master Agreement) can be adopted; and
(g) the degree of recognition of the technique by financial services regulators.

4.5.3 Requirements—CRM techniques

(1) A banking business firm’s credit risk management policy must set out the conditions under which CRM techniques may be used. The policy must enable the firm to manage CRM techniques and the risks associated with their use.

(2) The firm must analyse the protection given by CRM techniques to ensure that any residual credit risk is identified, measured, evaluated, managed and controlled or mitigated.

(3) If the firm accepts collateral, its policy must state the types of collateral that it will accept, and the basis and procedures for valuing collateral.

(4) If the firm uses netting agreements, it must have a netting policy that sets out its approach. The netting policy must provide for monitoring netting agreements and must enable the firm to monitor and report netted transactions on both gross and net bases.

4.5.4 Obtaining capital relief

(1) To obtain capital relief, the CRM technique and every document giving effect to it must be binding on all parties and enforceable in all the relevant jurisdictions.

Example
When accepting eligible financial collateral, a banking business firm must ensure that any necessary legal procedures have been followed, to ensure that the collateral can be enforced.

Note Under rule 4.2.2, a firm’s credit risk management policy must establish effective credit risk administration to monitor documents, legal covenants, contractual requirements, and collateral and other CRM techniques.

(2) A banking business firm must review the enforceability of a CRM technique that it uses. The firm must have a well-founded legal basis for any conclusion about enforceability, and must carry out further reviews to ensure that the technique remains enforceable.

Guidance
A banking business firm should consider whether independent legal opinion should be sought on the enforceability of documents. The documents should be ready before the firm enters into a contractual obligation or releases funds.

(3) The effects of a CRM technique must not be double-counted. The firm is not allowed to obtain capital relief if:

(a) the risk-weight for the claim or asset is based on an issue-specific rating; and
(b) the ECRA that determined the rating had taken the technique into consideration in doing so.

4.5.5 **Standard haircuts to be applied**

(1) A banking business firm must use the standard haircuts (expressed in percentages) set out in this rule in any calculation relating to credit risk mitigation. The haircuts are applied after risk mitigation to calculate adjusted exposures and are intended to take into account possible future price fluctuations.

(2) In table 4.5.5A:

*other issuers* include banks, corporates, and public sector enterprises that are not treated as sovereigns.

*sovereign* includes a multilateral development bank, and a non-commercial public sector enterprise, that has a zero per cent risk-weight.

**Table 4.5.5A Haircuts for debt securities**

<table>
<thead>
<tr>
<th>column 1 item</th>
<th>column 2 credit rating for debt securities</th>
<th>column 3 residual maturity</th>
<th>column 4 sovereigns</th>
<th>column 5 other issuers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>AAA to AA-/A-1 (long-term and short-term)</td>
<td>≤1 year</td>
<td>0.5</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td></td>
<td>&gt;1 year, ≤ 5 years</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td></td>
<td>&gt; 5 years</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>2</td>
<td>A+ to BBB-/ A-2/A-3/P-3 (long-term and short-term) and unrated bank securities that are eligible financial collateral</td>
<td>≤1 year</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td></td>
<td>&gt;1 year, ≤ 5 years</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td></td>
<td>&gt; 5 years</td>
<td>6</td>
<td>12</td>
</tr>
<tr>
<td>3</td>
<td>BB+ to BB- (long-term)</td>
<td>All</td>
<td>15</td>
<td>Not applicable</td>
</tr>
</tbody>
</table>
### Credit risk mitigation

#### Part 4.5

#### Rule 4.5.5

<table>
<thead>
<tr>
<th>column 1 item</th>
<th>column 2 credit rating for debt securities</th>
<th>column 3 residual maturity %</th>
<th>column 4 sovereigns %</th>
<th>column 5 other issuers %</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>securities issued by the State of Qatar or the Qatar Central Bank</td>
<td>≤1 year</td>
<td>1</td>
<td>Not applicable</td>
</tr>
<tr>
<td></td>
<td></td>
<td>&gt;1 year, ≤5 years</td>
<td>3</td>
<td>Not applicable</td>
</tr>
<tr>
<td></td>
<td></td>
<td>&gt;5 years</td>
<td>6</td>
<td>Not applicable</td>
</tr>
</tbody>
</table>

**Note** Table 4.5.5A item 3, column 5: securities rated BB+ or below are eligible financial collateral only if issued by a sovereign or non-commercial public sector enterprise—see rule 4.5.7 (1) (c) (i).

#### Table 4.5.5B Haircuts for other instruments

<table>
<thead>
<tr>
<th>column 1 item</th>
<th>column 2 description of assets</th>
<th>column 3 haircut %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>main index equities (including convertible bonds) and gold</td>
<td>15</td>
</tr>
<tr>
<td>2</td>
<td>other equities (including convertible bonds) listed on a recognised exchange</td>
<td>25</td>
</tr>
<tr>
<td>3</td>
<td>units in listed trusts, undertakings for collective investments in transferable securities (UCITS), mutual funds and tracker funds</td>
<td>highest haircut applicable to any security in which the entity can invest</td>
</tr>
<tr>
<td>4</td>
<td>cash collateral denominated in the same currency as the collateralised exposure</td>
<td>0</td>
</tr>
</tbody>
</table>
(3) If a CRM technique (other than a guarantee) and the exposure covered by it are denominated in different currencies (that is, there is a currency mismatch between them), the haircut that applies is:

(a) if the mismatched currencies are both pegged to the same reference currency, or 1 of them is pegged to the other—0; or

(b) in any other case—8%.

(4) If there is a currency mismatch between a guarantee and the exposure covered by it, the amount of the exposure that is covered must be reduced using the following formula:

\[ G \times (1 - H_{fx}) \]

where:

- \( G \) is the nominal amount of the guarantee.
- \( H_{fx} \) is the haircut appropriate for the currency mismatch between the credit protection and the underlying obligation, as follows:
  
  (a) if the guarantee is revalued every 10 business days—8%;
  
  (b) if the guarantee is revalued at any longer interval—the factor \( H \) calculated using the formula in subrule (5); or
  
  (c) if the mismatched currencies are both pegged to the same reference currency, or if 1 of them is pegged to the other—0.

(5) If the guarantee is revalued at intervals longer than 10 business days, the 8% haircut must be scaled up using the following formula:

\[ H = 8 \sqrt[10]{\frac{N + 9}{10}} \]

where:

- \( H \) is the scaled-up haircut.
- \( N \) is the number of business days between the revaluations.

**Division 4.5.B Collateral**

4.5.6 Capital relief from collateral

(1) A banking business firm is able to obtain capital relief by accepting collateral only if the collateral is eligible financial collateral.

(2) Collateral may be lodged by the counterparty of the firm holding a credit exposure (or by a third party on behalf of the counterparty).

(3) The firm must enter into a written agreement with the party lodging the collateral. The agreement must establish the firm’s direct, explicit, irrevocable and unconditional recourse to the collateral.
Guidance
In the case of cash collateral, the recourse may be in the form of a contractual right of set-off on credit balances. A common-law right of set-off is, on its own, insufficient to satisfy this rule.

(4) If collateral is lodged by a third party, the third party must guarantee the counterparty’s obligation to the firm and must indemnify the firm if the counterparty fails to fulfil its obligation. The firm must ensure that the guarantee does not fail for lack of consideration.

(5) The mechanism by which collateral is lodged must allow the firm to liquidate or take possession of the collateral in a timely way. The firm must take all steps necessary to satisfy the legal requirements applicable to its interest in the collateral.

Guidance
1 The firm should have clear and robust procedures for the liquidation of collateral to ensure that the legal conditions for declaring default and liquidating the collateral are observed.
2 The firm should consider whether, in the event of default, notice to the party that lodged the collateral would be needed before the firm could have recourse to it.

(6) There must not be a significant positive correlation between the value of the collateral and the credit quality of the borrower.

4.5.7 Eligible financial collateral
(1) The following are eligible financial collateral if they satisfy the criteria in subrule (2):
   (a) gold bullion;
   (b) cash;
   
   Note For what is included in cash collateral—see rule 4.5.8.
   (c) debt securities that are assigned, by an ECRA, a rating of:
      (i) for sovereign or non-commercial public sector enterprise securities that are eligible for zero per cent risk-weight—at least BB-;
      (ii) for short-term debt securities—at least A-3/P-3; or
      (iii) for any other securities—at least BBB-;
   (d) subject to subrule (3), debt securities that have not been assigned a rating by an ECRA if:
      (i) the securities are issued by a bank (in or outside the QFC) as senior debt and are listed on a recognised exchange;
      (ii) all rated issues of the same seniority issued by the bank have a credit rating of at least BBB- (for long-term debt
instruments) or A-3/P-3 (for short-term debt instruments); and

(iii) the firm and the holder of the collateral have no information suggesting that the securities should have a rating below BBB- or A-3/P-3;

(e) equities (including convertible bonds) that are included in a main index;

(f) tracker funds, mutual funds and undertakings for collective investments in transferable securities (UCITS) if:

(i) a price for the units is publicly quoted daily; and

(ii) the funds or UCITS are limited to investing in instruments listed in this subrule;

(g) equities (including convertible bonds) that are not included in a main index but are listed on a recognised exchange, and funds and UCITS described in paragraph (f) that include such equities.

(2) For collateral to be eligible financial collateral, it must be lodged for at least the life of the exposure, and must be marked-to-market at least once a month. The release of collateral must be conditional on the repayment of the exposure, but collateral may be reduced in proportion to the amount of any reduction in the exposure.

(3) Collateral in the form of securities issued by the counterparty or a person connected to the counterparty is not eligible financial collateral.

(4) Insurance contracts, put options, and forward sales contracts or agreements are not eligible financial collateral.

4.5.8 Forms of cash collateral

Cash collateral, in relation to a credit exposure, means collateral in the form of:

(a) notes and coins;

(b) certificates of deposit, bank bills and similar instruments issued by the banking business firm holding the exposure; or

(c) cash-funded credit-linked notes issued by a banking business firm against exposures in its banking book, if the notes satisfy the criterion for credit derivatives in rule 4.5.16 (2).

4.5.9 Holding eligible financial collateral

(1) Eligible financial collateral must be held by:

(a) the banking business firm;

(b) a branch (in or outside the QFC) of the firm;
(c) an entity that is a member of the financial group of which the firm is a member;
(d) an independent custodian; or
(e) a central counterparty.

(2) The holder of cash collateral in the form of a certificate of deposit or bank bill issued by a banking business firm must keep possession of the instrument while the collateralised exposure exists.

(3) If the collateral is held by an independent custodian or central counterparty, the firm must take reasonable steps to ensure that the holder segregates the collateral from the holder’s own assets.

(4) If collateral is held by a branch of a banking business firm and the branch is outside the QFC, the agreement between the firm and the party lodging the collateral must require the branch to act in accordance with the agreement.

4.5.10 Risk-weight for cash collateral

(1) A banking business firm may apply a zero per cent risk-weight to cash collateral if the collateral is held by the firm itself.

(2) The firm may apply a zero per cent risk-weight to cash collateral held by another member of the financial group of which the firm is a member if the agreement between the firm and the party lodging the collateral requires the holder of the collateral to act in accordance with the agreement.

(3) If cash collateral is held by a bank under a non-custodial arrangement, and the collateral is lodged with the firm under an agreement that establishes the firm’s irrevocable and unconditional recourse to the collateral, the exposure covered by the collateral (after any necessary haircuts for currency risk) may be assigned the risk-weight of the bank.

(4) If cash collateral is held by an independent custodian (other than a central counterparty), the risk-weight of the holder of the collateral must be used. However, the firm may apply a zero per cent risk-weight to notes and coins held by an independent custodian.

4.5.11 Risk-weight for claims

(1) The secured part of a claim must be risk-weighted at whichever is the higher of 20% or the risk-weight applicable to the eligible financial collateral. However, a risk-weight lower than 20% may be applied to the secured part if rule 4.5.12 applies.

Note Under this rule, 20% risk-weight is the minimum that can be applied to the secured part of the claim. A risk-weight of less than 20% is allowed only for some transactions—see rule 4.5.12.
(2) The unsecured part of the claim must be weighted at the risk-weight applicable to the original counterparty.

4.5.12 Risk-weights less than 20%

(1) A zero per cent risk-weight may be applied to a collateralised transaction if:
   (a) there is no currency mismatch; and
   (b) any one of the following applies:
      (i) the collateral is in the form of sovereign securities that are eligible for zero per cent risk-weight;
      (ii) the collateral is in the form of cash collateral on deposit with the banking business firm; or
      (iii) if the collateral is in the form of non-commercial public sector enterprise securities:
         (A) the securities are eligible for zero per cent risk-weight; and
         (B) the market value of the collateral has been discounted by 20%.

(2) A zero per cent risk-weight may be applied to an over the counter derivative transaction if there is no currency mismatch and the transaction is fully collateralised by cash and marked-to-market daily.

(3) A 10% risk-weight may be applied to an over the counter derivative transaction to the extent that the transaction is collateralised by sovereign or non-commercial public sector enterprise securities that are eligible for zero per cent risk-weight.

4.5.13 Valuing collateral

Collateral accepted by a banking business firm must be valued at its net realisable value, taking into account prevailing market conditions. That value must be monitored at appropriate intervals, and the collateral must be regularly revalued.

Guidance

1 The net realisable value of some collateral may be readily available (for example, collateral that is marked-to-market regularly). Other collateral may be more difficult to value and may require knowledge and consideration of prevailing market conditions.

2 The method and frequency of monitoring and revaluation depend on the nature and condition of the collateral (see rule 4.5.7 (2)). For example, securities accepted as collateral are usually marked to market daily.
Division 4.5.C Guarantees

4.5.14 Capital relief from guarantees

(1) Capital relief is allowed from a guarantee if the guarantor is an eligible guarantor and the guarantee satisfies the criteria in subrules (2) to (4). Before accepting a guarantee, a banking business firm must consider the legal and financial ability of the guarantor to fulfil the guarantee.

(2) A guarantee must be a direct claim on the guarantor and must clearly state the extent of the cover. A letter of comfort is not a guarantee for the purposes of this Division.

(3) A guarantee must be irrevocable. It must not include a term or condition:
   (a) that allows the guarantor to cancel it unilaterally; or
   (b) that increases the effective cost of cover if the credit quality of the guaranteed exposure deteriorates.

   Note The irrevocability condition does not require that the guarantee and the exposure be maturity matched. However, it does require that the agreed maturity should not be reduced by the guarantor after the banking business firm accepts the guarantee.

(4) A guarantee must be unconditional. It must not include a term or condition (outside the direct control of the firm) that allows the guarantor not to indemnify the firm in a timely way if the counterparty defaults.

(5) If a claim on a counterparty is secured by a guarantee, the part of the claim that is covered by the guarantee may be weighted at the risk-weight applicable to the guarantor. The unsecured part of the claim must be weighted at the risk-weight applicable to the original counterparty.

   Note This rule applies to a guarantee that provides part coverage under which the firm and the guarantor share losses on a pro rata basis.

4.5.15 Eligible guarantors

(1) Eligible guarantor means:
   (a) the State of Qatar or any other sovereign;
   (b) an entity that is treated as a sovereign in accordance with the Basel Accords; or
   (c) a public sector enterprise or other entity that has:
      (i) a risk-weight of 20% or lower; and
      (ii) a lower risk-weight than the counterparty.

(2) A parent entity, subsidiary or affiliate of a counterparty may be an eligible guarantor if it has a lower risk-weight than the counterparty.
Division 4.5.D  Credit derivatives

4.5.16  Capital relief from credit derivatives

(1) Capital relief is allowed if a banking business firm uses an eligible credit derivative. Each of the following is an **eligible credit derivative** if it satisfies subrule (2):

(a) a single-name credit-default swap;
(b) a total-rate-of-return swap for which the firm has recorded any deterioration in the value of the underlying exposure, in addition to recording the net payments received on the swap as net income;
(c) a cash-funded credit-linked note;
(d) a first and second-to-default credit derivative basket product.

(2) The credit derivative must not include a term or condition that terminates the credit protection, or increases the firm’s costs for the protection, if the credit quality of the underlying exposure deteriorates.

(3) If a claim on a counterparty is protected by a credit derivative, the part of the claim that is protected may be weighted at the risk-weight applicable to the issuer of the credit derivative. The unprotected part of the claim must be weighted at the risk-weight applicable to the original counterparty.

Division 4.5.E  Netting agreements

4.5.17  Capital relief from netting agreements

(1) A banking business firm is able to obtain capital relief from a netting agreement with a counterparty only if the agreement is an eligible netting agreement.

(2) A banking business firm that has entered into a netting agreement must consistently net all the transactions included in the agreement. The firm must not selectively pick which transactions to net.

(3) The following kinds of transactions may be netted:

(a) on-balance-sheet loans and deposits, but only if:
   (i) the firm is able to determine at all times the assets and liabilities that are subject to netting under the agreement; and
   (ii) the deposits satisfy the criteria for eligible financial collateral;
(b) securities financing transactions;

Note  Securities financing transactions are not included as part of market-related transactions.
(c) over the counter derivative transactions.

Guidance
A netting agreement may include the netting of over the counter derivative transactions:

- across both the banking and trading books of a banking business firm (if the netted transactions satisfy the criteria in rule 4.5.23); and
- across different market-related products to the extent that they are recognised as market-related transactions.

4.5.18 Criteria for eligible netting agreements

(1) To be an eligible netting agreement, a netting agreement:

(a) must be in writing;

(b) must create a single obligation covering all transactions and collateral included in the agreement and giving the banking business firm the following rights:

(i) the right to terminate and close-out, in a timely way, all the transactions included in the netting agreement;

(ii) the right to net the gains and losses on those transactions (including the value of any collateral) so that the firm either has a claim to receive, or an obligation to pay, only the net sum of the close-out values of the individual transactions;

Note For forward contracts, swaps, options and similar derivative transactions, this right will include the positive and negative mark-to-market values of the individual transactions.

(iii) the right to liquidate or set-off collateral if either party to the agreement fails to meet its obligations because of default, liquidation, bankruptcy or other similar circumstances;

(c) must not be subject to a walkaway clause; and

(d) must be supported by a written and reasoned legal opinion that complies with rules 4.5.20 to 4.5.22.

(2) A banking business firm must not recognise a netting agreement as an eligible netting agreement if it becomes aware that a financial services regulator of the counterparty is not satisfied that the agreement is enforceable under the laws of the regulator’s jurisdiction. This rule applies regardless of any legal opinion obtained by the firm.

(3) A netting agreement is not an eligible netting agreement if there is doubt about its enforceability.

4.5.19 Legal opinion must cover transaction

(1) A banking business firm must ensure that a netted transaction is covered by an appropriate legal opinion.
(2) In calculating the net sum due to or from a counterparty, the firm must exclude netted transactions for which it has not obtained a satisfactory legal opinion applicable in the relevant jurisdiction. An excluded transaction must be reported on a gross basis.

4.5.20 Conclusion about enforceability

(1) For rule 4.5.18 (1) (d), the legal opinion must conclude that, in the event of default, liquidation, bankruptcy or other similar circumstances of a party to the netting agreement, the banking business firm’s claims and obligations are limited to the net sum calculated under the netting agreement in accordance with the applicable law.

Guidance

The Regulatory Authority expects the legal opinion to deal with the issue of which of the following laws applies to the netting:

- the law of the jurisdiction in which the counterparty is incorporated or formed (or, in the case of an individual, resides)
- if an overseas branch of the counterparty is involved—the law of the jurisdiction in which the branch is located
- the law that governs the individual transactions
- the law that governs any contract or agreement necessary to give effect to the netting.

(2) In particular, the legal opinion must conclude that, in the event of insolvency or external administration of a counterparty, a liquidator or administrator of the counterparty will not be able to claim a gross amount from the banking business firm while only being liable to pay a dividend in insolvency to the firm (as separate money flows).

Guidance

In some countries, there are provisions for the authorities to appoint an administrator to a troubled bank. Under statutory provisions applying in those countries, the appointment of an administrator might not constitute a ground for triggering a netting agreement. Such provisions do not prevent the recognition of an affected netting agreement if the agreement can still take effect if the bank under administration does not meet its obligations as they fall due.

4.5.21 Requirements—legal opinion

(1) Before a banking business firm uses a legal opinion to support a netting agreement, the firm:

(a) must ensure that the opinion is not subject to assumptions or qualifications that are unduly restrictive;

(b) must review the assumptions about the enforceability of the agreement and must ensure that they are specific, factual and adequately explained in the opinion; and
(c) must review and assess the assumptions, qualifications and omissions in the opinion to determine whether they give rise to any doubt about the enforceability of the agreement.

(2) The firm must have procedures to monitor legal developments and to ensure that its netting agreements continue to be enforceable. The firm must update the legal opinions about the agreements, as necessary, to ensure that the agreements continue to be eligible.

(3) The firm may rely on a legal opinion obtained on a group basis by another member of the financial group of which it is a member if the firm and the other member have satisfied themselves that the opinion covers a netting agreement to which the firm is a counterparty.

(4) The firm must report a transaction on a gross basis if there is any doubt about, or any subsequent legal development affects, the enforceability of the agreement.

Note Under rule 4.5.18 (3), a netting agreement is not an eligible netting agreement if there is doubt about its enforceability.

### 4.5.22 Relying on general legal opinions

(1) A banking business firm may rely on a general legal opinion about the enforceability of netting agreements in a particular jurisdiction if the firm is satisfied that the type of netting agreement is covered by the opinion.

(2) The firm must satisfy itself that the netting agreement with a counterparty and the general legal opinion are applicable to each transaction and product type undertaken with the counterparty, and in all jurisdictions where those transactions are originated.

### 4.5.23 Netting of positions across books

A banking business firm may net positions across its banking and trading books only if:

(a) the netted transactions are marked-to-market daily; and

(b) any collateral used in the transactions satisfies the criteria for eligible financial collateral in the banking book.

### 4.5.24 Monitoring and reporting of netting agreements

(1) If directed by the Regulatory Authority, a banking business firm must demonstrate that its netting policy is consistently implemented, and that its netting agreements continue to be enforceable.

(2) The firm must keep adequate records to support its use of netting agreements and to be able to report netted transactions on both gross and net bases.
(3) The firm must monitor its netting agreements and must report and manage:
   (a) roll-off risks;
   (b) exposures on a net basis; and
   (c) termination risks;
   for all the transactions included in a netting agreement.

4.5.25 Collateral and guarantees in netting

(1) A banking business firm may take collateral and guarantees into account in calculating the risk-weight to be applied to the net sum under a netting agreement.

(2) The firm may assign a risk-weight based on collateral or a guarantee only if:
   (a) the collateral or guarantee has been accepted or is otherwise subject to an enforceable agreement; and
   (b) the collateral or guarantee is available for all the individual transactions that make up the net sum of exposures calculated.

(3) The firm must ensure that provisions for applying collateral or guarantees to netted exposures under a netting agreement comply with the requirements for eligible financial collateral and guarantees in these rules.
Part 4.6 Securitisation and re-securitisation

Division 4.6.A General

4.6.1 Introduction

(1) The Part sets out the framework for determining a banking business firm’s minimum capital requirements to cover the firm’s exposures arising from traditional and synthetic securitisations.

(2) A firm’s securitisation exposures may arise from the firm being (or acting in the capacity of) party to a securitisation.

4.6.2 Securitisation and re-securitisation

(1) Securitisation, in relation to a banking business firm, is the process of pooling various kinds of contractual debt or non-debt assets that generate receivables and selling their related cash flows to third party investors as securities. In a securitisation, payments to the investors depend on the performance of the underlying pool of assets, rather than on an obligation of the originator of the assets.

(2) The underlying pool in a securitisation may include 1 or more exposures.

(3) The securities usually take the form of bonds, notes, pass-through securities, collateralised debt obligations or even equity securities that are structured into different classes (tranches) with different payment priorities, degrees of credit risk and return characteristics.

Note A securitisation (whether traditional or synthetic) must have at least 2 tranches (see subrules 4.6.3 (2) and (3)).

(4) Re-securitisation is a securitisation in which at least one of the underlying assets is itself a securitisation or another re-securitisation.

Note Exposures arising from re-tranching are not re-securitisation exposures if, after the re-tranching, the exposures act like direct tranching of a pool with no securitised assets. This means that the cash flows to and from the firm as originator could be replicated in all circumstances and conditions by an exposure to the securitisation of a pool of assets that contains no securitisation exposures.

(5) A reference in this Part to securitisation includes re-securitisation.

4.6.3 Securitisation structures

(1) A securitisation may be a traditional securitisation or a synthetic securitisation.
(2) In a traditional securitisation, title to the underlying assets is transferred to an SPE, and the cash flows from the underlying pool of assets are used to service at least 2 tranches. A traditional securitisation generally assumes the movement of assets off the originator’s balance-sheet.

(3) A synthetic securitisation is a securitisation with at least 2 tranches that reflect different degrees of credit risk where the credit risk of the underlying pool of exposures is transferred, in whole or in part, through the use of credit derivatives or guarantees. In a synthetic securitisation, the third party to whom the risk is transferred need not be an SPE.

Guidance
The Regulatory Authority would treat as securitisations other structures designed to finance assets that are legally transferred to a scheme by packaging them into tradeable securities secured on the assets and serviced from their related cash flows. Funded credit derivatives would include credit-linked notes, and unfunded credit derivatives would include credit default swaps.

4.6.4 Securitisation exposures
A securitisation exposure of a banking business firm is a risk position (whether on-balance-sheet or off-balance-sheet) held by the firm arising from a securitisation.

Examples of sources
- investments in a securitisation
- asset-backed securities (including mortgage-backed securities)
- credit enhancements and liquidity facilities
- interest rate swaps and currency swaps
- credit derivatives
- corporate bonds, equity securities and private equity investments
- reserve accounts (such as cash collateral accounts) recorded as assets by a firm that is, or that acts in the capacity of, an originator.

4.6.5 Parties to securitisation
For purposes of calculating a banking business firm’s capital requirements, the parties to a securitisation are the originator, the issuer and the investors.

Note 1 Depending on the securitisation structure, a banking business firm may be (or act in the capacity of) originator, issuer, investor or any 1 or more of the following:
   (a) a manager of the securitisation;
   (b) a sponsor of the securitisation;
   (c) an adviser to the securitisation;
   (d) an entity to place the securities with investors;
(e) a provider of credit enhancement;
(f) a provider of a liquidity facility;
(g) a servicer to carry out certain activities usually carried out by the manager of the securitisation in relation to the underlying assets.

Note 2 A banking business firm may act as sponsor of a securitisation or similar programme involving assets of a customer. As sponsor, the firm earns fees to manage or advise on the programme, place the securities with investors, provide credit enhancement or provide a liquidity facility.

4.6.6 Firm as originator
A banking business firm is an originator of a securitisation if:

(a) the firm originates, directly or indirectly, underlying assets included in the securitisation; or

(b) the firm serves as sponsor of an asset-backed commercial paper programme (or similar programme) that acquires exposures from third parties.

Guidance
1 In relation to a programme that acquires exposures from third parties, a banking business firm would generally be considered a sponsor (and, therefore, an originator) if the firm, in fact or in substance, manages or advises the programme, places securities into the market, provides a liquidity facility or provides a credit enhancement.

2 Acts of management would include handling related taxes, managing escrow accounts, remitting payments and obtaining insurance.

Division 4.6.B Securitisation process

4.6.7 Process of securitisation

(1) The process of a securitisation is:

(a) first, the origination of assets or credit risk;
(b) second, the transfer of the assets or credit risk; and
(c) third, the issuance of securities to investors.

(2) In a securitisation, the cash flow from the pool is used to make payments on obligations to at least 2 tranches or classes of investors (typically holders of debt securities), with each tranche or class being entitled to receive payments from the pool before or after another tranche or class of investors, so that the tranches or classes bear different levels of credit risk.

4.6.8 Special purpose entities

(1) A special purpose entity (or SPE) is a legal entity that is created solely for a particular financial transaction or series of transactions. The SPE must not engage in any other business.
(2) In a securitisation, an SPE typically purchases and holds the assets for the purposes of the securitisation. The SPE’s payment for the pool is typically funded by debt, including through the issue of securities by the SPE.

Guidance
The purpose of the SPE to facilitate the securitisation, and the extent of a banking business firm’s involvement in the SPE, should be clear. The SPE’s activities should be limited to those necessary to accomplish that purpose.

(3) Most securitisations require the creation of an SPE to:
   (a) hold the assets transferred by the originator;
   (b) issue securities based on the assets; and
   (c) act as intermediary between the originator and the investors.

Note A synthetic securitisation may or may not require an SPE (see subrule 4.6.3 (3))

(4) An SPE may take the form of a limited partnership, limited liability company, corporation, trust or collective investment fund. An SPE may also be established under a special law that allows the creation of SPEs.

Guidance
By its nature, an SPE is a legal shell with only the specific assets transferred by the originator (that is, the SPE has no other property in which any other party could have an interest).

(5) An SPE must be bankruptcy-remote from the originator. It must not be consolidated with the originator for tax, accounting or legal purposes.

(6) Any undertaking given by a banking business firm to an SPV must be stated clearly in the transaction documents for the securitisation.

Division 4.6.C Risk management of securitisation

4.6.9 Role of governing body—securitisation

(1) A banking business firm’s governing body must oversee the firm’s securitisation exposures.

(2) The governing body:
   (a) must understand, and set the scope and purpose of, the firm’s securitisations; and
   (b) must be aware of the risks and other implications associated with securitisation.
(3) The governing body must ensure that the firm’s senior management establishes and implements securitisation policies that include:

(a) appropriate risk management systems to identify, measure, monitor, report on and control or mitigate the risks arising from the firm’s involvement in securitisation; and

(b) how the firm monitors, and reports on, the effect of securitisation on its risk profile.

4.6.10 Relation to internal capital adequacy assessment

A banking business firm must be able to demonstrate to the Regulatory Authority that the firm’s ICAAP captures the following specific risks relating to securitisation:

(a) credit risk, market risk, liquidity risk and reputation risk for each securitisation exposure;

(b) potential delinquencies and losses on the exposures;

(c) risks arising from the provision of credit enhancements and liquidity facilities; and

(d) risks arising from guarantees provided by monoline insurers and other third parties.

Note The due diligence requirements in rule 4.6.18 (3) require a banking business firm to have policies:

(a) to ensure that the economic substance of each securitisation is taken into account in managing the risks arising from the firm’s involvement in securitisation;

(b) to document its systems and controls in relation to securitisation and the risks that arise from it; and

(c) that set out the effects of securitisation on capital.

Division 4.6.D Operational requirements for using external ratings

4.6.11 External credit rating agencies

(1) Depending on the securitisation structure, 1 or more ECRAs may be involved in rating the securitisation. A banking business firm must use only ECRAs that have a demonstrated expertise in assessing securitisations.

Guidance Expertise might be evidenced by strong market acceptance.

(2) For the purposes of risk-weighting, an ECRA must take into account the total amount of the firm’s exposure on all payments owed to it. For example, if the firm is owed principal and interest, the ECRA’s
assessment must have taken into account timely repayment of both principal and interest.

Note For the use of ECRAs in general, see rule 4.3.7 and rule 4.3.7A.

4.6.12 **Ratings must be publicly available**

(1) A credit rating assigned by an ECRA must be publicly available. If the rating assigned to a facility is not publicly available, the facility must be treated as unrated.

Note For the treatment of an eligible liquidity facility whose rating is not publicly available, see rule 4.6.30.

(2) The loss and cash flow analysis for the securitisation, and the sensitivity of the rating to changes in the assumptions on which it was made, must also be publicly available.

**Guidance**
Information required under this rule should be published in an accessible form for free. Information that is made available only to the parties to a securitisation is not considered publicly available.

4.6.13 **Ratings must be applied consistently**

(1) A credit rating assigned by an ECRA must be applied consistently across all tranches of a securitisation.

(2) A banking business firm must not use an ECRA’s credit rating for 1 or more tranches and another ECRA’s rating for other tranches within the same securitisation structure (whether or not those other tranches are rated by the first ECRA).

Note Under rule 4.3.7A:
(a) if there are 2 different assessments by ECRAs, the higher risk-weight must be applied; and
(b) if there are 3 or more different assessments by ECRAs, the assessments corresponding to the 2 lowest risk-weights should be referred to and the higher of those 2 risk-weights must be applied.

**Division 4.6.E Calculation of risk-weighted assets**

4.6.14 **Operational requirements for traditional securitisation**

A banking business firm that is an originator or sponsor of a traditional securitisation may exclude, from the calculation of its risk-weighted assets, exposures relating to the securitised assets only if:

(a) the immediate transferee of the underlying assets is an SPE, and the holders of the legal or beneficial interests in the SPE have the right to pledge or exchange those interests without restriction;
(b) substantially all credit risk associated with the securitised assets have been transferred;

(c) the firm has no direct or indirect control over the securitised assets;

Guidance about control

1 A banking business firm would be taken to maintain effective control over transferred credit risk exposures if:

(a) the firm is able to repurchase from the transferee the transferred exposures in order to realise their benefits; or

(b) the firm is obligated to retain the risk of the exposures.

2 A firm that is an originator may act as servicer of the underlying assets, and the firm’s retention of servicing rights would not necessarily constitute indirect control over the assets.

(d) the securitised assets are legally isolated from the firm (through the sale of the assets or through sub-participation) so that the assets are beyond the reach of the firm and its creditors even in case of bankruptcy or insolvency;

(e) a qualified legal counsel (whether external or in-house) has given a written reasoned opinion that paragraph (d) is satisfied;

(f) any clean-up call complies with rule 4.6.16;

(g) the securities issued are not obligations of the firm, so that investors have a claim only on the securitised assets and have no claim against the firm;

(h) the securitisation does not include any term or condition that:

(i) requires the firm to alter the underlying exposures to improve the pool’s weighted average credit quality (unless the improvement is achieved by selling exposures at market prices to parties who are neither affiliated, connected or related to the firm);

Note Affiliate, connected and related party are defined in the glossary.

(ii) allows increases in a retained first loss position or credit enhancement; or

(iii) increases the yield payable to parties other than the firm (for example, payments to investors and providers of credit enhancement) in response to a deterioration in the credit quality of the underlying assets; and

(i) the securitisation does not have:

(i) termination provisions for specific changes in tax and regulation;
(iii) termination options or triggers (except clean-up calls that comply with rule 4.6.16); or

(iii) early amortisation provisions that, under rule 4.6.38, would result in the securitisation not meeting the other requirements in paragraphs (a) to (h).

Note   Under rule 4.6.20, an originator that meets the requirements set out in this rule must, however, hold regulatory capital against any exposures that it retains in relation to the securitisation (including exposures arising from the provision of credit enhancements and liquidity facilities).

### 4.6.15 Operational requirements for synthetic securitisation

In calculating its risk-weighted assets, a banking business firm that is an originator or sponsor of a synthetic securitisation may exclude securitised exposures only if:

(a) substantially all credit risk associated with the securitised exposures have been transferred;

(b) the CRM technique used to obtain capital relief is eligible financial collateral, an eligible credit derivative, a guarantee or an eligible netting agreement;

Note   Eligible financial collateral pledged by an SPE in a securitisation may be recognised as a CRM technique, but an SPE of a securitisation cannot be an eligible protection provider in the securitisation (see rule 4.6.32 (2)).

(c) the securitisation does not include any terms or conditions that limit the amount of credit risk transferred, such as clauses that:

   (i) materially limit the credit protection or credit risk transference (including clauses that provide significant materiality thresholds below which credit protection is not to be triggered even if a credit event occurs and clauses that allow termination of the protection because of deterioration in the credit quality of the underlying exposures);

   (ii) require the firm to alter the underlying exposures to improve the pool’s weighted average credit quality;

   (iii) increase the firm’s cost of credit protection to the firm in response to a deterioration in the credit quality of the underlying exposures;

   (iv) allow increases in a retained first loss position or credit enhancement; or

   (v) increase the yield payable to parties other than the firm (for example, payments to investors and providers of credit.
enhancement) in response to a deterioration in the credit quality of the underlying exposures;

(d) a qualified legal counsel (whether external or in-house) has given a written reasoned opinion that paragraph (c) is satisfied and that the contract for the transfer of the credit risk is enforceable in all relevant jurisdictions;

(e) any clean-up call complies with rule 4.6.16; and

(f) if the credit risk associated with the securitised exposures is transferred to an SPE:
   (i) the securities issued by the SPE are not obligations of the firm;
   (ii) the holders of the beneficial interests in the SPE have the right to pledge or exchange those interests without restriction; and
   (iii) the firm holds no more than 20% of the aggregate original amount of all securities issued by the SPE, unless:
      (A) the holdings consist entirely of securities that are rated AAA to AA- (long term) or A-1 (short term); and
      (B) all transactions with the SPE are at arm’s length and on market terms and conditions.

Note Under rule 4.6.20, an originator or sponsor that meets the requirements set out in this rule must, however, hold regulatory capital against any exposures that it retains in relation to the securitisation (including exposures arising from the provision of credit enhancements and liquidity facilities).

4.6.16 Requirements for clean-up calls—traditional and synthetic securitisations

(1) A clean-up call is an option that permits the securitisation exposures to be called before all of the underlying exposures or securitisation exposures have been repaid.

(2) There is no capital requirement for a securitisation that includes a clean-up call, if:
   (a) the exercise of the clean-up call is at the discretion of the originator or sponsor;
   (b) the clean-up call is not structured:
      (i) to avoid allocating losses to credit enhancements or positions held by investors; or
      (ii) to provide credit enhancement; and
(c) the clean-up call may only be exercised:
   (i) for a traditional securitisation—when 10% or less of the original underlying pool of assets, or securities issued, remains; or
   (ii) for a synthetic securitisation—when 10% or less of the original reference portfolio value remains.

Guidance
1 For a traditional securitisation, a clean-up call might be carried out by repurchasing the remaining securitisation exposures after the balance of the pool has, or the outstanding securities have, fallen below a specified level.
2 For a synthetic securitisation, a clean-up call might take the form of a clause that extinguishes the credit protection.

4.6.17 Clean-up calls that fail requirements—traditional and synthetic securitisations
(1) This rule applies to a securitisation that includes a clean-up call if the clean-up call does not comply with all of the operational requirements in rule 4.6.16.
(2) The originator or sponsor must calculate a capital requirement for the securitisation.
   Note If the clean-up call is exercised and found to serve as a credit enhancement, the exercise of the call must be considered as implicit support and treated in accordance with rule 4.6.21.
(3) For a traditional securitisation, the underlying assets must be treated as if they were not securitised. No gain-on-sale of those assets may be recognised.
(4) For a synthetic securitisation, a banking business firm that purchases protection must hold capital against the entire amount of the securitised exposures as if they did not benefit from any credit protection.

4.6.18 Due diligence requirements
(1) A banking business firm must not apply a risk-weight to a securitisation exposure using table 4.6.22, unless the firm meets the requirements set out in subrules (3) to (7) (the due diligence requirements).
(2) If the firm fails to meet a due diligence requirement in relation to a securitisation exposure, the Regulatory Authority may direct the firm:
   (a) to apply a risk-weight of 1,250% to the exposure; or
   (b) to deduct the amount of the exposure from its regulatory capital.
(3) The firm must have, in relation to securitisation, appropriate policies:
   (a) to ensure that the economic substance of each securitisation is taken into account in managing the risks arising from the firm’s involvement in securitisation;
   (b) to document its systems and controls in relation to securitisation and the risks that arise from it; and
   (c) that set out the effects of securitisation on capital.

(4) The firm must have, on an ongoing basis, a clear understanding of the risk characteristics of its individual securitisation exposures (whether on-balance-sheet or off-balance-sheet) and the risk characteristics of the pool underlying those exposures.

(5) The firm must understand, at all times, the structural features that may materially affect the performance of its securitisation exposures (such as contractual waterfall and waterfall-related triggers, credit enhancements, liquidity facilities, market value triggers, and deal-specific definitions of default).

(6) The firm must have continuous access to performance information about its underlying assets.

   Note: Performance information may include exposure type, percentage of loans 30, 60 and 90 days past due, default rates, prepayment rates, loans in foreclosure, property type, occupancy, average credit score or other measures of creditworthiness, average loan-to-value ratio, and industry diversification and geographic diversification.

(7) For re-securitisation, the firm must have not only information on the securitisation tranches (such as the issuer name and credit quality) but also the characteristics and performance of the pools underlying those tranches.

4.6.19 Capital treatment to be based on economic substance

(1) The capital treatment of a securitisation exposure must be determined on the basis of the economic substance, rather than the legal form, of the securitisation structure. If a banking business firm is uncertain about whether a transaction is a securitisation, the firm must consult with the Regulatory Authority.

(2) Despite anything in these rules, the Regulatory Authority may look through the structure to the economic substance of the transaction, and:
   (a) vary the capital treatment of a securitisation exposure; or
   (b) reclassify a transaction as a securitisation or not a securitisation, and impose a capital requirement or limit on the transaction.
Division 4.6.F  Capital requirements where firm is originator or sponsor

4.6.20  Retained securitisation exposures

(1) A banking business firm that is an originator or sponsor of a securitisation might, despite having transferred the underlying assets or the credit risk to those assets, continue to be exposed (through *retained securitisation exposures*) in relation to the securitisation. The firm must hold regulatory capital against all of its retained securitisation exposures.

(2) The sources of retained securitisation exposures include:
   (a) investments in the securitisation (including the investment required under subrule (3));
   (b) investments in asset-backed securities (including mortgage-backed securities);
   (c) retention of a subordinated tranche;
   (d) credit enhancements provided by the firm; and
   (e) liquidity facilities provided by the firm.

A repurchased securitisation exposure must be treated as a retained securitisation exposure.

*Note 1* For paragraph (a), the exposure arising from investments by a banking business firm in a securitisation originated by the firm is an on-balance-sheet exposure.

*Note 2* For paragraphs (d) and (e), the exposures arising from the provision of credit enhancements and liquidity facilities by a banking business firm in relation to a securitisation originated by the firm are off-balance-sheet exposures.

(3) A banking business firm that is an originator or sponsor of a securitisation must retain 5% of the total issuance.

*Note* Under rule 3.2.29, a banking business firm must derecognise, in its calculation of CET 1, any increase in equity capital or CET 1 capital from a gain-on-sale in a securitisation transaction.

4.6.21  Effect of giving implicit support

A banking business firm that gives implicit support to a securitisation:

(a) must include the underwriting exposures of the securitisation in its calculation of risk-weighted assets (as if those assets had not been securitised and had remained on its balance sheet);

(b) must not recognise any gain-on-sale of the underlying assets; and

(c) must disclose to investors that it has provided implicit support and the effect on regulatory capital of doing so.
4.6.22 Treatment of on-balance-sheet retained securitisation exposures

(1) The risk-weighted asset amount of an on-balance-sheet retained securitisation exposure is calculated by multiplying the exposure by the applicable risk-weight in table 4.6.22.

Table 4.6.22 Risk-weights based on ECRA rating

Note In the table, the ratings are given according to Standard & Poor’s conventions. If a claim or asset is not rated by Standard & Poor’s, its ratings must be mapped to the equivalent Standard & Poor’s rating.

<table>
<thead>
<tr>
<th>long-term rating</th>
<th>securitisation exposure %</th>
<th>re-securitisation exposure %</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA to AA-</td>
<td>20</td>
<td>40</td>
</tr>
<tr>
<td>A+ to A-</td>
<td>50</td>
<td>100</td>
</tr>
<tr>
<td>BBB+ to BBB-</td>
<td>100</td>
<td>225</td>
</tr>
<tr>
<td>BB+ to BB-</td>
<td>350</td>
<td>650</td>
</tr>
<tr>
<td>B+ and below or unrated</td>
<td>As directed by the Regulatory Authority, apply 1,250% risk-weight or deduct the amount of the exposure from the firm’s regulatory capital (see rule 4.6.22 (2))</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>short-term rating</th>
<th>securitisation exposure %</th>
<th>re-securitisation exposure %</th>
</tr>
</thead>
<tbody>
<tr>
<td>A-1</td>
<td>20</td>
<td>40</td>
</tr>
<tr>
<td>A-2</td>
<td>50</td>
<td>100</td>
</tr>
<tr>
<td>A-3</td>
<td>100</td>
<td>225</td>
</tr>
<tr>
<td>Below A-3</td>
<td>As directed by the Regulatory Authority, apply 1,250% risk-weight or deduct the amount of the exposure from the firm’s regulatory capital (see rule 4.6.22 (2))</td>
<td></td>
</tr>
</tbody>
</table>

(2) If an exposure is to be deducted from the firm’s regulatory capital, the amount of the deduction may be calculated net of any specific provision taken against the exposure.
4.6.23 Exceptions to treatment of unrated securitisation exposures

The rule that the treatment of unrated securitisation exposures is as directed by the Regulatory Authority (to either apply 1,250% risk-weight or deduct the amount) does not apply to:

(a) the most senior exposure in a securitisation;
(b) exposures:
   (i) that are in a second loss position or better in ABCP programmes; and
   (ii) that meet the requirements in rule 4.6.25; and
(c) eligible liquidity facilities.

Note For the treatment of the exceptions, see:
- rule 4.6.24 for most senior exposure
- rule 4.6.25 for second loss positions or better
- rule 4.6.30 for eligible liquidity facilities

4.6.24 Treatment of most senior exposure

(1) If the most senior exposure in a securitisation is unrated and the composition of the underlying pool is known at all times, a banking business firm that holds or guarantees such an exposure may determine the risk weight by applying a “look-through” treatment. The firm need not consider any interest rate or currency swap when determining whether an exposure is the most senior in a securitisation.

(2) In the look-through treatment, the unrated most senior position receives, subject to the Regulatory Authority’s review, the average risk-weight of the underlying exposures.

4.6.25 Treatment of second loss position in ABCP programmes

(1) This rule applies to an unrated securitisation exposure in an ABCP programme if:
   (a) the exposure is economically in a second loss position or better and the first loss position provides significant credit protection to the second loss position;
   (b) the associated credit risk is the equivalent of investment grade or better; and
   (c) the banking business firm holding the exposure does not retain or provide the first loss position.
(2) An unrated securitisation exposure arising from a second loss position (or better position) is subject to a risk-weight of the higher of:
(a) 100%; and
(b) the highest risk-weight applicable to an underlying exposure covered by the facility.

4.6.26 Treatment of overlapping exposures

(1) Overlapping exposures may result if a banking business firm provides 2 or more facilities (such as liquidity facilities and credit enhancements) in relation to a securitisation that can be drawn under various conditions with different triggers. In effect, the firm provides duplicate cover to the underlying exposures.

(2) For the purposes of calculating its capital requirements, a banking business firm’s exposure (exposure A) overlaps another exposure (exposure B) if in all circumstances the firm will preclude any loss to it on exposure B by fulfilling its obligations with respect to exposure A.

Example
If, under exposure A, a firm provides full credit support to some notes while simultaneously holding as exposure B a portion of those notes, its full credit support obligation precludes any loss from its exposure from its holding of the notes. If the firm can satisfactorily show that fulfilling its obligations with respect to exposure A will preclude a loss from its exposure B under any circumstance, there are overlapping exposures between the 2 exposures and the firm need not calculate risk-weighted assets for exposure B.

(3) If a banking business firm has 2 or more overlapping exposures to a securitisation, the firm must, to the extent that the exposures overlap, include in its calculation of risk-weighted assets only the exposure, or portion of the exposure, producing the higher or highest risk-weighted assets amount.

(4) If the overlapping exposures are subject to different credit conversion factors, the firm must apply the higher or highest factor to the exposures.

4.6.27 Treatment of off-balance-sheet retained securitisation exposures

A 100% credit conversion factor must be applied to an off-balance-sheet retained securitisation exposure unless the exposure qualifies as:
(a) an eligible liquidity facility, or
(b) an eligible servicer cash advance facility.

Note 1 For risk-weighting of eligible liquidity facilities, see rules 4.6.29 and 4.6.30. For risk-weighting of eligible servicer cash advance facility, see rule 4.6.31.
4.6.28 Liquidity facility and eligible liquidity facility

(1) A **liquidity facility**, for a securitisation, is a commitment from the facility provider to provide liquid funds if:

(a) funds are needed to meet contractual payments to investors; and

(b) there is a delay between the date of collection of the related cash flows and the date on which the payment to the investors is due.

Example
Timing mismatches between cash collections from the underlying assets and the scheduled payments to the investors in certain securitisation structures may require liquidity facilities to be built into the structures.

(2) To be an **eligible liquidity facility**:

(a) the commitment to provide liquid funds must be in writing and must clearly state the circumstances under which the facility may be availed of and the limits for any drawdown;

(b) drawdowns must be limited to the amount that is likely to be repaid fully from the liquidation of the underlying exposures and any seller-provided credit enhancements;

(c) the facility must not cover any losses incurred in the underlying pool of exposures before a drawdown;

(d) the facility must not be structured in such a way that drawdowns are certain;

(e) the facility must be subject to an asset quality test that precludes it from being availed of to cover credit risk exposures that are past due for more than 90 days;

(f) if the exposures that the facility is required to fund are ECRA-rated securities, the facility can only be used to fund securities that are rated, by an ECRA, investment grade at the time of funding;

(g) the facility cannot be availed of after all applicable credit enhancements (whether transaction-specific or programme-wide enhancements), from which the liquidity would benefit, have been exhausted; and

(h) the repayment of drawdowns on the facility (that is, assets acquired under a purchase agreement or loans made under a lending agreement):

(i) must not be subordinated to any interests of any note holder in the programme (such as an ABCP programme); and

(ii) must not be subject to deferral or waiver.
4.6.29 Treatment of certain liquidity facilities

(1) This rule applies in relation to a liquidity facility that is not an eligible servicer cash advance facility.

(2) If a banking business firm that is an originator or sponsor of a securitisation also provides such a liquidity facility to the securitisation, the risk-weight of the exposure from the facility must be calculated by:

(a) applying:
   (i) a 50% credit conversion factor (regardless of the maturity of the facility) if the facility is an eligible liquidity facility; or
   (ii) a 100% credit conversion factor if the facility is not an eligible liquidity facility; and

(b) multiplying the resulting credit equivalent amount by the applicable risk-weight in table 4.6.22, depending on the credit rating of the firm (or by 100% if the firm is unrated).

However, if an ECRA rating of the facility is itself used for risk-weighting the facility, a 100% credit conversion factor must be applied.

4.6.30 Treatment of unrated eligible liquidity facility

A banking business firm providing an eligible liquidity facility that is unrated, or that is treated as unrated, must apply to the resulting securitisation exposure the highest risk weight that would be applied to an underlying exposure covered by the facility.

Examples when facility must be treated as unrated

- when the facility’s rating is not publicly available (see rule 4.6.12)
- when the facility is provided to a particular securitisation exposure (such as a particular tranche) and the resulting mitigation is reflected in the ECRA rating of the securitisation (see rule 4.6.35 (5))

4.6.31 Treatment of eligible servicer cash advance facility

(1) A servicer cash advance facility is a liquidity facility under which a servicer to a securitisation advances cash to ensure timely payment to investors.

Note  For servicer, see note 1 (g) under rule 4.6.5.

(2) A zero percent risk-weight may be applied to an undrawn servicer cash advance facility only if the facility is an eligible servicer cash advance facility.

Note  If the servicer cash advance facility is not an eligible servicer cash advance facility, see rule 4.6.29.

(3) To be an eligible servicer cash advance facility:

(a) the servicer must be entitled to full reimbursement;
(b) the servicer’s right to reimbursement must be senior to other claims on cash flows from the underlying pool;

(c) the facility is itself an eligible liquidity facility; and

(d) the facility may be cancelled at any time, without any condition and without any need to give advance notice.

4.6.32 Capital relief from CRM techniques obtained by firm

(1) A banking business firm that has obtained a CRM technique (such as eligible financial collateral, an eligible credit derivative, a guarantee or an eligible netting agreement) applicable to a securitisation exposure may reduce its capital requirement for the exposure.

(2) Collateral pledged by an SPE as part of the securitisation may be used as a CRM technique if it is eligible financial collateral. However, an SPE of a securitisation cannot be an eligible protection provider in the securitisation.

Note For eligible financial collateral see rule 4.5.7. For eligible protection provider, see rule 4.6.35 (2).

(3) In this rule, collateral is used to hedge the credit risk of a securitisation exposure rather than to mitigate the underlying exposures of the securitisation.

4.6.33 Treatment of CRM techniques provided by firm

(1) If a banking business firm provides a CRM technique to a securitisation exposure, the calculation of its risk-weighted assets for credit risk must be in accordance with Part 4.5. The firm must calculate the capital requirement as if it were an investor in the securitisation.

(2) If a banking business firm provides a CRM technique to an unrated credit enhancement, it must treat the protection provided as if it were directly holding the unrated credit enhancement.

4.6.34 Treatment of enhanced portions

The capital requirement for a credit-enhanced portion of a securitisation must be calculated in accordance with the standardised approach in Part 4.3.

4.6.35 Effect of CRM techniques

(1) If a CRM technique is provided to specific underlying exposures or the entire pool of exposures by an eligible protection provider and the credit risk mitigation is reflected in the ECRA rating assigned to a securitisation exposure, the risk-weight based on that rating must be
used. To avoid double-counting, no additional capital recognition is permitted.

(2) **Eligible protection provider** means:
   
   (a) a central counterparty;
   
   (b) the State of Qatar or any other sovereign;
   
   (c) an entity that is treated as a sovereign in accordance with the Basel Accords;
   
   (d) a public sector enterprise or other entity that has:
       
       (i) a risk-weight of 20% or lower; and
       
       (ii) a lower risk-weight than the party to whom the protection is provided; or
   
   (e) a parent entity, subsidiary or affiliate of a party to whom the protection is provided that has a lower risk-weight than the party.

(3) If the provider of the CRM technique is not an eligible protection provider, a banking business firm must treat the exposure as unrated.

(4) A banking business firm must not use an ECRA rating if the assessment by the ECRA is based partly on unfunded support provided by the firm itself.

**Example**

If a banking business firm buys ABCP for which it provides an unfunded securitisation exposure (such as a liquidity facility or credit enhancement) to the ABCP programme and the exposure plays a role in determining the credit assessment on the ABCP, the firm must treat the ABCP as if it were unrated.

(5) If the CRM technique is provided solely to protect a particular securitisation exposure (for example, if the technique is provided to a tranche of the securitisation) and the protection is reflected in the ECRA rating of the securitisation, a banking business firm must treat the exposure as unrated.

**Note** For the treatment of an exposure arising from a liquidity facility of the kind described in rule 4.6.35 (5), see rule 4.6.30.

(6) Subrule (5) applies to a securitisation exposure whether it is in the firm’s trading book or banking book. The capital requirement for a securitisation exposure in the trading book must not be less than the amount that would be required if the exposure were in the firm’s banking book.
Division 4.6.G Early amortisation provisions

Subdivision 4.6.G.1 General

4.6.36 Definitions for Division 4.6.G

In this Division:

- **excess spread**, in relation to a securitisation, means finance charge collections and other income received by the SPV or trust, minus certificate interest, servicing fees, charge-offs, costs and expenses. Excess spread is also known as future margin income.

- **securitisation involving revolving exposures** means a securitisation in which 1 or more of the underlying exposures represents, directly or indirectly, current or future draws on a revolving credit facility (such as a credit card facility, home equity line of credit or commercial line of credit).

- **uncommitted credit line** is a credit line that may be cancelled at any time, without any condition and without any need to give advance notice. Any other credit line is a **committed credit line**.

4.6.37 Early amortisation provisions

(1) An **early amortisation provision** in a securitisation is a mechanism that, if triggered, allows investors to be paid out before the originally stated maturity of the securities issued. An early amortisation provision may be controlled or non-controlled.

Note Triggers include **economic triggers** which are events that are economic in nature by reference to the financial performance of the transferred assets.

(2) An early amortisation provision is a **controlled early amortisation provision** if:

(a) the banking business firm concerned has appropriate capital and liquidity plans to ensure that it has sufficient capital and liquidity if the provision is triggered; and

(b) throughout the life of the securitisation (including the amortisation period) there is the same pro-rata sharing of interest, principal, expenses, losses and recoveries based on the firm’s and investors’ relative shares of the receivables outstanding at the beginning of each month.

(3) An early amortisation provision that fails to meet either requirement in subrule (2) is a **non-controlled early amortisation provision**.
4.6.38 Operational requirements for securitisations with early amortisation provisions

(1) A securitisation involving revolving exposures that is originated or sponsored by a banking business firm is taken to fail the operational requirements set out in rule 4.6.14 (for traditional securitisations) or rule 4.6.15 (for synthetic securitisations) if the securitisation has an early amortisation provision (or a similar provision) that, if triggered, will:

(a) subordinate the firm’s senior or equal interest in the underlying revolving credit facilities to the interest of other investors;

(b) subordinate the firm’s subordinated interest to an even greater degree relative to the interests of other parties; or

(c) increase in any other way the firm’s exposure to losses associated with the underlying revolving credit facilities.

(2) A banking business firm that is the originator or sponsor of a securitisation that does not involve revolving exposures may exclude the underlying exposures from the calculation of risk-weighted assets if:

(a) the securitisation is a replenishment structure; and

(b) the securitisation has an early amortisation provision that ends the ability of the firm to add new exposures.

(3) A banking business firm that is the originator or sponsor of a securitisation involving revolving exposures may exclude the underlying exposures from the calculation of risk-weighted assets if:

(a) the securitisation meets the operational requirements set out in rule 4.6.14 (for traditional securitisations) or rule 4.6.15 (for synthetic securitisations); and

(b) the securitisation has an early amortisation provision of the kind described in any of the following subparagraphs:

(i) the securitisation relates to revolving credit facilities that themselves have early amortisation features that mimic term structures (that is, where the risk on the underlying exposures does not return to the firm) and the early amortisation provision in the securitisation, if triggered, would not effectively result in subordination of the firm’s interest;

(ii) the firm securitises 1 or more revolving credit facilities and investors remain fully exposed to future drawdowns by borrowers even after an early amortisation event has occurred;
(iii) the early amortisation provision is solely triggered by events not related to the performance of the securitised assets or of the firm (such as material changes in tax laws or regulations).

(4) The firm must still hold regulatory capital against any securitisation exposures that it retains in relation to the securitisation.

4.6.39 Capital charges for securitisation involving revolving exposures with early amortisation

(1) A banking business firm that is an originator or sponsor of a securitisation involving revolving exposures that has an early amortisation provision must calculate an additional capital charge to cover the possibility that the firm’s credit risk exposure may increase if the provision is triggered. The charge must be calculated for the total exposure related to the securitisation (that is, for both drawn and undrawn balances related to the securitised exposures).

Note For the calculation of the capital charge if the early amortisation provision is controlled, see rule 4.6.40. For the calculation of the capital charge if the early amortisation provision is non-controlled, see rule 4.6.44.

(2) If the underlying pool of a securitisation is made up of both revolving exposures and term exposures, the firm must apply the amortisation treatment in this Division only to the portion of the underlying pool made up of those revolving exposures.

Subdivision 4.6.G.2 Securitisation involving revolving exposures with controlled early amortisation

4.6.40 Calculating capital charges—controlled early amortisation

A banking business firm that is an originator or sponsor of a securitisation involving revolving exposures that has a controlled early amortisation provision must calculate a capital charge for the investors’ interest (that is, against both drawn and undrawn balances related to the securitised exposures). The capital charge is the product of:

(a) the investors’ interest;

(b) the appropriate credit conversion factor in accordance with table 4.6.42, depending on whether the securitised exposures are uncommitted retail credit lines or not; and

(c) the risk weight for the kind of underlying exposures (as if those exposures had not been securitised).
4.6.41 Controlled early amortisation and uncommitted retail credit lines

(1) For uncommitted retail credit lines (such as credit card receivables) in securitisations that have controlled early amortisation provisions that can be triggered by the excess spread falling to a specified level, a banking business firm must compare the three-month average excess spread to the point at which the bank is required to trap excess spread (the *excess spread trapping point*) as economically required by the structure.

(2) If a securitisation does not require the trapping of excess spread, the excess spread trapping point for the securitisation is 4.5 percentage points more than the excess spread at which early amortisation is triggered.

4.6.42 Credit conversion factors

A banking business firm that is the originator or sponsor of a securitisation must divide the securitisation’s excess spread by the securitisation’s excess spread trapping point to determine the appropriate segments and apply the corresponding credit conversion factor for uncommitted credit lines in accordance with table 4.6.42.

Table 4.6.42 Credit conversion factors (CCFs) for securitisation involving revolving exposures with controlled early amortisation

<table>
<thead>
<tr>
<th>column 1 item</th>
<th>column 2 segments</th>
<th>column 3 CCFs for uncommitted credit lines</th>
<th>column 4 CCFs for committed credit lines</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail credit lines</td>
<td>133.33% of trapping point or more</td>
<td>0</td>
<td>90</td>
</tr>
<tr>
<td>1</td>
<td>&lt;133.33% to 100% of trapping point</td>
<td>1</td>
<td>90</td>
</tr>
<tr>
<td>2</td>
<td>&lt;100% to 75% of trapping point</td>
<td>2</td>
<td>90</td>
</tr>
<tr>
<td>3</td>
<td>&lt;75% to 50% of trapping point</td>
<td>10</td>
<td>90</td>
</tr>
<tr>
<td>4</td>
<td>&lt;75% to 50% of trapping point</td>
<td>10</td>
<td>90</td>
</tr>
</tbody>
</table>
4.6.43 Requirement to apply higher capital charge

(1) The capital charge to be applied under this subdivision is the higher of:
   (a) the capital requirement for retained securitisation exposures in the
       securitisation; and
   (b) the capital requirement that would apply if the exposures had not
       been securitised.

(2) The firm must also deduct from its CET1 the amount of any gain-on-sale and credit-enhancing interest-only strips arising from the securitisation.

Subdivision 4.6.G.3 Securitisation involving revolving exposures with non-controlled early amortisation

4.6.44 Calculating capital charges—non-controlled early amortisation

A banking business firm that is an originator or sponsor of a securitisation involving revolving exposures that has a non-controlled early amortisation provision must calculate a capital charge for the investors’ interest (that is, against both drawn and undrawn balances related to the securitised exposures). The capital charge is the product of:
   (a) the investors’ interest;
   (b) the appropriate credit conversion factor in accordance with table 4.6.42, depending on whether the securitised exposures are uncommitted retail credit lines or not; and
   (c) the risk weight for the kind of underlying exposures (as if those exposures had not been securitised).
4.6.45 Non-controlled early amortisation and uncommitted retail credit lines

(1) For uncommitted retail credit lines (such as credit card receivables) in securitisations that have non-controlled early amortisation provisions that can be triggered by the excess spread falling to a specified level, a banking business firm must compare the three-month average excess spread to the point at which the bank is required to trap excess spread (the excess spread trapping point) as economically required by the structure.

(2) If a securitisation does not require the trapping of excess spread, the excess spread trapping point for the securitisation is 4.5 percentage points more than the excess spread at which early amortisation is triggered.

4.6.46 Credit conversion factors

A banking business firm that is the originator or sponsor of a securitisation must divide the securitisation’s excess spread by the securitisation’s excess spread trapping point to determine the appropriate segments and apply the corresponding credit conversion factor for uncommitted credit lines in accordance with table 4.6.46.
Table 4.6.46 Credit conversion factors (CCFs) for securitisations involving revolving exposures with non-controlled early amortisation

<table>
<thead>
<tr>
<th>column 1 item</th>
<th>column 2 segments</th>
<th>column 3 CCFs for uncommitted credit lines</th>
<th>column 4 CCFs for committed credit lines</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail credit lines</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>133.33% of trapping point or more</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>2</td>
<td>&lt;133.33% to 100% of trapping point</td>
<td>5</td>
<td>100</td>
</tr>
<tr>
<td>3</td>
<td>&lt;100% to 75% of trapping point</td>
<td>15</td>
<td>100</td>
</tr>
<tr>
<td>4</td>
<td>&lt;75% to 50% trapping point</td>
<td>50</td>
<td>100</td>
</tr>
<tr>
<td>5</td>
<td>&lt;50% of trapping point</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>6</td>
<td>Non-retail credit lines</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

4.6.47 Requirement to apply higher capital charge

(1) The capital charge to be applied under this subdivision is the higher of:
   (a) the capital requirement for retained securitisation exposures in the securitisation; and
   (b) the capital requirement that would apply if the exposures had not been securitised.

(2) The firm must also deduct from its CET1 the amount of any gain-on-sale and credit-enhancing interest-only strips arising from the securitisation.

Division 4.6.J Treatment of STC securitisations

*Note* Provisions relating to the new category of simple, transparent and comparable (STC) securitisations are being prepared. Under the Basel Committee on Banking Supervision’s revised securitisation framework, the requirements for STC securitisations comes into effect on 1 January 2018.
Part 4.7 Provisioning

4.7.1 Provisioning

Provisioning means setting aside an amount to cover expected losses on special mention credits, impaired credits and other problem assets, based on loan-loss probability. Provisioning is made before profit is earned.

4.7.2 Policies—provisioning

Depending on the nature, scale and complexity of a banking business firm’s business, and of the credit it provides, the firm’s provisioning policy must set out:

(a) the areas of its business to which the policy applies;
(b) whether the firm uses different approaches to those areas, and the significant differences in approach;
(c) who is responsible for regularly monitoring its assets, to identify problem or potential problem assets, and the factors it takes into account in identifying them;
(d) the extent to which the value of any collateral, guarantees or insurance that the firm holds affects the need for, or the level of, provisions;
(e) the basis on which the firm makes its provisions, including the extent to which their levels are left to managerial judgement or to a committee;
(f) the methods, debt management systems or formulae used to set the levels of provisions and the factors that must be considered in deciding whether the provisions are adequate;
(g) the reports to enable the firm’s governing body and senior management to ensure that the firm maintains adequate provisions;
(h) the procedures and responsibilities for arrears management and the recovery of exposures in arrears or exposures that have had provisions made against them;
(i) the procedures for writing off and writing back provisions; and
(j) the procedures for calculating and making provisions for contingent and other liabilities (such as contingent liabilities that have crystallised from acceptances, endorsements, guarantees, performance bonds, indemnities, irrevocable letters of credit and the confirmation of documentary credits).
4.7.3 Making provisions

(1) A banking business firm must ensure that the firm maintains provisions that, taken together, are prudent, reasonable and adequate to absorb credit losses, given the facts and circumstances. The losses covered must include losses incurred, losses incurred but not yet reported, and losses estimated but not certain to arise, extending over the life of the individual credits that make up its credit portfolio.

(2) The firm must also ensure that provisions and write-offs are timely and reflect realistic repayment and recovery expectations, taking into account market and macroeconomic conditions. The firm must consider all the significant factors that affect the likelihood of collecting on the transactions that make up its credit portfolio and the estimated future credit losses on those transactions.

(3) The firm must make provisions that in total at least meet the requirements in table 4.7.3.

Table 4.7.3 Provisioning requirements

<table>
<thead>
<tr>
<th>column 1 item</th>
<th>column 2 category</th>
<th>column 3 minimum provisioning requirement (% of the unsecured part of the credit)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>performing</td>
<td>0</td>
</tr>
<tr>
<td>2</td>
<td>special mention</td>
<td>5</td>
</tr>
<tr>
<td>3</td>
<td>substandard</td>
<td>20</td>
</tr>
<tr>
<td>4</td>
<td>doubtful</td>
<td>50</td>
</tr>
<tr>
<td>5</td>
<td>loss</td>
<td>100</td>
</tr>
</tbody>
</table>

(4) Provisions may be general (assessed collectively against the whole of a portfolio) or specific (assessed against individual credits), or both.

(5) The firm must take into account off-balance-sheet exposures in its categorisation of credits and in provisioning.

Note: There are 2 types of off-balance-sheet exposures: those that can be unilaterally cancelled by the firm and those that cannot. No provisioning is necessary for the former.

4.7.4 Review of levels

The levels of provisions and write-offs must be reviewed regularly to ensure that they are consistent with identified and estimated losses.
Guidance

1. A review of a firm’s write-offs can help identify whether the firm’s provisioning policy results in over-provisioning or under-provisioning.

2. The Regulatory Authority regularly assesses trends and concentrations in risk and risk build-up across financial entities in relation to problem assets. In making the assessment, the authority takes into account any observed concentration in the CRM techniques used by firms and the potential effect on the efficacy of those techniques in reducing loss. The authority would consider the adequacy of provisions for a firm (and the industry in general) in the light of the assessment.

3. The Regulatory Authority might seek the opinion of external experts in assessing the adequacy of a firm’s policies for grading and classifying its assets and the appropriateness and robustness of the levels of its provisions.

4.7.5 No circumventing of requirements

A banking business firm must not restructure, refinance or reclassify assets with a view to circumventing the requirements on provisioning.

4.7.6 Authority can reclassify assets

(1) The Regulatory Authority may at any time require a banking business firm to demonstrate that the firm’s classification of its assets, and its provisions, are adequate for prudential purposes.

(2) The Regulatory Authority may require the firm to reclassify its assets or increase the levels of its provisions if the authority considers that the asset classifications are inaccurate, or the provisions are inadequate, for prudential purposes.

Example

If the Regulatory Authority considers that existing or anticipated deterioration in asset quality is of concern or if the provisions do not fully reflect expected losses, the authority may require the firm to adjust its classifications of individual assets, increase its levels of provisions or capital and, if necessary, impose other remedial measures.

4.7.7 Information to governing body

(1) A banking business firm’s governing body must obtain timely information on the condition of the firm’s assets, including the classification of assets, the levels of provisions and problem assets.

(2) The information must include summary results of the latest asset review, comparative trends in the overall quality of problem assets, and measurements of existing or anticipated deterioration in asset quality and losses expected.
Part 4.8  Transactions with related parties

4.8.1  Introduction

(1) To guard against abuses in lending to related parties and to address conflicts of interest, this Part requires transactions with related parties to be at arm’s length and subject to appropriate supervision and limits.

(2) Related-party transactions must be interpreted broadly. Related party transactions include on-balance-sheet and off-balance-sheet credit exposures, service contracts, asset purchases and sales, construction contracts, lease agreements, derivative transactions, borrowing and write-offs.

4.8.2  Concept of related parties

(1) The concept of parties being related to a banking business firm is used in these rules in relation to parties over which the firm exercises control or parties that exercise control over the firm. The concept is primarily used in relation to the requirement that the firm’s transactions be at arm’s length.

(2) In contrast, the concept of parties being connected to one another (which is discussed with concentration risk in Chapter 5) is used in these rules to measure concentration risk and large exposures.

(3) It is of course possible for connected counterparties to be related to the banking business firm holding the exposure concerned.

Note  For purposes of concentration risk, the firm’s exposure to connected counterparties (whether related or not) is taken to be a single risk.

4.8.3  Related parties

Related parties, of a banking business firm, includes:

(a) any other member of the firm’s corporate group;
(b) any individual who is able to exercise significant influence over the firm;
(c) any affiliate of the firm; and
(d) any entity that the Regulatory Authority directs the firm to include.

Guidance

Related party is wider than a firm’s corporate group in that it includes individuals. Related parties include the banking business firm’s subsidiaries and major stock holders; members of its governing body; its senior management and key employees.

Note  Affiliate is defined in the glossary.
4.8.4 **Role of governing body—related parties**

(1) A banking business firm’s governing body must ensure that the firm’s policies relating to related-party transactions are complied with and that any exceptions are reported to the appropriate level of the senior management, and, if necessary, to the governing body.

(2) The governing body must also ensure that the firm’s senior management monitors transactions with related parties, takes appropriate steps to control or mitigate the risks from such transactions and writes off exposures to related parties only in accordance with the firm’s policies.

(3) The governing body must approve transactions with related parties, and the write-off of related-party exposures, if such transactions or write-off exceeds specified amounts or otherwise poses any special risk.

4.8.5 **Policies—transactions with related parties**

(1) A banking business firm’s policy must establish:

   (a) effective systems to identify, monitor and report individual and total exposures to, and transactions with, related parties;

   (b) procedures to prevent a member of the governing body, a member of the firm’s senior management or any other person who stands to gain a benefit from a related-party transaction from being part of the process of granting and managing the transaction;

   (c) well-defined criteria for the write-off of exposures to related parties;

   (d) prudent and appropriate limits to prevent or address conflicts of interest; and

   (e) procedures for tracking and reporting exceptions to, and deviations from, limits or policies.

4.8.6 **Transactions must be arm’s length**

A transaction with a related party must not be undertaken on terms more favourable to the party than a corresponding transaction with a non-related party.

**Guidance**

Favourable terms could relate to interest rate, credit assessment, tenor, fees, amortisation schedule and need for collateral. An exception for beneficial terms could be appropriate if it is part of an employee’s remuneration package (for example, more favourable loan rates to employees).
4.8.7 Limits on lending to related parties

A banking business firm must not enter into a transaction that would cause it to exceed the limits set out in table 4.8.7 unless it has the written approval of the Regulatory Authority to do so.

Table 4.8.7 Limits on banking business firms’ exposure to related parties

<table>
<thead>
<tr>
<th>column 1 item</th>
<th>column 2 kind of exposure</th>
<th>column 3 limit (% of total assets)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>exposures to a member of the governing body or senior management of the firm, or a person connected to either of them</td>
<td>0.5</td>
</tr>
<tr>
<td>2</td>
<td>the total of exposures under item 1</td>
<td>3</td>
</tr>
<tr>
<td>3</td>
<td>exposures to a significant shareholder of the firm (other than exposures to a shareholder that is a deposit-taker or an equivalent entity regulated in a way comparable to a deposit-taker in the QFC))</td>
<td>2</td>
</tr>
<tr>
<td>4</td>
<td>the total of exposures under item 3</td>
<td>5</td>
</tr>
<tr>
<td>5</td>
<td>exposures to a related party or a party connected to the related party (other than exposures to a deposit-taker or an equivalent entity that is regulated in a way comparable to a deposit-taker in the QFC)</td>
<td>2</td>
</tr>
<tr>
<td>6</td>
<td>the total of exposures under item 5</td>
<td>5</td>
</tr>
</tbody>
</table>

4.8.8 Powers of Regulatory Authority

(1) Despite anything in these rules, the Regulatory Authority may, in writing, set specific limits on a banking business firm’s exposures to a related party or to related parties in total.

(2) The authority may direct such exposures to be deducted from regulatory capital when assessing capital adequacy or direct that such exposures be collateralised.
Chapter 5  Concentration risk and related matters

Part 5.1  General

5.1.1  Introduction

This Chapter sets out the requirements for a banking business firm’s policies to identify, measure, evaluate, manage and control or mitigate concentrations of risk. This Chapter also sets limits on the firm’s exposures to individual counterparties and connected counterparties.

Note  Safeguarding against risk concentrations is an essential part of a banking business firm’s credit risk management policy—see rules 4.2.2 and 4.3.2.

5.1.2  Concept of connected parties

(1) The concept of parties being connected to one another is used in these rules in relation to counterparties or issuers with which a banking business firm has exposures. Connected counterparties are the basis for the measurement of concentration risk and large exposures.

(2) In contrast, the concept of parties being related to the banking business firm (which is discussed with credit risk in Chapter 4) is primarily used in relation to the requirement that the firm’s transactions be at arm’s length.

(3) It is of course possible for a firm’s related parties to be connected counterparties (such as when the firm has exposures to them).

Note  For purposes of concentration risk, the firm’s exposure to connected counterparties (whether related or not) is taken to be a single risk.

5.1.3  Connected parties

(1) A party is connected to another party if they are linked by:
   (a) cross guarantees;
   (b) common ownership;
   (c) common management;
   (d) one having the ability to exercise control over the other, whether direct or indirect;
   (e) financial interdependency—that is, the financial soundness of one may affect the financial soundness of the other; or
   (f) any combination of the factors mentioned in paragraphs (a) to (e).
Guidance

1. Parties would be connected if the same persons significantly influence the governing body of each of them.

2. Parties would be connected if one of them has an exposure to the other that was not incurred for the clear commercial advantage of both of them and is not on arm’s length terms.

3. Parties would be connected if they are so closely linked that:
   (a) the insolvency or default of 1 is likely to be associated with the insolvency or default of the other;
   (b) it would be prudent when assessing the financial condition or creditworthiness of 1 to consider that of the other; or
   (c) there is, or is likely to be, a close relationship between their financial performance.

4. Parties would be connected if a banking business firm has exposures to them and any loss to the firm on any of the exposures to 1 of the parties is likely to be associated with a loss to the firm with respect to at least 1 exposure to each of the others.

(2) A counterparty may be connected to another counterparty by other linkages that, in the banking business firm’s assessment, connect the counterparties as constituting a single risk. A connected party can be an individual or other entity.

Guidance

1. Two or more individuals or legal persons would constitute a single risk if they are so connected that, if 1 of them were to experience financial problems, the other or others would be likely to encounter repayment difficulties.

2. Connected counterparties should be identified and the procedures to manage the combined credit risk considered. A banking business firm may need to monitor and report the gross exposure to connected counterparties against combined limits in addition to monitoring the exposure to each counterparty.

5.1.4 Role of governing body—concentration risk

(1) A banking business firm’s governing body must ensure that the firm’s concentration risk management policy gives a comprehensive firm-wide view of the significant sources of concentration risk (including on-balance-sheet exposures, off-balance-sheet exposures and exposures from contingent liabilities).

(2) The governing body must also ensure that the firm’s senior management monitors the limits set in this Chapter and that those limits are not exceeded on a solo or consolidated basis.
Part 5.2  Concentration risk

5.2.1  Concentration risk

Concentration risk to a banking business firm arises if the firm is exposed to 1 counterparty, or to 2 or more counterparties that are not truly independent of each other, and the total of the exposures to the counterparty or counterparties is large enough to endanger the firm’s liquidity or solvency.

Guidance

1  Significant sources of concentration risk include:

   (a) concentration of exposures to a single counterparty or connected counterparties;
   (b) concentration of exposures to counterparties in the same industry, sector, region or country; and
   (c) concentration of exposures to counterparties whose financial performance depends on the same activity or commodity.

2  A concentration of exposures would also arise if a firm accepts collateral or credit protection provided by a single provider.

5.2.2  Policies—concentration risk sources and limits

   (1) A banking business firm’s concentration risk policy must set limits for acceptable concentrations of risk, consistent with the firm’s risk tolerance, risk profile and capital. The limits must be made known to, and must be understood by, all relevant staff.

   (2) The policy must ensure that:

   (a) the firm’s information systems identify exposures creating risk concentrations and large exposures to single counterparties or connected counterparties, aggregate those exposures and facilitate their management; and

   (b) all significant such concentrations and exposures are reviewed regularly and reported to the firm’s governing body or senior management.

Guidance

A banking business firm’s policies should be flexible to help the firm to identify risk concentrations. To achieve this, the systems should be capable of analysing the firm’s credit portfolio by:

- size of exposure
- exposure to connected counterparties
- product
- geography
- industry or sector (for example, manufacturing and industrial)
- account performance
5.2.3 **Relation to stress-testing**

When carrying out stress-testing or review of stress scenarios, a banking business firm must take into account significant risk concentrations and large exposures, and the effects of changes in market conditions and risk factors on them.

- internal credit risk assessment
- funding
- outstandings versus commitments
- types and coverage of collateral.
Part 5.3 Management of exposures

5.3.1 Calculating exposures

(1) *Large exposure* means a gross exposure to a counterparty or connected counterparties that is 10% or more of the firm’s regulatory capital.

*Note* Regulatory capital is defined in rule 3.2.7.

(2) In this rule:

*Gross exposure* to a counterparty or connected counterparties is the total of the following exposures:

(a) on-balance-sheet and off-balance-sheet exposures;

(b) debt securities held by the firm;

(c) equity exposures.

(3) In calculating the gross exposure, include:

(a) the outstanding balances of all loans and advances, including balances with other banks;

(b) holdings of debt or equity securities;

(c) unused off-balance-sheet commitments, whether revocable or irrevocable; and

(d) the credit equivalent amounts of all market-related transactions (calculated in accordance with rule 4.4.11, or Division 4.5.E if netting applies).

(4) However, in calculating the gross exposure, do not include:

(a) claims, equity investments and other exposures deducted from the firm’s capital;

(b) exposures arising in the course of settlement of market-related contracts; and

(c) exposures that have been written off.

(5) For this Part:

(a) a banking business firm must treat an exposure as reduced (to the extent permitted by Part 4.5) by any applicable CRM technique; and

(b) a banking business firm that is part of a financial group may offset intragroup amounts due to other deposit takers within the group.
5.3.2 Policies—large exposures

A banking business firm’s large exposure policy must include:

(a) exposure limits, commensurate with the firm’s risk tolerance, risk profile and capital, for:
   (i) categories of counterparties (for example, sovereigns, other authorised firms and other financial entities, corporate and individual borrowers);
   (ii) connected counterparties;
   (iii) particular industries or sectors;
   (iv) particular countries; and
   (v) asset classes (for example, property holdings);
(b) the circumstances in which the exposure limits may be exceeded;
(c) the procedures for approving exceptions to, and deviations from, exposure limits or policies; and
(d) the procedures for identifying, measuring, managing and reporting large exposures.

5.3.3 Limits on exposures

(1) A banking business firm must not become exposed without limit to a single counterparty. The firm must not give a general guarantee of the obligations of a counterparty.

(2) The total of the firm’s net exposures to any 1 counterparty or any 1 group of connected counterparties must not exceed 25% of the firm’s regulatory capital.

(2A) The total of all of the firm’s net large exposures must not exceed 800% of that capital.

Note Subrules (2) and (2A) do not apply to a branch. A branch is not required to hold regulatory capital—see rule 3.1.2 (1).

(3) A banking business firm may apply to the Regulatory Authority for approval for a proposed exposure in excess of the limits set out in this Chapter. An approval will be granted only in exceptional circumstances and only after the firm satisfies the authority that the proposed exposure does not expose the firm to excessive risk.

(4) The Regulatory Authority may impose a higher capital ratio on the firm to compensate for the additional risk associated with the proposed exposure.
5.3.5 **Obligation to measure**

(1) A banking business firm must measure, classify and make provision for each large exposure individually.

(2) The firm must immediately notify the Regulatory Authority if the firm is concerned that risk concentrations or large exposures might significantly affect its capital adequacy. The notice must describe the firm’s proposed measures to address its concerns.
Part 5.4  Powers of Regulatory Authority

5.4.1  Authority can create relationships
If the Regulatory Authority considers it necessary or desirable to do so in the interest of effective supervision of a banking business firm, the authority may direct the firm to treat a party as connected to another party.

5.4.2  Authority can set different limits and ratios
(1) Despite anything in these rules, the Regulatory Authority may, in writing, set specific limits on a banking business firm’s exposures to particular counterparties, groups of counterparties, industries, sectors, regions, countries or asset classes on a case-by-case basis.

(2) If a banking business firm has 1 or more large exposures (excluding exposures to sovereigns and central banks) or if, in the Regulatory Authority’s opinion, the firm is exposed to a significant level of risk concentration, the authority may impose a higher capital ratio on the firm.

(3) In considering whether to increase the firm’s capital ratio, the Regulatory Authority will take into account:

(a) whether the increased capital ratio would be consistent with the firm’s concentration risk and large exposure policies;

(b) the number of exposures, and the size and nature of each; and

(c) the nature, scale and complexity of the firm’s business and the experience of its governing body and senior management.

(4) The Regulatory Authority may also direct the firm to take measures to reduce its level of risk concentration.

Note  Under FSR, article 16, the Regulatory Authority may modify or waive the application of a prudential requirement to an authorised firm or firms.
Chapter 6  Market risk

Part 6.1  General

Division 6.1.A  Governing body, trading book and policies

6.1.1  Introduction

(1) This Chapter sets out the requirements for a banking business firm’s market risk management policy to identify, measure, evaluate, manage and control or mitigate market risk. This Chapter also sets out how to calculate the firm’s market risk capital requirement.

(2) A banking business firm that operates in a market incurs risks from potential movements in market prices.

(3) The market risk capital requirement for a banking business firm is made up of capital charges for:

(a) foreign exchange risk in the banking book and trading book;
(b) options risk in the banking book and trading book;
(c) commodities risk in the banking book and trading book;
(d) traded equity position risk; and
(e) traded interest rate risk.

Note  The measurements of the risks mentioned in subrule (3) are set out in Part 6.2 to Part 6.6.

6.1.2  Requirements—capital and management of market risk

(1) A banking business firm must have capital to cover market risk from positions in its banking and trading books.

(2) The firm must also have robust market risk measurement and risk management.

6.1.3  Standard method to be used

(1) Unless the Regulatory Authority has approved the use of an internal model by a banking business firm, market risk is, as a general rule, measured using the standard method. The standard method comprises a range of approaches that a firm may use to calculate capital charges from its trading activities.

Note  For approval of the use of internal models—see rule 3.1.6.
In the standard method, capital requirement is the sum of the capital charges, calculated in accordance with this Chapter, for the risks included in market risk.

6.1.4 Need for trading book

A banking business firm’s trading book consists of the positions held by the firm (whether on-balance-sheet or off-balance-sheet) that must be included in the book in accordance with these rules. Other positions held by the firm must be included in its banking book.

Note A firm is required to have policies to distinguish consistently between trading activities and banking activities—see rule 6.1.7 (3).

A banking business firm must have a trading book if:

(a) it has positions that must be included in the trading book; and
(b) the total value of the positions described in paragraph (a) has exceeded 5% of the total of the firm’s on-balance-sheet and off-balance-sheet positions at any time in the previous 12 months.

The firm must include, in the trading book, positions and exposures of the following kinds:

(a) a position in a financial instrument, commodity or commodity derivative;
(b) a principal broking position in a financial instrument, commodity or commodity derivative;
(c) a position taken to hedge an exposure in the trading book;
(d) an exposure from a repurchase agreement, or securities or commodities lending, that is based on a position in a security or commodity included in the trading book;
(e) an exposure from a reverse repurchase agreement, or securities and commodities borrowing, that is based on a position in a security or commodity included in the trading book;
(f) an exposure from an unsettled transaction, a free delivery or an over the counter derivative;
(g) an exposure in the form of a fee, commission, interest, dividend or margin on an exchange-traded derivative directly related to a position included in the trading book.

Guidance
Whenever a banking business firm acts as principal (even in the course of an activity normally described as ‘broking’ or ‘customer business’), the resulting positions should be included in the trading book. This applies even if the nature of the business means that the only risks being incurred by the banking business firm are counterparty risks (that is, no market risk capital requirements apply).
(4) The firm must also include in its trading book:
   (a) total-rate-of-return swaps (except those that have been transacted to hedge a banking book credit exposure); and
   (b) open short positions in credit derivatives.
(5) The firm must not include in its trading book:
   (a) positions held for liquidity management; and
   (b) loans (unless they are used to hedge a position or transaction in the trading book).
(6) The firm’s positions and exposures must be valued in accordance with the relevant accounting standards.

Note For the firm’s choice and use of accounting standards—see rule 2.1.6.

6.1.5 Role of governing body—market risk
A banking business firm’s governing body must ensure that the firm’s market risk management policy enables the firm to obtain a comprehensive firm-wide view of its market risk and takes into account the risk of a significant deterioration in market liquidity.

6.1.6 Policies—market risk environment
(1) A banking business firm’s market risk management policy must establish:
   (a) effective systems for the accurate and timely identification, measurement, evaluation, management and control or mitigation of market risk, and reporting to the firm’s governing body and senior management;
   (b) prudent and appropriate market risk limits that are consistent with the firm’s risk tolerance, risk profile and capital, and with the management’s ability to manage;
   (c) who is responsible for identifying, measuring and reporting market risk;
   (d) procedures for tracking and reporting exceptions to, and deviations from, limits or policies; and
   (e) procedures for including positions and exposures in the trading book.
(2) The policy must ensure that all of the firm’s transactions are identified and recorded in a timely way and that their valuations are consistent and prudent. The firm must use reliable market data that have been verified by a function that is independent of the function that assumed or incurred the risk.
Guidance
In the absence of market prices, the firm may use industry-accepted models to value transactions.

6.1.7 Policies—trading book

(1) The firm must have clearly defined policies for keeping the book up-to-date and the positions and exposures accurate.

(1A) In particular, the firm must have policies on:

(a) what to include, or not to include, in the trading book;
(b) managing and reporting trading positions;
(c) valuing positions, including:
   (i) clearly defined responsibilities of staff involved in the valuation;
   (ii) sources of market information, and review of their reliability;
   (iii) frequency of independent valuations;
   (iv) timing of closing prices;
   (v) procedures for adjusting valuations between periods;
   (vi) ad-hoc verification procedures; and
   (vii) reporting lines for the valuation function that are independent of that function that gave rise to the position.

(2) The policies must be approved by the firm’s governing body, and the firm must be able to demonstrate compliance with them if directed by the Regulatory Authority.

(3) The firm must also have adequate policies:

(a) to monitor compliance with the policies and distinguish consistently between trading activities and banking activities; and
(b) to monitor the size of its trading book.

6.1.8 No switching of instruments between books

(1) A banking business firm must not switch an instrument between its trading book and banking book, unless the Regulatory Authority has, in writing, allowed the firm to do so. The authority may approve a switch subject to 1 or more conditions.

(2) The firm must not benefit from any lower regulatory capital requirement resulting from a switch approved by the authority.

Guidance
The authority will grant approval only in extraordinary cases. The authority will require the firm to publicly disclose the switch.
6.1.9 Relation to stress-testing
When carrying out stress-testing or review of stress scenarios, a banking business firm must take into account market risk exposures.

6.1.10 Capital requirement, assets and liabilities
(1) In calculating its capital requirement, a banking business firm must take into account unexpected losses that may arise from market risk.
(2) In determining the value of an asset or liability, the firm must also make appropriate adjustments for uncertainties arising from market risk.

Division 6.1.B Measurement of risk and valuation of positions

6.1.11 Valuing positions—mark-to-market
(1) A banking business firm must use the mark-to-market method to value its positions and exposures if there is a market to mark the positions and exposures to. Mark-to-market means a valuation that is based on current market value.

Guidance
1 The Regulatory Authority would expect a banking business firm to mark-to-market listed securities since there is a market with observable and reliable prices for such securities.
2 The firm should mark-to-market as much as possible. It should use the prudent side of bid or offer unless the firm is a significant market maker that can close at mid-market.
3 When estimating fair value, the firm should maximise the use of relevant observable inputs and avoid the use of unobservable inputs.

(2) A position that is marked-to-market must be revalued daily, based on independently sourced current market prices.

6.1.12 Valuing positions—mark-to-model
(1) If it is not possible to mark-to-market (for example, in the case of unlisted securities or where the market is inactive), a banking business firm may use the mark-to-model method to value its positions and exposures. Mark-to-model means a valuation that has to be benchmarked, extrapolated or otherwise calculated from a market input.
(2) The firm must be able to demonstrate that its marking-to-model is prudent.

**Guidance**
A banking business firm should be extra conservative when marking-to-model. The Regulatory Authority will take into account the following in deciding if the firm’s model is prudent:

- whether senior management is aware of the positions and exposures that are marked to model and whether it understands the uncertainty this might create in reporting the risk or performance of the business
- the extent to which market inputs are sourced from market prices
- the appropriateness of the assumptions used by the firm
- the availability of generally accepted valuation methods for particular products
- who developed the model
- whether the firm holds a secure copy of the model
- the existence of formal control procedures for changing the model
- how often the model is used to check valuations
- how aware is the firm’s risk management function of the weaknesses of the model and how those weaknesses are reflected in the valuation output
- the results of comparisons between actual close out values and model outputs
- the firm’s procedures for reviewing the model.

### 6.1.13 Independent price verification

A banking business firm must independently verify market prices and model inputs, to check that those prices and inputs are accurate. The verification must be done at least once a month.

**Guidance**

1. Independent price verification is different from daily mark-to-market. The object of the verification is to regularly check the accuracy of market prices or model inputs and, thereby, eliminate inaccurate daily marks. The verification should be carried out by a unit independent of whoever marked the positions or exposures.

2. The independent marking in the verification process should reveal any error or bias in pricing. It entails a higher standard of accuracy in that the market prices or model inputs are used to determine profit and loss figures, whereas daily marks are used primarily for management reporting in between reporting dates.

### 6.1.14 Valuation adjustments

(1) A banking business firm must consider making adjustments for positions that cannot be prudently valued (such as those that have become concentrated, less liquid or stale). For example, valuation adjustment would be appropriate if pricing sources are more subjective (such as when there is only one available broker quote).
(2) The firm must establish and maintain procedures for considering valuation adjustments. This rule applies whether:
   (a) the firm uses the mark-to-market or mark-to-model method; and
   (b) whether the valuation is done by the firm itself or a third party.

(3) The firm must consider the following valuation adjustments:
   (a) unearned profit;
   (b) close-out costs;
   (c) operational risks;
   (d) early termination;
   (e) investing and funding costs;
   (f) future administrative costs;
   (g) model risk, if relevant;
   (h) any other adjustment that the firm considers appropriate.
Part 6.2  

Foreign exchange risk

6.2.1  

Relation to market risk

(1) In measuring its market risk, a banking business firm must include the risk of holding or taking positions in foreign currencies and gold (foreign exchange risk). Foreign exchange risk may arise from the firm’s trading in the foreign exchange market and other markets; it may also arise from non-trading activities that are denominated in a foreign currency.

Guidance

1 If a banking business firm is exposed to interest rate risk on positions in foreign currencies and gold, the firm must include the relevant interest rate positions in the calculation of interest rate risk—see rule 6.6.2 (4).

2 Gold is dealt with as a foreign exchange position (rather than as a commodity position) because the volatility of its prices is similar to that of a currency.

(2) If foreign currency is to be received or delivered under a forward contract, the firm must report any interest rate exposure from the other leg of the contract in accordance with Part 6.6 (traded interest rate risk).

(3) If gold is to be received or delivered under a forward contract, the firm must report any foreign currency or interest rate exposure from the other leg of the contract in accordance with this Part or Part 6.6, respectively.

6.2.2  

What to include in foreign exchange risk

(1) In calculating the capital charge for foreign exchange risk, a banking business firm must include in its exposure to each foreign currency:

(a) the net spot position (that is, assets minus liabilities denominated in the currency, including accrued interest and other accrued income and accrued expenses);

(b) the net forward position (that is, amounts to be received minus amounts to be paid under forward foreign exchange transactions denominated in the currency);

Examples of amounts to be received or paid

- payments under currency futures
- the principal on currency swaps not included in the spot position
- interest from futures, swaps and other interest rate transactions.

(c) irrevocable guarantees (and similar instruments) that are certain to be called and likely to be irrecoverable; and

(d) any other items representing an exposure to risk in foreign currencies (for example, a specific provision held in the currency in question where the underlying asset is held in a different currency).
(2) The firm may also include in its currency exposure any net future income or expenses that are not yet accrued but already fully hedged. If the firm includes such income or expenses, it must do so consistently and must not select only expected future flows that reduce its position.

(3) If the firm has deliberately taken a position to partly or totally protect itself against the adverse effect of a change in an exchange rate on its capital adequacy ratio, it may exclude the position from its currency exposure insofar as it relates to that hedge, if:
   (a) the position is of a structural and non-trading nature;
   (b) the structural position does no more than protect the firm’s capital adequacy ratio;
   (c) the position cannot be traded for speculative or profit-making purposes; and
   (d) the exclusion of the position is done consistently, with the treatment of the hedge remaining the same for the life of the assets or other items.

(4) A structural position includes:
   (a) a position arising from an instrument that satisfies the criteria for inclusion as capital under Chapter 3;
   (b) a position in relation to a net investment in a self-sustaining subsidiary, the accounting consequence of which is to reduce or eliminate what would otherwise be a movement in the foreign currency translation reserve; and
   (c) an investment in an overseas subsidiary or other entity in the same corporate group as the banking business firm that, under these rules, is deducted from the firm’s capital for capital adequacy purposes.

(5) A banking business firm must also include any currency exposures arising from equity, commodity and interest positions.

6.2.3 Foreign exchange risk on consolidated basis

(1) If a banking business firm is assessing its foreign exchange risk on a consolidated basis, and the inclusion of the currency positions of a marginal operation of the firm is technically impractical, the firm may use, as a proxy for those positions, the internal limit in each currency that the firm applies to the operation. Marginal operation, in relation to
a firm, is an operation that accounts for less than 5% of the firm’s total currency positions.

(2) The absolute values of the limits must be added to the net open position in each currency, but only if the actual positions are adequately monitored against those internal limits.

6.2.4 Capital charge—foreign exchange risk

(1) For a banking business firm that does not write options, net open position in a foreign currency is the sum of:

(a) the firm’s currency exposures under rule 6.2.2 for the currency; and

(b) the value of the options and their associated underlying assets measured using the simplified approach in Division 6.3.B.

(2) For a banking business firm that writes options, net open position in a foreign currency is the sum of:

(a) the firm’s currency exposures under rule 6.2.2 for the currency; and

(b) either:

(i) the net delta-based equivalent of the firm’s total book of foreign currency options (with separately calculated capital charges for gamma risk and vega risk under Division 6.3.C); or

(ii) the value of the options and their associated underlying assets under the delta-plus method in Division 6.3.C.

(3) A banking business firm must calculate its overall foreign currency net open position by:

(a) calculating the net open position in each foreign currency;

(b) converting the nominal amount (or net present value) of each such net position into Qatari riyals at the current spot market exchange rate;

(c) adding all short net positions and adding all long net positions calculated under paragraphs (a) and (b); and

(d) selecting the greater of the absolute values of the 2 sums in paragraph (c).

(4) The firm must then calculate its net position in gold by:

(a) valuing all gold positions using the US dollar current spot price (regardless of maturity);

(b) offsetting long and short positions; and
(c) converting the absolute value of the resulting net position into Qatari riyals.

(5) To convert the net position in gold into Qatari riyals, the firm must state the position (spot plus forward) in a standard unit of measurement and then convert the net position at the current spot market exchange rate.

(6) The capital charge for foreign exchange risk of a banking business firm is the sum of:
   (a) 8% of the firm’s overall foreign currency net open position in each of the foreign currencies it holds; and
   (b) 8% of its net position in gold.

6.2.5 Forward positions
A banking business firm must value forward currency and gold positions at the current spot market exchange rates.

6.2.6 Treatment of paired currencies
A banking business firm must report positions in a currency pair separately as if each were a currency on its own.
Part 6.3 Options risk

Division 6.3.A General

6.3.1 Relation to market risk
In measuring its market risk, a banking business firm must include the risk of holding or taking positions in options contracts (options risk).

6.3.2 Measuring options risk
(1) A banking business firm that does not write options must use the simplified approach.

(2) A banking business firm that writes options must use the delta-plus method.

Note If all the written option positions are hedged by perfectly matched long positions in exactly the same options, no capital charge for options risk is required.

Division 6.3.B Simplified approach

6.3.3 Using simplified approach
A banking business firm that does not write options must calculate capital charges in accordance with:

(a) rule 6.3.4 for a position that is a ‘long cash and long put’ or ‘short cash and long call’ position; or

(b) rule 6.3.5 for a position that is a ‘long put’ or ‘long call’ position.

Guidance
In the simplified approach, the position in the option and the associated underlying asset (cash or forward) is not subject to the standard method. Instead, each position is carved-out and subject to a separately calculated capital charge for specific risk and general risk.

Note As a general rule, the standard method is used to measure market risk—see rule 6.1.3.

6.3.4 Capital charges—‘long cash and long put’ or ‘short cash and long call’
(1) For a position that is ‘long cash and long put’ or ‘short cash and long call’, the capital charge is calculated by multiplying the market value of the underlying security by the sum of the specific and general risk capital charges for the underlying, and then subtracting the amount by which the option is in-the-money (bounded at zero).

Guidance
1 In cases (such as foreign exchange transactions) where it is unclear which side is the underlying security, the underlying should be taken to be the asset that would...
be received if the option were exercised. In addition, the nominal value should be
used for items if the market value of the underlying instrument could be zero
(such as in caps, floors and swaptions).

2 Some options have no specific risk (such as those having an interest rate, currency
or commodity as the underlying security); other options on interest-rate-related
instruments and options on equities and stock indices, however, would have
specific risk.

(2) In the simplified approach, the capital charge is:

(a) 8% for options on currency; and

(b) 15% for options on commodities.

(3) For options with a residual maturity of less than 6 months, a banking
business firm must use the forward price (instead of the spot price) if it
is able to do so.

(4) For options with a residual maturity of more than 6 months, the firm
must compare the strike price with the forward price (instead of the
current price). If the firm is unable to do this, it must take the in-the-
money amount to be zero.

6.3.5 Capital charges—‘long put’ or ‘long call’

(1) For a position that is ‘long put’ or ‘long call’, the capital charge is the
lesser of:

(a) the market value of the underlying security multiplied by the sum
of the specific and general risk capital charges for the underlying;
and

(b) the market value of the option.

(2) For subrule (1) (b), the book value of the option may be used instead of
the market value if the position is not included in the trading book (for
example, options on particular foreign exchange or commodities
positions).

Division 6.3.C Delta-plus method

6.3.6 Using delta-plus method

(1) A banking business firm that writes options must calculate specific risk
capital charges separately by multiplying the delta-equivalent value of
each option by the risk-weight applicable under Part 6.5 (traded equity
position risk) and Part 6.6 (traded interest rate risk).

(2) In calculating general risk capital charge, the firm must enter delta-
weighted positions with a debt security or interest rate as the underlying
into the interest rate time bands in table 6.6.8A by using a two-legged
approach. Under this approach, there is 1 entry at the time the
underlying contract takes effect and a second entry at the time the underlying contract matures.

(3) For an option with a debt security as the underlying, the firm must apply a specific risk capital charge to the delta-weighted position based on the issuer’s rating and in accordance with Part 6.6.

6.3.7 Relation to standard method

(1) A banking business firm that writes options must include delta-weighted option positions in measuring its market risk.

(2) The firm must report such an option as a position equal to the sum of the market values of the underlying multiplied by the sum of the absolute values of the deltas. Because delta does not cover all risks associated with option positions, the firm must calculate gamma and vega in calculating the regulatory capital charge.

Note. Gamma is the rate of change of delta with respect to a change in the price of the underlying. Vega is the sensitivity of the value of an option to a change in the volatility of the underlying.

(3) The firm must calculate delta, gamma and vega using the pricing model used by a recognised exchange, or a proprietary options pricing model approved, in writing, by the Regulatory Authority.

6.3.8 Capital charges—options

(1) The capital charge for an option with equities as the underlying must be based on the delta-weighted positions included in the measurement of specific and general risks in accordance with Part 6.5 (traded equity position risk).

(2) A banking business firm that writes options must calculate the capital charge for options on foreign exchange and gold positions in accordance with Part 6.2 (foreign exchange risk). For delta risk, the net delta-based equivalent of the foreign currency and gold options must be included in the measurement of the exposure for the respective currency (or gold) position.

(3) The capital charge for an option on commodities must be based on the charge calculated using the simplified approach in rule 6.4.6.

6.3.9 Gamma capital charges

(1) A banking business firm that writes options must calculate the capital charge for gamma risk (gamma capital charge) for each option position separately.
(2) To calculate gamma capital charge, calculate the gamma impact of each option in accordance with the following formula:

\[ \text{Gamma impact} = \frac{1}{2} \times \gamma \times VU^2 \]

where:

**VU** is:

(a) for an interest rate option:

(i) if the option has a bond as the underlying—the market value of the underlying multiplied by the risk factor applicable under column 3 of table 6.6.8A; or

(ii) if the option has an interest rate as the underlying—the market value of the underlying multiplied by the assumed changes in yield in column 4 of table 6.6.8A;

(b) for options on equities and stock indices—the market value of the underlying multiplied by 8%;

(c) for options on foreign exchange and gold—the market value of the underlying multiplied by 8%; or

(d) for an option on commodities—the market value of the underlying multiplied by 15%.

(3) In calculating the gamma impact for an option mentioned in the definition of **VU**, the firm must treat as the same underlying:

(a) for interest rates—each time band in column 2 of table 6.6.8A (with each position allocated to separate maturity ladders);

(b) for equities and stock indices—each recognised exchange;

(c) for foreign currencies and gold—each currency pair and gold; and

(d) for commodities—each individual commodity of a kind described in rule 6.4.2 (3) (a) or (b).

(4) Each option on the same underlying described in subrules (2) and (3) will have a gamma impact that is positive or negative. The firm must add the individual gamma impacts, resulting in a net gamma impact for each underlying that is either positive or negative.

(5) To calculate the firm’s total gamma capital charge, exclude gamma impacts that are positive. The **total gamma capital charge** is the sum of the absolute values of the net negative gamma impacts.
6.3.10 Vega capital charges

(1) A banking business firm that writes options must calculate the capital charge for vega risk (vega capital charge) for each option position separately.

(2) To calculate vega capital charge, the firm must multiply the vega for each option mentioned in the definition of VU in rule 6.3.9 (2) by a 25% proportional shift in the option’s current volatility. The results must then be summed across each underlying.

(3) The total vega capital charge is the sum of the absolute values of the vega capital charges across each underlying.
Part 6.4  Commodities risk

6.4.1  Relation to market risk

(1) In measuring its market risk, a banking business firm must include the risk of holding or taking positions in commodities and commodities options (commodities risk).

(2) Commodities means physical or energy products that may be traded. Commodities include precious metals (other than gold), base metals, agricultural products, minerals, oil, gas and electricity.

Guidance

1 If a banking business firm is exposed to foreign exchange or interest rate risk from funding commodities positions, the firm must include the relevant positions in the measurement of interest rate or foreign exchange risk—see rules 6.2.2 (5) and 6.6.2 (4), respectively.

2 Gold is dealt with as a foreign exchange position (rather than as a commodity position) because the volatility of its prices is similar to that of a currency.

(3) If a commodity is to be received or delivered under a forward contract, the firm must report any foreign currency, equity or interest rate exposure from the other leg of the contract in accordance with Part 6.2, Part 6.5 or Part 6.6, respectively.

6.4.2  Measuring commodities risk

(1) A banking business firm must use the simplified approach to measure commodities risk.

(2) To calculate open positions using this approach, the firm may report short and long positions in each commodity on a net basis. Positions are reported on a net basis by offsetting them against each other in accordance with subrule (3).

(3) Positions in the same commodity may be offset. Positions in different commodities must not be offset unless:

(a) the commodities are deliverable against each other; or

(b) the commodities are close substitutes for each other and a minimum correlation between price movements of 0.9 can be clearly established over at least the preceding year.

A banking business firm must not use the correlation-based offsetting mentioned in paragraph (b) unless the Regulatory Authority has, in writing, allowed the firm to use it.

6.4.3  Measuring net positions

A banking business firm must first state each commodity position (spot plus forward) in terms of the standard unit of measurement for the
commodity (such as barrels, kilos or grams). The firm must then convert the net position in each commodity into Qatari riyals at the current spot market exchange rates.

**6.4.4 What to include in commodities risk**

1. In calculating the capital charge for commodities risk, a banking business firm must include commodity derivatives and off-balance-sheet positions that are affected by changes in commodity prices (such as commodity futures and commodity swaps).
2. Options on commodities for which the options risk is measured using the delta-plus method must also be included (with their underlying assets). Options for which the options risk is measured using the simplified approach must be excluded.
3. The firm must convert commodity derivatives into notional commodities positions and assign them to maturities under rule 6.4.5.

**6.4.5 Assigning notional positions to maturities**

Futures and forward contracts relating to a particular commodity must be included in the measurement of commodities risk as notional amounts in terms of the standard unit of measurement multiplied by the spot price of the commodity.

**6.4.6 Capital charges—simplified approach**

1. The capital charge for commodities risk of a banking business firm is the sum of:
   a. 15% of the firm’s overall net position, long or short, in each commodity; and
   b. 3% of the firm’s gross position in each commodity.
2. **Gross position**, of a firm in a commodity, is the sum of the absolute values of all short positions and all long positions of the firm, regardless of maturity.
3. The firm must use the current spot price to calculate its gross position in commodity derivatives.
Part 6.5  Traded equity position risk

6.5.1  Relation to market risk

(1)  In measuring its market risk, a banking business firm must include the risk of holding or taking positions in equities (equity position risk).

Note  For the treatment of options with equities as the underlying—see rule 6.3.8 (1). Under that rule, this Part on traded equity position risk applies to the option, but the capital charge must be based on the delta-weighted positions included in the measurement of specific and general risks.

(2)  If equities are to be received or delivered under a forward contract, the firm must report any foreign currency or interest rate exposure from the other leg of the contract in accordance with Part 6.2 or Part 6.6, respectively.

Guidance
If a banking business firm is exposed to interest rate risk on equity positions, the firm must include the relevant interest rate positions in the calculation of interest rate risk—see rule 6.6.2 (4).

6.5.2  Measuring equity position risk

(1)  The measurement of equity position risk in the trading book applies to short and long positions in all instruments that exhibit market behaviour similar to equities.

Examples of instruments with equity-like behaviour
- common shares (whether voting or non-voting)
- convertible securities and commitments to buy or sell equity securities
- convertible bonds that trade like equities.

(2)  A banking business firm may report short and long positions in instruments relating to the same issuer on a net basis.

(3)  The firm must calculate the long or short position in the equity market on a market-by-market basis. That is, the firm must make a separate capital calculation for each exchange in which it holds equities (whether or not a recognised exchange).

6.5.3  What to include in equity position risk

(1)  In calculating the capital charge for equity position risk, a banking business firm must include equity derivatives and off-balance-sheet positions that are affected by changes in equity prices (such as futures and swaps on individual equities and stock indices).
(2) To calculate the charges for equity position risk for equity derivatives and other off-balance-sheet positions, the firm must convert positions into notional equity positions, such that:
   (a) equity derivatives and off-balance-sheet positions relating to individual equities are reported at current market prices;
   (b) equity derivatives and off-balance-sheet positions relating to stock indices are reported as the mark-to-market value of the notional underlying equity portfolio; and
   (c) equity swaps are treated as 2 notional positions.

6.5.4 Charges for specific and general risks
(1) The capital charge for equity position risk consists of 2 separately calculated charges:
   (a) a charge for the specific risk of holding a long or short position in an individual equity; and
   (b) a charge for the general risk of holding a long or short position in the market as a whole.
(2) The capital charge for specific risk is 8% of the gross position of a banking business firm in equities listed on a recognised exchange and 12% of the gross position of the firm in other equities. **Gross position**, of a firm in an equity market, is the sum of the absolute values of all short equity positions and all long equity positions of the firm.
(3) The capital charge for general risk is 8% of the net position of a banking business firm. **Net position**, of a firm in an equity market, is the difference between long equity positions and short equity positions of the firm.
(4) **Equity position** is the net of short and long exposures to an individual company. It is measured on the gross position across the company (rather than individual transactions).

6.5.5 Offsetting positions
(1) If a banking business firm takes a position in depository receipts against an opposite position in the underlying equity (whether or not listed in the same country where the receipts were issued), it may offset the positions only if any costs on conversion are taken into account in full.
(2) The firm may offset matched positions in an identical equity or stock index in each market, resulting in a single net long or short position to which the specific and general risk capital charges are to be applied. For this purpose, a future in an equity may be offset against an opposite physical position in the same equity.
6.5.6 Charges for index contracts

(1) For an index contract on an index that a banking business firm considers diversified, the firm must apply a general risk capital charge of 8%, and a specific risk capital charge of 2%, to the net long or short position in the contract.

(2) For any other index contract, the firm must apply a general risk capital charge of 8%, and a specific risk capital charge of 4%, to the net long or short position in the contract.

(3) If required to do so by the Regulatory Authority, the firm must demonstrate why the firm considers an index a diversified index.

Guidance

A banking business firm should test diversification against the following criteria used by the European Banking Authority:

- The index must have a minimum number of equities. There must be an absolute threshold below which the index cannot be considered sufficiently diversified to ignore the specific risk completely.
- None of the equities must significantly influence the volatility of the index. Equities must not represent more than a certain percentage of the total index value.
- The index must have equities diversified from a geographical perspective.
- The index must represent equities that are diversified from an economic perspective. Different ‘industries’ must be represented in the index.

6.5.7 Using arbitrage

(1) If a banking business firm uses a futures-related arbitrage strategy under which the firm takes an opposite position in exactly the same index at different dates or in different markets, the firm:

(a) may apply the 2% specific risk capital charge in rule 6.5.6 (1) to only 1 position; and

(b) may exempt the opposite position from any capital charge for specific and general risks.

(2) The firm may also apply the 2% specific risk capital charge if:

(a) the firm has opposite positions in contracts at the same date in 2 similar indices; and

(b) the Regulatory Authority has notified the firm in writing that the 2 indices have sufficient common components to allow offsetting.

(3) If the firm engages in an arbitrage strategy under which a futures contract on a broadly-based index matches a basket of shares, the firm:

(a) may decompose the index position into notional positions in each of the constituent stocks; and
(b) may include the notional positions and the disaggregated physical basket in the country portfolio, netting the physical positions against the index equivalent positions in each stock.

(4) The firm may apply the 4% capital charge in subrule (5) to a position that is part of the arbitrage strategy only if:

(a) a minimum correlation of 0.9 between the basket of shares and the index can be clearly established over at least the preceding year, and the firm has satisfied the Regulatory Authority that the method the firm has chosen is accurate; or

(b) the composition of the basket of shares represents at least 90% of the index.

*Note* To determine whether a basket of shares represents at least 90% of the index—see rule 6.5.8.

(5) If the values of the physical and futures positions are matched, the capital charge is 4% (that is, 2% of the gross value of the positions on each side).

(6) The firm must treat any excess value of the shares comprising the basket over the value of the futures contract, or excess value of the futures contract over the value of the basket, as an open long or short position, and must use the approach for index contracts in rule 6.5.6 (1) or (2), as appropriate.

(7) If an arbitrage does not satisfy the conditions in subrule (4), the firm must treat the index position using the approach for index contracts in rule 6.5.6 (1) or (2), as appropriate.

**6.5.8 When basket of shares is 90% of index**

(1) To determine whether a basket of shares represents at least 90% of an index, the relative weight of each stock in the basket must be compared to the weight of that stock in the index to calculate a percentage slippage from its weight in the index.

(2) Stocks that are included in the index but are not held in the basket have a slippage equal to their percentage weight in the index.

(3) The sum of the slippages across all stocks in the index represents the total slippage from the index. The absolute values of the percentage slippages must be summed.

(4) Deducting the total slippage from 100 gives the percentage coverage of the index to be compared to the required minimum of 90%. 
### Part 6.6  Traded interest rate risk

#### Division 6.6.A  General

**6.6.1 Relation to market risk**

In measuring its market risk, a banking business firm must include the risk of holding or taking positions in debt securities and other interest-rate-related instruments that are held in the trading book (*interest rate risk*).

**6.6.2 What to include in interest rate risk**

1. The measurement of interest rate risk in the trading book applies to all fixed-rate and floating-rate debt securities and other interest-rate-related instruments that exhibit market behaviour similar to debt securities.
   
   **Examples**
   
   - non-convertible preference shares
   - convertible bonds that trade like debt securities.

2. A debt security that is the subject of a repurchase or securities lending agreement is taken to be owned by the lender of the security.

3. In calculating the capital charge for interest rate risk, a banking business firm must include interest rate exposures arising from forward foreign exchange transactions and forward sales and purchases of commodities and equities.

   **Note**
   
   For forward contracts, see:
   
   - rule 6.2.1 (2) (foreign currencies)
   - rule 6.4.1 (3) (commodities)
   - rule 6.5.1 (2) (equities).

4. The firm must also include any interest rate exposures arising from foreign exchange, equity and commodity positions.

**6.6.3 Capital charge—interest rate risk**

The capital charge for interest rate risk consists of 2 separately calculated charges:

1. a charge for the specific risk of holding a long or short position in an individual instrument; and

2. a charge for the general risk of holding a long or short position in the market as a whole.

   **Note 1**
   
   The capital charge for general risk is for the risk of loss arising from changes in market interest rates.

   **Note 2**
   
   To determine the capital charge for derivatives—see rule 6.6.12.
Division 6.6.B  Specific risk

6.6.4  Calculating specific risk capital charge

(1) The capital charge for specific risk arising from an on-balance-sheet or off-balance-sheet interest-rate position held in a banking business firm’s trading book is calculated by multiplying the market value of the debt security by the applicable charge set out in column 5 of table 6.6.4 for the category and residual maturity of the instrument.

(2) The firm may offset matched long and short positions (including positions in derivatives) in identical instruments with exactly the same issuer, coupon, currency and maturity.

Table 6.6.4  Specific risk capital charges

<table>
<thead>
<tr>
<th>column 1 item</th>
<th>column 2 category</th>
<th>column 3 external credit rating</th>
<th>column 4 residual maturity</th>
<th>column 5 specific risk capital charge %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>government</td>
<td>AAA to AA-</td>
<td>6 months or less</td>
<td>0.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td>A+ to BBB-</td>
<td>more than 6 months and up to and including 24 months</td>
<td>0.25</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>more than 24 months</td>
<td>1.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td>BB+ to B- or unrated</td>
<td></td>
<td>1.60</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Below B-</td>
<td></td>
<td>8.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>12.00</td>
</tr>
</tbody>
</table>
### Table 6.6.4

<table>
<thead>
<tr>
<th>Item</th>
<th>Category</th>
<th>External Credit Rating</th>
<th>Residual Maturity</th>
<th>Specific Risk Capital Charge %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>qualifying</td>
<td>6 months or less</td>
<td>0.25</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>more than 6 months and up to and including 24 months</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>more than 24 months</td>
<td>1.60</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>other</td>
<td>BB+ to BB- or unrated</td>
<td>8.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Below BB-</td>
<td>12.00</td>
<td></td>
</tr>
</tbody>
</table>

(3) In column 2 of Table 6.6.4:

- **government**, as a category, includes all forms of government paper such as bonds, treasury bills and other short-term instruments.

*Note*  Financial instruments issued by the State of Qatar (whether denominated in Qatari riyals or not), or by other member states of the GCC, are risk-weighted at zero per cent.

- **qualifying**, as a category, includes:
  - (a) securities issued by public sector enterprises and multilateral development banks;
    *Note*  For a list of multilateral development banks that qualify for 0% risk weight, and examples of other multilateral development banks that do not, see the note following Table 4.4.7A.
  - (b) instruments rated investment grade by at least 2 ECRAs;
  - (c) instruments rated investment grade by 1 ECRA and 1 other credit rating agency that is not an ECRA; and
(d) unrated instruments, but only if:

(i) the banking business firm has no reason to suspect that the particular instrument would have a rating less than investment grade if it were rated; and

(ii) the issuer of the instrument is rated investment grade and is regulated in its home jurisdiction in a way comparable to deposit-takers in the QFC.

**Guidance**

In deciding whether an issuer is regulated in a comparable way, the firm must look, in particular, at the home jurisdiction’s risk-based capital requirements and consolidated supervision.

*other*, as a category, includes:

(a) instruments issued or fully guaranteed by the central government or central bank of a state that is a member of the OECD;

(b) instruments fully collateralised by instruments described in paragraph (a); and

(c) instruments issued or fully guaranteed by the central government or central bank of a state that is not a member of the OECD, but only if:

(i) the instruments have a residual maturity of 1 year or less;

(ii) the instruments are denominated in the local currency of the issuer; and

(iii) the banking business firm’s holdings in such instruments are funded by liabilities in the same currency.

(4) In column 3 of table 6.6.4, *external credit rating* means a long-term rating issued by an ECRA for the purpose of risk-weighting claims on rated counterparties and exposures.

### 6.6.5 Instruments that have no specific risk capital charge

(1) Interest rate swaps, cross-currency swaps, forward rate agreements, forward foreign exchange transactions, interest rate futures and futures on an interest rate index are exempt from charges for specific risk. However, a specific risk capital charge must be calculated if the underlying is a debt security or an index representing a basket of debt securities.

(2) Futures and forward contracts (other than those mentioned in subrule (1)) are exempt from specific risk capital charge if:

(a) the banking business firm has a right to substitute cash settlement for physical delivery under the contract; and
(b) the price on settlement is calculated with reference to a general market price indicator.

(3) A contract that is exempt under subrule (2) must not be offset against specific securities (including those securities that make up the market index).

**Division 6.6.C General risk**

**6.6.6 Measuring general risk**

(1) General risk is measured using the maturity method. In that method, positions are allocated to a maturity ladder before the capital charge is calculated.

(2) The firm must add the absolute values of the individual net positions within each time band, whether long or short. The sum of the absolute values is the firm’s gross position.

**6.6.7 Maturity method**

(1) In the maturity method, long or short positions in debt securities (and in other sources of interest rate exposures such as derivative instruments) are allocated to the time bands in table 6.6.8A (and then to the zones in table 6.6.8B) based on the residual maturity of the instrument and the interest rate of coupon payments.

(2) A banking business firm must allocate:

   (a) positions in fixed-rate instruments according to their residual term to maturity; and

   (b) positions in floating-rate instruments according to the residual term to the next re-pricing date.

(3) The firm may offset:

   (a) long and short positions (whether actual or notional) in identical instruments with exactly the same issuer, coupon, currency and maturity; and

   (b) matched swaps, forward contracts, futures and forward rate agreements that satisfy the criteria in rule 6.6.13.

**6.6.8 Steps in calculating general risk capital charge**

The steps to calculate the general risk capital charge are:

**Step 1**

Weight the positions in each time band by the risk factor corresponding to those positions in table 6.6.8A.
### Table 6.6.8A  Time Bands and risk factors

<table>
<thead>
<tr>
<th>column 1 item</th>
<th>column 2 time band</th>
<th>column 3 risk factor %</th>
<th>column 4 assumed changes in yield %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1 month or less</td>
<td>0.00</td>
<td>1.00</td>
</tr>
<tr>
<td>2</td>
<td>more than 1 and up to 3 months</td>
<td>0.20</td>
<td>1.00</td>
</tr>
<tr>
<td>3</td>
<td>more than 3 and up to 6 months</td>
<td>0.40</td>
<td>1.00</td>
</tr>
<tr>
<td>4</td>
<td>more than 6 and up to 12 months</td>
<td>0.70</td>
<td>1.00</td>
</tr>
<tr>
<td>5</td>
<td>more than 1 and up to 2 years</td>
<td>1.25</td>
<td>0.90</td>
</tr>
<tr>
<td>6</td>
<td>more than 2 and up to 3 years</td>
<td>1.75</td>
<td>0.80</td>
</tr>
<tr>
<td>7</td>
<td>more than 3 and up to 4 years</td>
<td>2.25</td>
<td>0.75</td>
</tr>
<tr>
<td>8</td>
<td>more than 4 and up to 5 years</td>
<td>2.75</td>
<td>0.75</td>
</tr>
<tr>
<td>9</td>
<td>more than 5 and up to 7 years</td>
<td>3.25</td>
<td>0.70</td>
</tr>
<tr>
<td>10</td>
<td>more than 7 and up to 10 years</td>
<td>3.75</td>
<td>0.65</td>
</tr>
<tr>
<td>11</td>
<td>more than 10 and up to 15 years</td>
<td>4.50</td>
<td>0.60</td>
</tr>
<tr>
<td>12</td>
<td>more than 15 years and up to 20 years</td>
<td>5.25</td>
<td>0.60</td>
</tr>
<tr>
<td>13</td>
<td>more than 20 years</td>
<td>6.00</td>
<td>0.60</td>
</tr>
</tbody>
</table>
Step 2
Offset the weighted long and short positions within each time band.

Example
If the sum of the weighted long positions in a time band is QR100 million and the sum of the weighted short positions in the band is QR90 million, you offset the positions to come up with a matched position of QR90 million and unmatched position of QR10 million.

Step 3
For each time band, apply a 10% capital charge (vertical disallowance) on the matched position calculated in step 2.

Example
Continuing on from the example in step 2, apply the 10% on the QR90 million matched position to come up with a QR9 million vertical disallowance for the time band.

Step 4
For the unmatched positions calculated in step 2, carry out 2 further rounds of offsetting using the zones (made up of time bands) in table 6.6.8B and apply the appropriate capital charge, as follows:

(a) first between the remaining unmatched positions within each of 3 zones and subject to a charge (expressed as a percentage) as follows:
   (i) matched weighted positions within zone 1 x 40%;
   (ii) matched weighted positions within zone 2 x 30%;
   (iii) matched weighted positions within zone 3 x 30%;

(b) subsequently between the remaining unmatched positions across the three different zones (in the order set out below) and subject to a capital charge as follows:
   (i) matched weighted positions between zones 1 and 2 x 40%;
   (ii) matched weighted positions between zones 2 and 3 x 40%;
   (iii) matched weighted positions between zones 1 and 3 x 100%.

The absolute value of the net amount remaining is the net position.

<table>
<thead>
<tr>
<th>Table 6.6.8B</th>
<th>Zones for coupons</th>
</tr>
</thead>
<tbody>
<tr>
<td>column 1</td>
<td>column 2</td>
</tr>
<tr>
<td>item</td>
<td>zone</td>
</tr>
<tr>
<td>1</td>
<td>zone 1</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
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</tr>
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</tr>
</tbody>
</table>
Step 5
Calculate the horizontal allowance by adding the charges from paragraphs (a) and (b) of step 4.

Step 6
Calculate the general risk capital charge as the sum of:
(a) the net position calculated from steps 1 to 4;
(b) the vertical disallowance from step 3;
(c) the horizontal disallowance from steps 4 and 5; and
(d) the net charge for positions in options, where appropriate, calculated in accordance with Part 6.3.

6.6.9 Positions in currencies
(1) A banking business firm must use separate maturity ladders for positions in each currency, with capital charges calculated separately for each currency and then summed. Positions in different currencies are not to be offset.

(2) If the firm’s position in a currency is less than 5% of the value of the firm’s banking book assets, that currency is taken to be a residual currency and the firm may use a single maturity ladder for all residual currencies (instead of having to use separate maturity ladders for each currency). The firm must enter, into each appropriate time band, the net long or short position for residual currencies.

(3) The firm must apply, with no further offsets, the risk factor in column 3 of table 6.6.8A to the position in each time band for residual currencies.
6.6.10 Futures and forward contracts

(1) A banking business firm must treat futures and forward contracts on bank or corporate debt (including forward rate agreements) as a combination of a long and a short position in the underlying debt security. Futures and forward contracts not on bank or corporate debt must be treated as a combination of a long and a short position in a notional government security.

(2) The maturity of a futures contract or a forward rate agreement is the period until delivery or exercise of the contract, plus the life of the underlying (or notional underlying) instrument. The firm must report the long and short positions at the market value of the underlying (or notional underlying) security or portfolio of securities.

(3) If a range of instruments may be delivered to fulfil a contract, the firm may choose the deliverable security to be allocated to the maturity ladder. The firm must, however, take account of any conversion factor specified by the exchange where the instrument must be delivered.

6.6.11 Swaps

(1) A banking business firm must treat a swap as 2 notional positions in government securities with maturities. Both legs of the swap must be reported at their market values.

(2) For swaps that pay or receive a fixed or floating interest rate against some other reference price (for example, a stock index), the firm must:
   (a) enter the interest rate component into the appropriate maturity category; and
   (b) include any equity component in the measurement of equity risk.

(3) Each leg of a cross-currency swap must be reported in the maturity ladder for the currency concerned. The capital charge for any foreign exchange risk arising from the swaps must be calculated in accordance with rules 6.2.2 to 6.2.6.

6.6.12 Derivatives

(1) In the measurement of interest rate risk, a banking business firm must include interest rate derivatives and off-balance-sheet instruments in the trading book if those instruments react to changes in interest rates.

(2) The firm must convert derivatives into positions in the relevant underlying to enable the firm to calculate specific and general risk capital charges. To determine the capital charges, the value of the positions must be the market value of the underlying or notional underlying.
(3) Positions in derivatives are subject to charges for general risk in the same way as cash positions. However, matched positions are exempt from the charges if the positions satisfy the criteria in rule 6.6.13 or 6.6.14.

(4) Positions in derivatives must be allocated to a maturity ladder and treated in accordance with this rule and the maturity method.

6.6.13 Criteria for matching derivative positions

(1) A banking business firm may offset a matched position in derivatives if the positions relate to the same underlying instruments, have the same nominal value and are denominated in the same currency.

(2) For futures, the positions in the underlying (or notional underlying) instruments must be for identical products and must mature within 7 days of each other.

(3) For swaps, forward rate agreements and forward contracts:
   (a) the reference rate (for floating-rate positions) must be identical and the coupons must differ by no more than 15 basis points; and
   (b) the next interest-fixing date (or, for fixed-coupon positions or forward contracts, the residual maturity) must comply with the following requirements:
       (i) if either instrument has an interest-fixing date or residual maturity up to and including 1 month in the future, the dates or residual maturities must be the same for both instruments;
       (ii) if either instrument has an interest-fixing date or residual maturity more than 1 month, but no more than 1 year, in the future, the dates or residual maturities must be within 7 days of each other;
       (iii) if either instrument has an interest-fixing date or residual maturity more than 1 year in the future, the dates or residual maturities must be within 30 days of each other.

Note 1 For paragraph (a), the separate legs of different swaps may be ‘matched’ subject to these same conditions.

Note 2 For paragraph (b), spot or cash positions in the same currency may be offset subject to these same conditions.

(4) A banking business firm that writes options may offset the delta-equivalent values of options (including the delta-equivalent value of legs arising out of the treatment of caps and floors in accordance with rule 6.3.6).

(5) However, for offsetting between a matched position in a futures or forward contract and its underlying, rule 6.6.14 applies.
6.6.14 Criteria for offsetting derivative positions

(1) A banking business firm may offset long and short positions (whether actual or notional) in identical instruments with exactly the same issuer, coupon, currency and maturity; and

(2) A banking business firm may offset a matched position in a futures or forward contract and its corresponding underlying. The net position must be reported.

(3) The firm may offset positions in a futures or forward contract with a range of deliverable instruments and the corresponding underlying only if:
   (a) there is a readily identifiable underlying security; and
   (b) the price of that security and the price of the futures or forward contract move in close alignment.

(4) The firm must treat each leg of a cross-currency swap or forward foreign exchange transaction as a notional position in the relevant instrument, and must include the position in the calculation for each currency.
Chapter 7 Operational risk

7.1.1 Introduction

(1) This Chapter sets out the requirements for a banking business firm’s operational risk management policy to identify, measure, evaluate, manage and control or mitigate operational risk.

(2) Operational risk is the risk resulting from inadequate or failed internal processes, people and systems, or from external events. It includes legal risk but excludes strategic and reputational risk.

7.1.2 Role of governing body—operational risk

A banking business firm’s governing body must ensure that the firm’s operational risk management policy addresses, on a firm-wide basis, all the major aspects of operational risk in the firm’s business.

7.1.3 Policies—business continuity

(1) A banking business firm’s operational risk management policy must include effective and comprehensive procedures for disaster recovery and business continuity.

(2) The firm must have a business continuity plan for possible scenarios of severe business disruption. The plan must provide for the firm to continue to operate as a going concern, and to minimise losses (especially those from disturbances to payment and settlement systems), in those scenarios.

Note CTRL, rule 4.1.4 (3) (c) requires an authorised firm to include, in its risk management strategy, contingency planning, business continuity and crisis management. CTRL, rule 2.2.8 requires a firm to review its business continuity procedures at least once every 18 months.

7.1.4 Policies—information infrastructure

(1) A banking business firm must establish and implement appropriate information technology policies for the accurate and timely identification, measurement, evaluation, management and control or mitigation of operational risk. In particular, the policies must enable the firm to maintain an adequate and sound information infrastructure:

(a) that meets the firm’s current and projected requirements (under normal circumstances and in times of stress);

(b) that ensures that the data, and the system itself, remain secure and available; and

(c) that supports integrated and comprehensive risk management.
(2) The firm’s information infrastructure must enable the firm to compile and analyse operational risk data, and must facilitate reporting to the firm’s governing body and senior management and the Regulatory Authority.

(3) The firm must have appropriate reporting procedures to keep the Regulatory Authority informed of developments affecting operational risk at the firm.

### 7.1.5 Policies—outsourcing

(1) A banking business firm must establish appropriate policies to assess, manage and monitor outsourced activities. The management of those activities must include:

(a) carrying out due diligence for selecting service providers;
(b) structuring outsourcing arrangements;
(c) managing and reporting the risks associated with an outsourcing;
(d) ensuring effective control over an outsourcing; and
(e) contingency planning.

(2) The outsourcing policies must require the firm to have comprehensive contracts and service level agreements. The contracts and agreements must clearly state the allocation of responsibilities between service providers and the firm.

*Note* This rule sets out details of what a banking business firm’s outsourcing policy must include in addition to the minimum required under CTRL, rule 5.1.2.

### 7.1.6 Powers of Regulatory Authority

Despite anything in these rules, if the Regulatory Authority identifies points of exposure or vulnerability to operational risk that are common to 2 or more banking business firms, it may impose specific capital requirements or limits on each affected firm.

*Examples*

- outsourcing of important operations by many banking business firms to a single provider
- severe disruption to providers of payment and settlement services.

### 7.1.7 Basic indicator approach

(1) A banking business firm must use the basic indicator approach to operational risk. *Operational risk capital requirement* is the amount of capital that the firm must have to cover its operational risk.
(2) The firm’s operational risk capital requirement is calculated in accordance with the following formula:

\[ \frac{GI \times \alpha}{n} \]

where:

- \( GI \) is the firm’s average annual gross income (as defined in subrule (3) or (4)) for those years (out of the previous 3 years) for which the firm’s annual gross income is more than zero.
- \( \alpha \) is 15% or a higher percentage set by the Regulatory Authority.
- \( n \) is the number of years out of the previous 3 years for which the firm’s gross income is more than zero.

**Guidance**

Because of the definitions of \( GI \) and \( n \), figures for any year in which the annual gross income of a firm is negative or zero must be excluded from both the numerator and denominator when calculating the average.

(3) For a deposit-taker or investment dealer, *gross income*, for a year, means net interest income plus net non-interest income for the year. It must be gross of:

(a) any provisions (including provisions for unpaid interest);

(b) operating expenses; and

(c) losses from the sale of securities in the ‘Held to Maturity’ and ‘Available for Sale’ categories in the banking book.

(5) For a deposit-taker or investment dealer, *gross income* excludes:

(a) realised profits from the sale of securities in the banking book;

(aa) realised profits from securities in the ‘Held to Maturity’ category in the banking book;

(b) extraordinary or irregular items of income;

(c) income derived from insurance;

(d) any collection from previously written-off loans; and

(e) income obtained from the disposal of real estate and other assets during the year.
Chapter 8  Interest rate risk in the banking book

8.1.1  Introduction

(1) This Chapter sets out the requirements for a banking business firm’s policies to identify, measure, evaluate, manage and control or mitigate interest rate risk in the banking book.

(2) This Chapter also deals with stress-testing the firm’s exposure to IRRBB and the relationship between IRRBB and the internal capital adequacy assessment process. IRRBB is a major source of risk for firms that conduct banking activities; this is particularly so if the firm’s banking book assets is 15% or more of its total assets.

(3) Interest rate risk in this Chapter refers to interest rate risk in the banking book. Interest rate risk in the trading book is part of market risk in Chapter 6.

8.1.2  Interest rate risk in the banking book

(1) 

Interest rate risk in the banking book or IRRBB is the risk to earnings or capital arising from movement of interest rates.

(2) IRRBB arises from changing rate relationships among yield curves that affect bank activities (basis risk), from changing rate relationships across the spectrum of maturities (yield curve risk), and from interest-rate-related options embedded in bank products (option risk).

Examples of sources of IRRBB

- risks from underwriting on a firm-commitment basis
- risks related to the mismatch of the re-pricing of assets and liabilities, and off-balance-sheet short-term and long-term positions
- risks arising from hedging exposure to an interest rate with exposure to another rate that re-prices under different conditions
- risks related to uncertainties in the occurrence, timing, pricing or value of transactions
- risk that counterparties will redeem fixed-rate products when market rates change.

8.1.3  Requirement—interest rate risk in the banking book

A banking business firm must hold sufficient capital to effectively control or mitigate its IRRBB. The Regulatory Authority may impose a capital requirement based on the firm’s ICAAP if the authority is of the view that the firm’s capital requirement is insufficient to cover its exposure to IRRBB.
8.1.4 Role of governing body—interest rate risk in the banking book

(1) A banking business firm’s governing body must ensure that the firm’s IRRBB management policy enables the firm to obtain a comprehensive firm-wide view of its IBBRR, taking into account the nature, scale and complexity of its banking book activities.

(2) The governing body must monitor:
   (a) the nature and level of IRRBB assumed by the firm;
   (b) the firm’s overall IRRBB profile; and
   (c) any changes in market conditions that may affect the firm’s current or prospective risk profile.

(3) The governing body must ensure that the firm’s senior management establishes and implements an IRRBB management policy that adequately identifies, measures, monitors, reports and controls or mitigates IRRBB.

Guidance
1 The governing body of the banking business firm may delegate its role in relation to IRRBB (but not its ultimate responsibility) to a committee of the governing body.
2 A banking business firm that conducts banking activities or complex principal dealing activities should create a committee to design and implement IRRBB management. This committee may be the same as that described in guidance 1.

8.1.5 Policies—management of interest rate risk in the banking book

A banking business firm’s IRRBB management policy must establish:

(a) effective systems for the accurate and timely identification, measurement, evaluation, management and control or mitigation of IRRBB, and reporting to the firm’s governing body and senior management;

(b) regular review, and independent internal or external validation, of any model used by the firm to manage IRRBB (including review of significant assumptions);

(c) prudent and appropriate limits that are consistent with the firm’s risk tolerance, risk profile and capital; and

(d) procedures for tracking and reporting exceptions to, and deviations from, limits or policies.

Guidance
1 The Regulatory Authority expects a banking business firm to set quantitative and qualitative targets for IRRBB.
2 For rule 8.1.5 (b), internal independent validation should be done by a function that is independent of the function that assumed or incurred the risk.

3 A firm’s IRRBB management policy should provide for the following:
   (a) the use of the output of the risk measurement under the policy to report the level of that risk to the senior management and governing body of the firm;
   (b) the measurement to be capable of measuring the risk using the earnings approach;
   (c) the measurement to be clearly defined and consistent with the nature and complexity of the structure of the firm’s balance sheet;
   (d) balancing cash flows as part of managing IRRBB;
   (e) approval by the governing body, or a committee of the governing body, of any major hedging or risk-management initiatives.

4 The measurement of IRRBB should include all sources of the risk. The measurement should evaluate the effect of rate changes on earnings or economic value meaningfully and accurately.

5 Depending on the size and complexity of its banking book, the firm may also need to measure IRRBB using the economic value approach.

6 Effective risk measurement:
   (a) should flag excessive exposures;
   (b) should evaluate all significant interest rate risk arising from the full range of a banking business firm’s assets, liabilities and off-balance-sheet positions, across both trading and banking books;
   (c) should ensure that an integrated view of IRRBB across products and business lines is available to management; and
   (d) should ensure accurate and timely data on all aspects of current positions.

8.1.6 Assumptions and adjustments

   (1) A banking business firm must not use an assumption or adjustment relating to the firm’s exposure to IRRBB unless the assumption or adjustment has been approved by its governing body, or a relevant committee of its governing body.

   (2) The Regulatory Authority may require a firm to seek the authority’s approval before using an assumption or adjustment.

   (3) If required to do so by the authority, the firm must demonstrate how the firm used an assumption or adjustment (whether or not the authority required the assumption or adjustment to be approved).

8.1.7 Floating-rate exposures

A banking business firm must set a prudent limit on the extent to which floating-rate exposures are funded by fixed-rate sources (and vice versa). In floating-rate lending, the firm must set a prudent limit to the extent to which it runs any basis risk that would arise if lending and funding were not based on identical market interest rates.
8.1.8 New products and activities

A banking business firm must identify the effect of IRRBB before it introduces a new product or activity. The firm must consider managing the effect through hedging (using swaps or other derivatives).

8.1.9 Stress-testing and interest rate risk in the banking book

(1) A banking business firm must carry out stress-testing of its exposures to IRRBB at intervals appropriate for the nature, scale and complexity of the firm’s business and for its risk profile. A firm with balance-sheet positions in 2 or more currencies must measure its risk exposure in each currency in which 5% or more of its banking book assets or banking book liabilities is denominated.

(2) The stress-testing:

(a) must determine the re-pricing gap between the firm’s assets and liabilities, before and after the effect of derivative instruments is taken into consideration; and

(b) must determine the sensitivity of the firm’s net interest income to a 200-basis-point change in interest rates in relation to the firm’s forecast banking book balance sheet.

(3) For subrule (2) (b), the Regulatory Authority may, in writing, specify another percentage or number of basis points.

Guidance

The risk of changes in the capital values of instruments resulting from changes in interest rates is taken to be market risk.

(4) The firm must include appropriate scenarios in its stress-testing to measure the firm’s vulnerability to loss under adverse interest rate movements.

(5) The firm must report to the Regulatory Authority, in the form that the authority directs, the results of its stress-testing.

(6) In determining the effect of a rate change on its net interest income, the firm must not assume that the rate will become negative.

Guidance

A banking business firm should measure its vulnerability to loss in stressed market conditions, including market conditions in which significant assumptions are no longer met, and consider the results of that measurement when establishing and reviewing its IRRBB management policy. Stress scenarios for this exercise should include:

(a) historical scenarios such as the Asian crisis in the late 1990s;

(b) changes in the general level of interest rates (for example, changes in yields of 100 basis points or more in 1 year);
(c) changes in the relationships between significant market rates (basis risk), such as:

- a rapid increase in term deposit rates, savings deposit rates and benchmark rates like LIBOR (but with no change in the prime rate); and
- a drop in the prime rate (but with no change in term deposit rates, savings deposit rates and benchmark rates);

(d) changes in interest rates in separate time bands to different relative levels (that is, yield curve risk or changes in how interest rates vary over time);

(e) changes in the liquidity of financial markets;

(f) changes in the volatility of market rates; and

(g) changes in business assumptions and parameters such as the correlation between 2 currencies.

8.1.10 Duty to notify authority of decline in value

A banking business firm must immediately notify the Regulatory Authority if any stress-testing under this Chapter suggests that, as a result of the change in interest rates described in rule 8.1.9 (2) (b), the economic value of the firm would decline by more than 20%.

8.1.11 Relation to internal capital adequacy assessment

A banking business firm must be able to demonstrate to the Regulatory Authority that its ICAAP adequately captures IRRBB.

Guidance

A banking business firm’s approach to evaluating and managing IRRBB as part of its ICAAP should include the following:

(a) the internal definition of, and the boundary between, banking book and trading book;
(b) a definition of economic value showing that it is consistent with the method used to value assets and liabilities;
(c) the size and form of the different interest rate changes to be used for stress-testing;
(d) whether a dynamic or static approach is used to decide the effect of interest rate changes is used;
(e) how to treat pipeline transactions (including any related hedging);
(f) how to aggregate multi-currency interest rate exposures;
(g) whether or not non-interest-bearing assets and liabilities, capital and reserves are included in the evaluation;
(h) how to treat current and savings accounts (that is, the maturity attached to exposures without a contractual maturity);
(i) how to treat fixed-rate assets or liabilities, if customers have a right to repay or withdraw early;
(j) the extent to which sensitivities to small changes can be scaled up linearly without significant loss of accuracy (covering both convexity generally and the nonlinearity of pay-off associated with explicit option products);
(k) the degree of granularity employed (for example, offsets within a time band or zone);

(l) whether all future cash flows or only principal balances are included.
Chapter 9  Liquidity risk

Part 9.1  Liquidity risk management—introductory

Division 9.1.A  Preliminary

9.1.1  Introduction—Chapter 9

(1) This Chapter sets out a banking business firm’s obligations:
   (a) to adopt prudent practices in managing liquidity risk;
   (b) to maintain adequate liquidity to meet its obligations as they fall due across a wide range of operating circumstances; and
   (c) to have adequate sources of stable long-term funding.

(2) In general terms, this Chapter requires a banking business firm:
   (a) to have a risk management framework to measure, monitor and manage liquidity risk that is appropriate for the nature, scale and complexity of the firm’s operations;
   (b) to maintain a portfolio of high-quality liquid assets sufficient to enable the firm to withstand a severe liquidity stress;
   (c) to maintain a robust funding structure appropriate for the nature, scale and complexity of the firm’s operations;
   (d) to limit maturity mismatches between its assets and its liabilities; and
   (e) to inform the Regulatory Authority promptly about liquidity concerns.

9.1.2  Categorisation of firms in terms of liquidity management obligations

(1) For the purposes of this Chapter, banking business firms are either liquidity risk group A banking business firms or liquidity risk group B banking business firms.

(2) A banking business firm is a liquidity risk group A banking business firm if it has been so designated by the Regulatory Authority. Any other banking business firm is a liquidity group B banking business firm.
9.1.3 Designation of firms as liquidity risk group A banking business firms

(1) The Regulatory Authority may designate a banking business firm as a liquidity risk group A banking business firm by written notice if the Authority is satisfied that:

(a) the firm meets any of the criteria in subrule (2); or
(b) it is necessary to do so for any other reason.

(2) The criteria are the following:

(a) the firm is active internationally;
(b) it is significant to the general stability and effective working of the financial system;
(c) there is significant liquidity risk associated with it;
(d) it is systemically linked to another liquidity risk group A banking business firm or a liquidity risk group A Islamic banking business firm;
(e) it \((\text{first firm})\) is so connected to another liquidity risk group A banking business firm \((\text{second firm})\) that, if the first firm were not a liquidity risk group A banking business firm, the connection would or might adversely affect either or both of the following:

(i) the second firm’s calculation of its LCR;
(ii) the first firm’s calculation of its MLR.

\textit{Note} For \textit{LCR}, see rule 9.3.1; for \textit{MLR}, see rule 9.4.2.

9.1.4 Application of Chapter 9

The Parts of this Chapter apply to banking business firms as set out in table 9.1.4.

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**Division 9.1.B Principles**

**9.1.5 Principle 1—sound management of liquidity risk**
A banking business firm is responsible for the sound management of its liquidity risk, and must have a robust framework to manage that risk.

**9.1.6 Principle 2—maintaining sufficient liquidity to meet obligations as they fall due**
A banking business firm must at all times maintain sufficient liquidity to meet its obligations as they fall due, and must hold a minimum level of high-quality liquid assets to survive a severe liquidity stress.

**9.1.7 Principle 3—stable sources of funding**
A banking business firm must ensure that its activities are funded with stable sources of funding on an ongoing basis.

**9.1.8 Principle 4—informing the Regulatory Authority of liquidity concerns**
A banking business firm must inform the Regulatory Authority as soon as possible of any concerns that the firm has about its current or future liquidity, and its plans to address these concerns. In particular, if a banking business firm experiences a severe liquidity stress, it must notify the Authority immediately, and must describe the action that is being taken to address the situation.

**Guidance**
Individual rules in this Chapter that require the Authority to be notified “immediately” specify what is meant by “immediately”.

**9.1.9 Responsibilities of governing body and senior management**

1. A banking business firm’s governing body is ultimately responsible for the sound and prudent management of the firm’s liquidity risk. A banking business firm must maintain a liquidity risk management framework that is appropriate for the level and extent of liquidity risk to which the firm is exposed.

2. The governing body must ensure that:
   a. the firm’s senior management and other relevant personnel have the necessary experience to manage liquidity risk; and
(b) the firm’s liquidity risk management framework and liquidity risk management practices are documented, and are reviewed at least annually.

(3) The governing body must review regular reports on the firm’s liquidity and, as necessary, information on new or emerging liquidity risks.

(4) A banking business firm’s senior management must do all of the following:

(a) develop a liquidity management strategy, policies and processes in accordance with the liquidity risk tolerance approved by the firm’s governing body;

Note For liquidity risk tolerance, see rule 9.2.1.

(b) ensure that the 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 the firm and all of its branches and subsidiaries in all of the jurisdictions in which the firm and its branches and subsidiaries are active, and set out that structure and those responsibilities and controls clearly in the firm’s liquidity policies;

(d) ensure that the firm has adequate internal controls to ensure the integrity of its liquidity risk management processes;

(e) ensure that stress tests, contingency funding plans and holdings of high-quality liquid assets are effective and appropriate for the firm;

(f) establish reporting criteria specifying the scope, manner and frequency of reporting for various recipients (such as the firm’s governing body and senior management and any relevant committee of the governing body) and fix who is responsible for preparing the reports;

(g) establish the specific procedures and approvals necessary for making exceptions to policies and limits, including the escalation procedures and follow-up actions to be taken for breaches of limits;

(h) closely monitor current trends and potential market developments that may present challenges for managing liquidity risk, so that appropriate and timely changes to the liquidity management strategy can be made as needed;

(i) continuously review information on the firm’s liquidity developments and report to the governing body regularly.
(5) The firm’s governing body and senior management must be able to demonstrate a thorough understanding of:

(a) the links between funding liquidity risk (the risk that the firm may not be able to meet its financial obligations as they fall due) and market liquidity risk (the risk that liquidity in financial markets, such as the market for debt securities, may decline significantly); and

(b) how risks of other kinds, such as credit risk, market risk, operational risk and reputational risk, affect the firm’s liquidity risk management strategy.

9.1.10 Relation to internal capital adequacy assessment

A banking business firm must be able to demonstrate to the Regulatory Authority that its ICAAP adequately captures liquidity risk, even if the effect of liquidity risk on the firm’s capital is indirect (for example, by reducing the value of the firm’s assets at the time they are realised).

Note For ICAAP, see rule 3.1.5.
Part 9.2  Liquidity risk management—firms’ obligations in detail

Note for Part 9.2
This Part applies to all banking business firms—see rule 9.1.4.

9.2.1 Liquidity risk tolerance
(1) A banking business firm’s liquidity risk tolerance defines the level of liquidity risk that the firm is willing to assume.

Guidance
A banking business firm’s risk management strategy usually refers to risk tolerance although risk appetite may also be used. The 2 terms are used interchangeably to describe both the absolute risks a firm is open to take (by some called risk appetite) and the actual limits within its risk appetite that a firm pursues (by some called risk tolerance).

(2) A banking business firm’s liquidity risk tolerance must be appropriate for the firm’s operations and strategy and its role in the financial systems in which it operates.

(3) The firm must review its liquidity risk tolerance at least annually to reflect the firm’s financial condition and funding capacity.

(4) The firm’s governing body and senior management must ensure that the firm’s liquidity risk tolerance allows the firm to effectively manage its liquidity in such a way that the firm can withstand prolonged liquidity stress.

(5) The firm must document its liquidity risk tolerance in a way that clearly states the trade-off between risks and profits.

9.2.2 Liquidity risk management framework—structure and basic content
(1) A banking business firm’s liquidity risk management framework must include:

(a) a statement of the firm’s liquidity risk tolerance, approved by the firm’s governing body;

(b) a statement of the firm’s liquidity risk management strategy and policy, approved by the governing body;

(c) a statement of the firm’s operating standards (in the form of policies, procedures and controls) for identifying, measuring, monitoring and controlling its liquidity risk in accordance with its liquidity risk tolerance;

(d) a statement of the firm’s funding strategy, approved by the governing body; and
(e) a contingency funding plan.

(2) The framework must clearly set out the firm’s organisational structure as it relates to liquidity risk management, and must define the responsibilities and roles of senior management involved in managing liquidity risk.

(3) The framework must be formulated to ensure that the firm maintains sufficient liquidity to withstand a range of liquidity stress events (whether specific to the firm, market-wide, or a combination of the two), including the loss or impairment of both unsecured and secured funding sources.

(4) The framework must be well integrated into the firm’s overall risk management process.

(5) The liquidity risk management framework must be subject to ongoing effective and comprehensive independent review.

Guidance
In most cases, the independent reviews could be facilitated by the firm’s internal audit function but may require the engagement of independent experts outside that function.

9.2.3 Liquidity risk management—oversight

(1) A banking business firm’s liquidity risk management oversight function must be operationally independent. It must be staffed with personnel who have the skills and authority to challenge the firm’s treasury and other liquidity management functions.

(2) The firm must have adequate policies, procedures and controls to ensure that the firm’s governing body and senior management are informed immediately of new and emerging liquidity concerns.

Guidance
Those concerns could include:

- increasing funding costs or concentrations
- increases in funding requirements
- shortage of other sources of liquidity
- material or persistent breaches of limits
- significant decline in the firm’s holdings of unencumbered liquid assets
- changes in market conditions that could signal future difficulties.

(3) The firm’s senior management must be satisfied that all of the firm’s business units whose activities affect the firm’s liquidity:

(a) are fully aware of the firm’s liquidity risk management strategy; and

(b) operate in accordance with the firm’s approved policies, procedures, limits and controls.
9.2.4 Liquidity management strategy

(1) A banking business firm’s liquidity management strategy must include specific policies on liquidity management, such as:
   (a) the composition and maturity of assets and liabilities;
   (b) the diversity and stability of funding sources;
   (c) the firm’s approach to managing liquidity in different currencies, across borders, and across business lines and legal entities; and
   (d) the firm’s approach to intraday liquidity management.

(2) The strategy must take account of the firm’s liquidity needs both under normal conditions and during periods of liquidity stress. The strategy must include quantitative and qualitative targets.

(3) The strategy must be appropriate for the nature, scale and complexity of the firm’s operations. In formulating the strategy, the firm must consider its legal structure, its key business lines, the breadth and diversity of its markets and products, the jurisdictions in which it operates, and regulatory requirements.

(4) The firm’s senior management must communicate the following throughout the firm:
   (a) the strategy;
   (b) the firm’s key policies for implementing it;
   (c) the firm’s liquidity management structure.

9.2.5 Liquidity risk management—processes

(1) A banking business firm must have a sound process for identifying, measuring, monitoring and controlling liquidity risk. The process must include a robust framework for comprehensively projecting cashflows arising from assets, liabilities and off-balance-sheet items over an appropriate set of time horizons.

(2) A banking business firm must set limits to control its liquidity risk exposure and vulnerabilities. The limits and the corresponding escalation procedures must be reviewed regularly.

(3) The limits must be relevant to the business in terms of its location, the complexity of its operations, the nature of its products, and the currencies and markets it serves. If a limit is breached, the firm must implement a plan of action to review the exposure and reduce it to a level that is within the limit.

(4) A banking business firm must actively manage its collateral positions, distinguishing between encumbered and unencumbered assets. The firm must monitor the legal entity in which, and the physical location where,
collateral is held and how collateral can be mobilised in a timely manner.

(5) A banking business firm must design a set of early warning indicators to help its daily liquidity risk management processes to identify the emergence of increased risk or vulnerabilities in its liquidity position or potential funding needs. The indicators must be structured so as to help identify negative trends in the firm’s liquidity position and to lead to an assessment and a potential response by management to mitigate the firm’s exposure to the trends.

(6) A banking business firm must have a reliable management information system that provides the governing body, senior management and other appropriate personnel with timely and forward-looking information on the firm’s liquidity position.

(7) A banking business firm must actively manage its intraday liquidity positions to meet payment and settlement obligations on a timely basis under both normal and stressed market conditions, thus contributing to the orderly functioning of payment and settlement systems.

(8) A banking business firm must develop and implement a costs and benefits allocation process for funding and liquidity. The process must appropriately apportion the costs of prudent liquidity management to the sources of liquidity risk, and must provide appropriate incentives to manage liquidity risk.

(9) A banking business firm that is active in multiple currencies:

(a) must assess its aggregate foreign currency liquidity needs and determine an acceptable level of currency mismatches; and

(b) must undertake a separate analysis of its strategy for each significant currency, considering possible constraints during periods of liquidity stress.

Note Such a firm must also maintain a portfolio of high-quality liquid assets consistent with the distribution of its liquidity needs by currency—see rule 9.3.6 (3).

(10) For subrule (9) (b), a currency is significant for a banking business firm if the firm’s liabilities denominated in it amount to 5% or more of the firm’s total liabilities.

### 9.2.6 Funding strategy

(1) A banking business firm:

(a) must develop and document a 3-yearly funding strategy;

(b) must maintain a continuing presence in its chosen funding markets;

(c) must maintain strong relationships with funds providers; and
must regularly estimate its capacity to raise funds quickly.

(2) The firm must identify the main factors that affect its ability to raise funds, and must monitor those factors closely to ensure that its estimates of its fund-raising capacity remain valid.

(3) The strategy must be approved by the firm’s governing body, and must be supported by robust assumptions in line with the firm’s liquidity management strategy and business objectives.

(4) The funding strategy must be reviewed at least annually, and must be updated as necessary in light of changed funding conditions or changes in the firm’s business model.

(5) The firm must give a copy of the funding strategy to the Regulatory Authority on request. The firm must also inform the Authority of any significant change to the strategy.

9.2.7 Stress testing

(1) A banking business firm must carry out stress tests regularly for a variety of short-term and long-term liquidity stress scenarios (both firm-specific and market-wide, separately and in combination) to identify sources of potential liquidity stress and to ensure that the firm’s exposures continue to be in accordance with its liquidity risk tolerance.

(2) The tests must enable the firm to analyse the effect of stress scenarios on its liquidity positions, and on the liquidity positions of individual business lines.

(3) The scenarios and related assumptions must be well documented, and must be reviewed together with the test results. The results, the vulnerabilities found and any resulting actions must be reported to, and discussed with, the firm’s governing body and the Regulatory Authority.

(4) The test outcomes must be used to adjust the firm’s liquidity management strategy, policies and positions, and to develop effective contingency plans to deal with liquidity stress.

(5) The results of the tests must be integrated into the firm’s strategic planning process and its day-to-day risk management practices. The results must be explicitly considered in the setting of internal limits.

(6) The firm must decide how to incorporate the results in assessing and planning for possible funding shortfalls in its contingency funding plan.
9.2.8 Contingency funding plan

(1) A banking business firm must have a formal contingency funding plan that clearly sets out the firm’s strategies for addressing liquidity shortfalls in emergency situations. The plan:
   
   (a) must outline policies to manage a range of liquidity stress situations;
   
   (b) must establish clear lines of responsibility; and
   
   (c) must include clear escalation procedures.

(2) The plan must be appropriate for the nature, scale and complexity of the firm’s operations and the firm’s role in the financial systems in which it operates.

(3) The plan must provide a framework with a high degree of flexibility so that the firm can respond quickly in a variety of liquidity stress situations.

(4) The plan must set out:
   
   (a) available sources of contingency funding and an estimate of the amount of funds that can be obtained from each source;
   
   (b) clear procedures for escalation and prioritisation, setting out when and how each of the actions in the plan can and must be activated; and
   
   (c) the lead time needed to obtain additional funds from each of the sources.

(5) The plan’s design, scope and procedures must be closely integrated with the firm’s continuing analysis of liquidity risk and with the assumptions used in its stress tests and the results of those tests. The plan must address issues over a range of different time horizons, including intraday.

(6) The firm must review and test the plan regularly to ensure that the plan remains effective and operationally feasible. The firm must review and update the plan for the governing body’s approval at least annually (or more often, as changing business or market circumstances require).
Part 9.3  

**Liquidity coverage ratio—liquidity risk group A banking business firms**

**Notes for Part 9.3**


2. This Part applies only to liquidity risk group A banking business firms—see rule 9.1.4.

**Division 9.3.A  Introductory**

9.3.1  Introduction—Part 9.3

(1) This Part requires a liquidity risk group A banking business firm to maintain a portfolio of high-quality liquid assets (*HQLA portfolio*) that can be monetised to meet the firm’s liquidity needs for 30 calendar days under severe liquidity stress. This Part sets out:

(a) what assets qualify as high-quality liquid assets;

(b) how much the portfolio must be able to raise if monetised;

(c) how assets must be valued for inclusion in the portfolio; and

(d) how much of the portfolio’s value may be made up of assets of different kinds.

**Guidance**

To obtain liquidity, a firm could monetise an asset by, for example, sale or repo.

(2) This Part also requires a banking business firm to maintain a specified ratio (**liquidity coverage ratio** or **LCR**) of HQLA to its predicted need for liquidity over a 30-calendar-day period.

(3) The purpose of requiring banking business firms to maintain the HQLA portfolio, and to meet the LCR requirement, is to ensure that such firms are resilient, in the short term, to liquidity risk. The LCR requirement is intended to ensure that such a firm always holds unencumbered assets that can be readily converted into sufficient cash to meet the firm’s liquidity needs for 30 calendar days even under severe liquidity stress.

(4) A banking business firm is required to maintain its HQLA portfolio, and to meet the minimum LCR, at all times. Therefore, such a firm should frequently calculate:

(a) its liquidity needs for the coming 30 calendar days; and

(b) the value of its HQLA portfolio.
(5) Nothing in this Part prevents a banking business firm from holding HQLA in excess of the amounts required by this Part.

9.3.2 Application of Part 9.3

(1) This Part applies to a banking business firm on a solo basis.

Note For the application of this Part to a firm that is a branch (and the global liquidity concession), see rule 9.3.57.

(2) However, if a banking business firm is a member of a financial group that is subject to consolidated supervision by the Regulatory Authority, the Authority may direct the financial group as a whole to comply with this Part.

Note For the application of this Part to a financial group, see rule 9.3.5.

9.3.3 Definitions for Part 9.3

In this Part:

financial institution includes a banking business firm and an authorised firm of any other kind, and any of the following kinds of entity established outside the QFC:

(a) a bank;

(b) a securities firm;

(c) an insurance company;

(d) a fiduciary (that is, a legal entity that is authorised to manage assets on behalf of a third party, including an asset-management entity such as a pension fund or collective investment entity);

(e) a beneficiary (that is, a legal entity that receives, or may become eligible to receive, benefits under a will, insurance policy, retirement plan, annuity, trust, or other contract).

high-quality liquid assets has the meaning given by rules 9.3.8 to 9.3.13.

HQLA means high-quality liquid assets.

LCR means liquidity coverage ratio.

liquidity coverage ratio for a banking business firm means the ratio calculated in accordance with rule 9.3.20.
9.3.4 References in Part 9.3 to encumbered and unencumbered assets

(1) For this Part:

*unencumbered*, in relation to an asset, means free of legal, regulatory, contractual or other restrictions on liquidation, sale, transfer or assignment.

(2) For this Part, an asset is *encumbered* if it is lodged (either explicitly or implicitly) to secure, collateralise or credit-enhance a transaction, or is designated to cover operational costs (such as rents and salaries).

(3) However, assets received by a banking business firm in reverse-repo and securities financing transactions are taken to be unencumbered if the assets:

(a) are held at the firm;
(b) have not been re-hypothecated; and
(c) are legally and contractually available for the firm’s use.

(4) In addition, assets that have been pre-positioned or deposited with, or lodged with, a central bank or a public sector entity may be treated as unencumbered if the assets:

(a) otherwise qualify as HQLA; and
(b) have not been used to generate liquidity.

9.3.5 Application of LCR to financial group

(1) For calculating a consolidated LCR for a financial group, HQLA held to meet liquidity needs at the firm level may be included in the consolidated parent entity’s HQLA portfolio only so far as the related liabilities are also reflected in the parent entity’s LCR. Any surplus of HQLA held at the firm may be treated as forming part of the parent entity’s HQLA portfolio only if those assets would be freely available to the parent entity during a period of liquidity stress.

(2) When calculating its LCR on a consolidated basis, a cross-border banking group must, subject to subrule (3), apply its home jurisdiction’s rules to all the legal entities that are being consolidated.

(3) The firm must treat deposits by retail and small business customers with a consolidated entity according to the rules in the jurisdiction in which that entity operates. The firm must also apply those rules to decide whether a particular deposit qualifies as a deposit by a retail customer or a small business customer.

(4) A cross-border banking group must not take excess liquidity into account in calculating its consolidated LCR if there is reasonable doubt.
about whether the liquidity would be available during a period of liquidity stress.

Guidance
Liquidity transfer restrictions (for example, ring-fencing measures, non-convertibility of local currency, and foreign exchange controls) in jurisdictions in which a banking group operates would affect the availability of liquidity by restricting the transfer of HQLA and funds flows within the group. The consolidated LCR should reflect the restrictions consistently with this Part. For example, HQLA held to meet a local LCR requirement by a subsidiary that is being consolidated can be included in the consolidated LCR to the extent that the HQLA are used to cover the total net cash outflows of that subsidiary, even if the assets are subject to restrictions on transfer to the parent entity. If the HQLA held in excess of the total net cash outflows are not transferable, the firm should not count that surplus liquidity.

Division 9.3.B  HQLA portfolio—makeup and value

9.3.6  Requirement for HQLA portfolio—basic rules

(1) A banking business firm must maintain an HQLA portfolio sufficient to meet its funding needs for at least 30 calendar days under severe liquidity stress.

Note The value of the HQLA portfolio must bear a minimum ratio to the firm’s outflows over the 30-calendar-day period. That minimum ratio is the liquidity coverage ratio or LCR—see rules 9.3.16 and 9.3.20.

(2) The assets in the portfolio must be appropriately diversified in terms of type, issuer, currency and counterparty.

(3) The firm must be able to meet its liquidity needs in each currency in which it has significant exposure. The portfolio must be similar in composition (in terms of the currencies in which the assets are denominated) to its liquidity needs.

(4) For subrule (3), a banking business firm has significant exposure in a currency if 5% or more of the firm’s total liabilities are denominated in the currency.

9.3.7  HQLA portfolio—general operational requirements

(1) A banking business firm’s HQLA portfolio must be under the control of the specific function or functions charged with managing the firm’s liquidity. That function must always have the authority, and must always be legally and operationally able, to monetise any asset in the portfolio.

Guidance
For the firm to be operationally able to monetise assets, the firm must have the necessary procedures and appropriate systems, and must have access to all the necessary information. The function must actually be able to monetise any of the assets within the standard settlement period for the asset class.
(2) That control must be shown by:
   (a) maintaining the portfolio in a separate pool managed by the function solely as a source of contingent funds; or
   (b) showing that the function can monetise any asset in the portfolio at any time, and that the proceeds of doing so are available to the function throughout the following 30-calendar-day period, consistently with the firm’s business and risk-management strategies.

(3) The firm must monetise a representative part of the portfolio periodically (at least annually):
   (a) to test the firm’s access to the market, the effectiveness of its processes for liquidation and the availability of the assets; and
   (b) to minimise the risk of giving a negative signal during a period of actual liquidity stress.

9.3.8 What assets are HQLA

(1) An asset is HQLA if it falls within any of rules 9.3.10 to 9.3.12, or is approved by the Regulatory Authority as HQLA under rule 9.3.13.

   Guidance
   Assets that fall within any of rules 9.3.10 to 9.3.12 are HQLA because such assets can be monetised easily and immediately with little or no loss of value.

(2) A banking business firm must not include an asset in its HQLA portfolio if the asset is encumbered.

   Note For the meaning of encumbered, see rule 9.3.4 (2).

(3) The firm must not include an asset in the portfolio if the firm could not, for any operational, legal, regulatory or other reason, monetise it at any time and receive the proceeds within 30 calendar days.

   Guidance
   1 For example, the firm should not include an asset if:
      • the asset was hypothecated to the firm and the asset’s beneficial owner has the right to withdraw it
      • the sale of the asset without replacement would remove a hedge so as to create an open risk position in excess of the firm’s internal risk limit.
   2 When considering whether to include a particular asset, a firm should take into account any possible delays in the settlement of a sale.
   3 Subrule (3) would not prevent assets received as collateral for derivatives transactions from being included in the portfolio provided that:
      • the assets are not segregated and are legally able to be re-hypothecated
      • the firm records an appropriate outflow for the associated risks.
9.3.9 Classification of HQLA

(1) HQLA are classified as either level 1 HQLA or level 2 HQLA. Level 1 HQLA are the highest-quality, most liquid assets, and level 2 HQLA are other high-quality liquid assets.

(2) Level 2 HQLA are further classified as either level 2A HQLA or level 2B HQLA.

Guidance

All classes of HQLA (other than cash and Central Bank reserves) are marketable securities that are traded in large, deep and active repo or cash markets with a low level of concentration.

9.3.10 Level 1 HQLA

Level 1 HQLA consists of:

(a) currency notes and coins;

(b) reserves held with the Qatar Central Bank, to the extent that they are capable of being drawn down immediately during a period of liquidity stress;

(c) marketable securities that satisfy all of the following conditions:

(i) they represent claims on, or claims guaranteed by, a sovereign, the European Union, a central bank, a public sector entity, the Bank for International Settlements, the International Monetary Fund, the European Central Bank or an MDB;

(ii) they are assigned a risk weight of 0% under Part 4.4;

(iii) they are not an obligation of a financial institution nor of a related party of a financial institution;

(iv) they are traded in large, deep and active repo or cash markets with a low level of concentration;

(v) they have a proven record as a reliable source of liquidity in the markets (repo or sale) even under stressed market conditions; and

(d) marketable securities that are not assigned a risk weight of 0% under Part 4.4, but:

(i) meet the conditions in paragraphs (c) (iii), (iv) and (v); and

(ii) are either:

(A) sovereign or central bank debt securities issued in the domestic currency of either the jurisdiction in which the firm’s liquidity risk is taken or the firm’s home jurisdiction; or
(B) sovereign or central bank debt securities issued in a foreign currency, up to the amount of the firm’s stressed net cash outflows in that currency stemming from the firm’s operations in the jurisdiction in which the firm’s liquidity risk is taken.

Note  The Regulatory Authority may approve assets of other kinds as level 1 HQLA—see rule 9.3.13.

9.3.11 **Level 2A HQLA**

Level 2A HQLA consists of:

(a) marketable securities that represent claims on, or claims guaranteed by, a sovereign, a central bank, a public sector entity or an MDB, and meet all of the following conditions:

(i) they are assigned a risk weight of 20% under Part 4.4;

(ii) they are traded in large, deep and active repo or cash markets with a low level of concentration;

(iii) they have a proven record as a reliable source of liquidity in the markets (repo or sale) even under stressed market conditions (that is, they showed no more than 10% decline in price (or 10 percentage points increase in haircut) over a 30-calendar-day period of significant liquidity stress);

(iv) they are not an obligation of a financial institution nor of a related party of a financial institution; and

(b) marketable corporate debt securities (including commercial paper), and covered bonds, that meet all of the following conditions:

(i) they are not an obligation of a financial institution nor of a related party of a financial institution;

(ii) they are rated no lower than AA- (long-term) or A-1 (short-term) by Standard & Poor’s (or the equivalent by another ECRA);

(iii) in the case of corporate debt securities:

(A) they do not include complex structured products nor subordinated debt; and

(B) their valuation is readily available, is based on standard methods and does not depend on private knowledge;

(iv) in the case of covered bonds, they were not issued by the firm itself nor a related party;
(v) they are traded in large, deep and active repo or cash markets with a low level of concentration;

(vi) they have a proven record as a reliable source of liquidity in the markets (repo or sale) even under stressed market conditions (that is, they showed no more than 10% decline in price (or 10 percentage points increase in haircut) over a 30-calendar-day period of significant liquidity stress).

Note The Regulatory Authority may approve assets of other kinds as level 2A HQLA—see rule 9.3.13.

### 9.3.12 Level 2B HQLA

Level 2B HQLA consists of:

(a) marketable residential-mortgage-backed securities that meet all of the following conditions:

   (i) they were not issued by, and the underlying assets were not originated by, the firm itself or a related party of the firm;

   (ii) the underlying asset pool is made up only of residential mortgages and does not contain structured products;

   (iii) they are rated no lower than AA (long-term) or A-1 (short-term) by Standard & Poor’s (or the equivalent by another ECRA);

   (iv) the loans secured by the underlying mortgages are full-recourse loans (that is, in a foreclosure the property owner would be liable for any shortfall in the sale proceeds from the property) and had a maximum loan-to-value ratio of 80% on average at issuance;

   (v) the securitisations are subject to rules that require issuers to retain an interest in assets that they securitise;

   (vi) the securities are traded in large, deep and active repo or cash markets with a low level of concentration;

   (vii) they have a proven record as a reliable source of liquidity in the markets (repo or sale) even under stressed market conditions (that is, they showed no more than 20% decline in price (or 20 percentage points increase in haircut) over a 30-calendar-day period of significant liquidity stress);

(b) marketable corporate debt securities (including commercial paper) that meet all of the following conditions:

   (i) they were not issued by a financial institution nor by a related party of a financial institution;
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(ii) they are rated no lower than BBB- (long-term) or A-3 (short-term) by Standard & Poor’s (or the equivalent by another ECRA);

(iii) they are traded in large, deep and active repo or cash markets with a low level of concentration;

(iv) they have a proven record as a reliable source of liquidity in the markets (repo or sale) even under stressed market conditions (that is, they showed no more than 20% decline in price (or 20 percentage points increase in haircut) over a 30-calendar-day period of significant liquidity stress);

(c) marketable equity shares that meet all of the following conditions:

(i) they were not issued by a financial institution nor a related party of a financial institution;

(ii) they are exchange-traded and centrally cleared;

(iii) they are a constituent of the QE Index or of an index that the Regulatory Authority accepts as a major stock index for the recognised exchange on which the shares are listed;

(iv) they are denominated in the currency of the firm’s home jurisdiction or the currency of the jurisdiction where the firm’s liquidity risk is taken;

(v) they are traded in large, deep and active repo or cash markets with a low level of concentration;

(vi) they have a proven record as a reliable source of liquidity in the markets (repo or sale) even under stressed market conditions (that is, they showed no more than 40% decline in price (or 40 percentage points increase in haircut) over a 30-calendar-day period of significant liquidity stress).

9.3.13 Regulatory Authority approval of other types of HQLA

(1) The Regulatory Authority may approve assets of types that do not fall within rules 9.3.10 to 9.3.12 as being eligible to be included in a banking business firm’s HQLA portfolio to meet the firm’s LCR requirement.

(2) If the Authority approves assets under subrule (1), it must specify whether they are to be treated as level 1, level 2A or level 2B HQLA.

9.3.14 Make-up of HQLA portfolio

(1) The whole of a banking business firm’s HQLA portfolio may be made up of level 1 HQLA.
(2) In the portfolio the firm may include level 2 HQLA only up to the following limits:
   (a) level 2 HQLA (including both level 2A HQLA and level 2B HQLA)—no more than 40% of the total value of the portfolio;
   (b) level 2B HQLA—no more than 15% of the total value of the portfolio.

(3) For calculating the total value of the portfolio and the percentages of its value made up of each category of HQLA, the value of an asset is taken to be its market value and is subject to the appropriate haircut set out in rule 9.3.15.

(4) If an asset is involved in a transaction that matures within 30 calendar days and involves the exchange of HQLA:
   (a) the transaction may be treated as having been unwound; and
   (b) the asset may be included in the portfolio.

(5) Only assets held or owned by the firm on the day of calculation may be included in the calculation, regardless of their residual maturity.

(6) If an asset in the firm’s portfolio that was formerly eligible as HQLA becomes ineligible (for example, because of a rating downgrade), the firm may continue to treat the asset as HQLA for a further 30 calendar days after it ceases to be eligible as HQLA, to allow the firm time to adjust its portfolio.

9.3.15 Haircuts for assets in HQLA portfolio

For calculating the value of a banking business firm’s HQLA portfolio:
   (a) level 1 HQLA must be valued at their market value;
   (b) level 2A HQLA must be valued at 85% of their market value; and
   (c) level 2B HQLA must be valued at the following percentages of their market value:
      (i) residential mortgage-backed securities—75%;
      (ii) other level 2B HQLA—50%;
      (iii) other assets approved by the Regulatory Authority as level 2B HQLA—the percentage that the Authority specifies.
Division 9.3.C  Liquidity coverage ratio

Subdivision 9.3.C.1  Liquidity coverage ratio generally

9.3.16  Liquidity coverage ratios required

(1) Subject to rule 9.3.18, a liquidity risk group A banking business firm must maintain its LCR:

(a) in the calendar year 2018—at 90% or higher; and
(b) in each subsequent calendar year—at 100% or higher.

Note  Rule 9.3.18 allows a banking business firm to monetise part of its HQLA portfolio during a period of liquidity stress.

Guidance
Rule 9.3.16 sets minimum levels and is not intended to limit the generality of the requirements in rule 9.3.6.

(2) The requirement for the firm to maintain the LCR required by subrule (1) is called the firm’s LCR requirement.

Guidance
An authorised firm must be continually aware of its LCR because of the requirements for the firm to maintain its LCR, and to report to the Regulatory Authority if the LCR falls below the firm’s LCR requirement. How often the firm needs to calculate its LCR depends on the nature of the firm’s business. Some relevant factors would be:

- how volatile the values of the firm’s assets and exposures are
- how actively the firm trades.

For the requirement to report if the firm’s LCR falls below its LCR requirement, see rule 9.3.19.

9.3.17  Adjustment of firms’ LCR by Regulatory Authority

The Regulatory Authority may, by written notice to a banking business firm, do any 1 or more of the following:

(a) change the firm’s LCR requirement;
(b) change the method for calculating the LCR requirement, or the assumptions or parameters for the purposes of that calculation;
(c) impose additional requirements based on the Authority’s assessment of the firm’s exposure to liquidity risk.

9.3.18  Monetising HQLA during periods of liquidity stress

During a period of liquidity stress, a banking business firm may monetise part of its HQLA portfolio, and may use the cash so generated to cover cash outflows. It may allow its LCR to fall below the level required by rule 9.3.16 to the extent necessary to deal with cash outflows during that period.
9.3.19 **Obligation to notify Regulatory Authority if LCR requirement not met**

(1) A banking business firm must notify the Regulatory Authority in writing immediately (but within 3 business days) if the firm ceases to meet its LCR requirement (or becomes aware of circumstances that may result in its ceasing to meet that requirement).

(2) In the notification the firm must clearly explain:

(a) why it ceased to meet, or thinks it may cease to meet, the requirement;

(b) when it expects to again be able to meet the requirement; and

(c) what it has done, and will do, to ensure that it meets the requirement in future, or continues to meet it, as the case requires.

**Guidance**

A banking business firm that gives such a notification should discuss with the Regulatory Authority what further steps it should take to deal with the situation.

**Subdivision 9.3.C.2 Calculating LCR**

9.3.20 **How to calculate LCR**

(1) A banking business firm’s LCR is calculated by means of the following formula:

\[
LCR = \frac{VP}{TC30} \times 100
\]

where:

- \(TC30\) is the firm’s total net cash outflow over the next 30 calendar days (all outflows, or outflows in the relevant currency, as the case requires), calculated in accordance with rule 9.3.21.

- \(VP\) is the total value of the assets in the firm’s HQLA portfolio, calculated in accordance with rule 9.3.15.

**Note** To calculate the value of the portfolio, the market value of an asset in the portfolio is taken to be the asset’s market value, subject to a haircut—see rule 9.3.15.

(2) The firm must calculate its LCR both overall, and separately for each significant currency in which it has liabilities. A currency is *significant* for the firm if the firm’s liabilities denominated in it amount to 5% or more of the firm’s total liabilities.

**Guidance**

A banking business firm that is active in several currencies:

- should maintain an HQLA portfolio consistent with the distribution of its liquidity needs by currency
9.3.21 How to calculate total net cash outflow over next 30 calendar days

(1) On any day, a banking business firm’s total net cash outflow over the next 30 calendar days is the difference between:

(a) its total expected gross cash outflow over that 30-calendar-day period; and

(b) the lesser of:

(i) 75% of its total expected gross cash outflow over that period; and

(ii) its total expected cash inflow over that period.

Guidance
Subrule (1) (b) ensures that, for the purposes of the calculation, the firm’s cash inflow can never be greater than 75% of its total expected gross cash outflow.

(2) For that calculation:

(a) the firm’s total expected gross cash outflow is to be calculated in accordance with Subdivisions 9.3.C.3 to 9.3.C.5; and

(b) the firm’s total expected cash inflow is to be calculated in accordance with Subdivisions 9.3.C.6 to 9.3.C.8.

Subdivision 9.3.C.3 Calculating total expected gross cash outflows—general

9.3.22 How to calculate total expected gross cash outflow

(1) Total expected gross cash outflow over a period is calculated by:

(a) first, multiplying the outstanding balance of each category of liability or off-balance-sheet commitment by the rate at which it is expected to run off or be drawn down during the period; and

(b) then, adding up the balances so calculated.

Note Rules 9.3.23 to 9.3.41 specify runoff rates for many kinds of cash outflow and give interpretative provisions. Those rules are based on Basel III LCR. The interpretive provisions provide only minimal explanation of the reasons why particular kinds of outflow receive the runoff rates specified. For a fuller explanation, consult Basel III LCR (in particular, paragraphs 69–141).

(2) For that calculation, if interest is payable on the outstanding balance of a liability or off-balance-sheet commitment, any interest that is expected to be paid during the relevant period must be added to the balance.
Subdivision 9.3.C.4 Calculating total expected gross cash outflows—runoff rates for retail deposits, wholesale unsecured funding and secured funding

9.3.23 Treatment of retail deposits generally

(1) The runoff rates for retail deposits generally are as set out in table 9.3.23.

(2) However, this rule does not apply to:
   a deposit that falls within rule 9.3.25; or
   unsecured wholesale funding that falls within rule 9.3.26.

Note Rule 9.3.24 allows the Regulatory Authority to direct that a higher runoff rate must be applied to deposits that would otherwise fall within rule 9.3.23 but have unusual features.

(3) In the case of a deposit that is pledged as security for a credit facility, this rule is subject to rule 9.3.27.

Table 9.3.23 Retail deposits generally—runoff rates

<table>
<thead>
<tr>
<th>Kind of deposit</th>
<th>Runoff rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail demand deposits, and term deposits with maturity of 30 calendar days or less:</td>
<td></td>
</tr>
<tr>
<td>• stable deposits (see subrule (4)) covered by a deposit insurance scheme that meets all of the additional criteria in subrule (7)</td>
<td>3%</td>
</tr>
<tr>
<td>• other stable deposits</td>
<td>5%</td>
</tr>
<tr>
<td>• less stable deposits (see subrules (8), (9))</td>
<td>10%</td>
</tr>
</tbody>
</table>

(4) Stable deposits are deposits that are fully insured (see subrule (5)) (or are covered by a public guarantee that provides equivalent protection), and for which either of the following is true:

   (a) the depositor has other established relationships with the firm that make withdrawal highly unlikely;

   (b) the deposit is in a transactional account (for example, an account into which the depositor’s salary is automatically deposited).

(5) A deposit is fully insured if 100% of the deposit amount, up to the applicable deposit insurance limit, is covered by an effective (see subrule (6)) deposit insurance scheme. Deposit balances up to the limit are treated as fully insured even if the depositor’s balance is over the
limit. However, any amount over the limit is to be treated as a less stable deposit.

**Guidance**

For example, if a depositor has a deposit of 150 that is covered by a deposit insurance scheme that has a limit of 100, so that the depositor would receive at least 100 from the scheme if the firm were unable to pay, then 100 would be considered fully insured and treated as a stable deposit, and 50 would be treated as a less stable deposit. However, if the scheme covered only a percentage of the deposit amount (for example, 90% of the deposit amount up to a limit of 100), the entire 150 deposit would be treated as a less stable deposit.

(6) A deposit insurance scheme is **effective** if all of the following are true:

(a) the scheme guarantees that it can make payouts promptly;

(b) its coverage is clearly defined;

(c) the provider has formal legal powers to fulfil the scheme’s mandate, and is operationally independent, transparent and accountable;

(d) public awareness of the scheme is high.

(7) The additional criteria (for a deposit insurance scheme) mentioned in table 9.3.23 are the following:

(a) the scheme is pre-funded by periodic levies on entities with insured deposits;

(b) the scheme has ready access to additional funding in the event of a large call on its reserves (for example, an explicit and legally binding guarantee from its government, or a standing authority to borrow from its government);

(c) depositors have access to insured deposits quickly if the scheme is called on.

(8) A deposit that does not fall within subrule (4) is a **less stable deposit**.

(9) If the firm cannot readily identify a term deposit as stable, it must treat the full amount of the deposit as less stable.

(10) The firm may exclude, from total expected cash outflows, the cash outflow related to a term deposit with residual maturity, or a notice period for withdrawal, longer than 30 calendar days only if:

(a) the depositor has no legal right to withdraw the deposit within a 30-calendar-day period; or

(b) early withdrawal would result in a significant penalty that is materially greater than the loss of interest.

(11) However, if the practice of the firm is to allow depositors to withdraw such deposits within the 30-calendar-day period without applying the
corresponding penalty, each such deposit must be treated in full as a demand deposit unless the Regulatory Authority approves otherwise.

9.3.24 **Treatment of deposits with unusual features**

Despite anything in rule 9.3.23, the Regulatory Authority may direct that a higher run-off rate must be applied to a deposit, or a class of deposits, that falls within that rule but presents unusual features.

9.3.25 **Treatment of deposits not in Qatari riyals, and deposits by non-residents of Qatar**

(1) This rule applies to:

(a) deposits, by residents of Qatar, not denominated in Qatari riyals; and

(b) deposits by non-residents of Qatar, regardless of the currency of denomination.

(2) The run-off rate for deposits to which this rule applies is the rate that the Regulatory Authority directs.

9.3.26 **Treatment of unsecured wholesale funding**

(1) The runoff rates for unsecured wholesale funding are as set out in table 9.3.26.

(2) In the case of a deposit that is pledged as security for a credit facility, this rule is subject to rule 9.3.27.

(3) **Wholesale funding** consists of liabilities and general obligations, raised from legal entities, of which any 1 or more of the following is true:

(a) the funding is callable within 30 calendar days;

(b) the funding has its earliest possible contractual maturity date within 30 calendar days (for example, a maturing term deposit or an unsecured debt security); or

(c) the funding has an undetermined maturity.

**Guidance**

*Wholesale funding* includes funding that the provider has the option of withdrawing within the 30-calendar-day period (but not funding that is callable by the funds provider subject to a contractually defined and binding notice period longer than 30 calendar days).

(4) **Unsecured wholesale funding** is wholesale funding that is not collateralised by legal rights to specifically designated assets. Unsecured wholesale funding does not include obligations related to derivative contracts.
Table 9.3.26 Unsecured wholesale funding—runoff rates

<table>
<thead>
<tr>
<th>Item</th>
<th>Kind of funding</th>
<th>Runoff rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Demand and term deposits (with maturity of 30 calendar days or less) provided by small business customers:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• stable deposits (see subrule (5))</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>• less stable deposits (see subrule (5))</td>
<td>10</td>
</tr>
<tr>
<td>2</td>
<td>Operational deposits (see subrules (6)–(11)):</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• any part covered by deposit insurance</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>• otherwise</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td>Unsecured wholesale funding from cooperative banks in an institutional network (qualifying deposits with the central institution) (see subrules (12)–(14))</td>
<td>25</td>
</tr>
<tr>
<td>3</td>
<td>Unsecured wholesale funding provided by non-financial corporates, and sovereigns, central banks, MDBs, and public sector enterprises (see subrule (15)):</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• if the entire amount is fully covered by deposit insurance</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td>• otherwise</td>
<td>40</td>
</tr>
<tr>
<td>4</td>
<td>Unsecured wholesale funding provided by other legal entity customers (see subrules (16)–(19))</td>
<td>100</td>
</tr>
</tbody>
</table>

(5) In table 9.3.26, *stable deposit* and *less stable deposit* have the same respective meanings as in rule 9.3.23.

(6) *Operational deposits* are deposits placed or left with the firm by a customer to facilitate the customer’s access to, and ability to use, payment and settlement systems and otherwise make payments for the
purposes of clearing, custody or cash management services that meet all of the following criteria:

(a) the customer is reliant on the firm to perform the services as an independent third party intermediary;

Guidance
This condition would not be met if the firm is aware that the customer has adequate back-up arrangements.

(b) the services are provided under a legally binding agreement;

(c) the termination of the agreement is subject to:
   (i) a notice period of 30 calendar days or more; or
   (ii) significant costs (such as transaction costs, costs related to information technology, or early termination or legal costs) that must be borne by the customer if the deposit is moved before the end of 30 calendar days.

Guidance
1 Clearing is a service that enables customers to transfer funds (or securities) indirectly through direct participants in domestic settlement systems to final recipients. Such services are limited to the following activities:
   • transmission, reconciliation and confirmation of payment orders
   • daylight overdraft, overnight financing and maintenance of post-settlement balances
   • determination of intra-day and final settlement positions.

2 Custody is the provision of safekeeping, reporting and processing of assets, or the facilitation of the operational and administrative elements of related activities on behalf of customers in the process of their transacting and retaining financial assets. Such services are limited to the settlement of securities transactions, the transfer of contractual payments, the processing of collateral, and the provision of custody-related cash management services.

3 Custody also includes the receipt of dividends and other income and client subscriptions and redemptions, and extends to asset and corporate trust servicing, treasury, escrow, funds transfer, stock transfer and agency services, (including payment and settlement services, but not correspondent banking), and depository receipts.

4 Cash management is the provision of cash management and related services to customers—that is, services provided to a customer to manage its cash flows, assets and liabilities, and conduct financial transactions necessary to its operations. Such services are limited to payment remittance, collection and aggregation of funds, payroll administration, and control over the disbursement of funds.

5 Correspondent banking is an arrangement under which a bank holds deposits owned by other banks, and provides payment and other services to settle foreign currency transactions.
(7) The firm may treat a deposit as an operational deposit only if the deposit meets all of the following requirements:

(a) it is a by-product of the underlying services provided by the firm;
(b) it is not offered by the firm in the wholesale market in the sole interest of offering interest income;
(c) it is held in a specifically-designated account;
(d) it is priced so as not to give customers an economic incentive to leave excess funds in the account.

(8) Excess balances that could be withdrawn without jeopardising those clearing, custody or cash management activities are not to be treated as operational deposits.

(9) The firm must determine how to identify such excess balances. If the firm is unable to identify how much of a deposit is an excess balance, the firm must assume that the entire deposit is excess and therefore not operational.

Guidance
The identification should be sufficiently granular to adequately assess the risk of withdrawal in an idiosyncratic stress situation. The method should take into account relevant factors such as the likelihood that wholesale customers have above-average balances in advance of specific payment needs, and should consider appropriate indicators (for example, ratios of account balances to payment or settlement volumes or to assets under custody) to identify customers that are not actively managing account balances efficiently.

(10) A deposit that arises out of correspondent banking, or from the provision of prime brokerage services, is not to be treated as an operational deposit.

Guidance
Prime brokerage services is a package of services offered to large active investors, particularly institutional hedge funds. The services usually include:

- clearing, settlement and custody
- consolidated reporting
- financing (margin, repo or synthetic)
- securities lending
- capital introduction
- risk analytics.

(11) Any part of an operational deposit that is fully covered by deposit insurance may be treated as a stable retail deposit.

(12) An institutional network of cooperative banks is a group of legally separate banks with a statutory framework of cooperation with a
common strategic focus and brand, in which certain functions are performed by a central institution or a specialised service provider.

(13) A **qualifying deposit** is a deposit by a member institution with the central institution or specialised central service provider:

(a) because of statutory minimum deposit requirements; or

(b) in the context of common task-sharing and legal, statutory or contractual arrangements (but only if both the depositor and the bank that receives the deposit participate in the network’s scheme of mutual protection against illiquidity and insolvency).

(14) The following are not qualifying deposits:

(a) deposits resulting from correspondent banking activities;

(b) deposits placed at the central institution or a specialised service provider for any reason other than those set out in subrule (13);

(c) deposits for the operational purposes of clearing, custody, or cash management.

(15) **Unsecured wholesale funding provided by non-financial corporates and sovereigns, central banks, MDBs, and public sector enterprises** comprises all deposits and other extensions of unsecured funding (other than those specifically for operational purposes) from:

(a) non-financial corporate customers (except small business customers); and

(b) domestic and foreign customers that are sovereigns, central banks, MDBs and public sector enterprises.

(16) **Unsecured wholesale funding provided by other legal entity customers** consists of deposits and other funding (other than operational deposits) not falling within subrules (1) to (15), such as funding provided by:

(a) another financial institution; or

(b) a related party of the firm.

(17) All debt securities issued by the firm are to be treated as unsecured wholesale funding provided by other legal entity customers regardless of the holder.

(18) However, securities that are sold exclusively in the retail market and held in retail accounts (or small business customer accounts) may be treated in the appropriate retail or small business customer deposit category. For securities to be treated in that way, there must be limitations preventing them being bought and held other than by retail or small business customers.
(19) Customers’ cash balances arising from the provision of prime brokerage services must be treated as separate from any balances required to be segregated under a statutory client protection regime, and must not be netted against other customer exposures. Such offsetting balances held in segregated accounts are to be treated as inflows and must not be counted as HQLA.

9.3.27 Treatment of deposits pledged as security

(1) This rule applies to a deposit that is pledged as security for a credit facility if:
   (a) the facility will not mature or be settled within the relevant 30-calendar-day period; and
   (b) the pledge is subject to a legally enforceable contract under which the deposit cannot be withdrawn before the facility is fully settled or repaid.

(2) If no part of the facility has been drawn, the runoff rate is the higher of:
   (a) the rate that would apply under rule 9.3.23 or 9.3.26 (as the case requires); and
   (b) a rate equal to the rate applicable to the facility under rule 9.3.38.

(3) However, if some part of the facility has been drawn, only that part of the deposit in excess of the outstanding balance of the facility is to be counted. The applicable runoff rate is the rate that applies under rule 9.3.23 or 9.3.26 (as the case requires).

9.3.28 Treatment of maturing secured funding

(1) The runoff rates for secured funding that matures within the relevant 30-calendar-day period are as set out in table 9.3.28.

(2) Secured funding is a banking business firm’s liabilities and general obligations collateralised by the grant of legal rights to specific assets owned by the firm.

Guidance
This scenario assumes that the firm has lost its secured funding on short-term financing transactions. In this scenario, the firm could continue to transact securities financing transactions only if the transactions were backed by HQLA or were with the firm’s domestic sovereign, public sector enterprise or central bank.

Table 9.3.28 Maturing secured funding—runoff rates

<table>
<thead>
<tr>
<th>Item</th>
<th>Kind of funding</th>
<th>Runoff rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Backed by level 1 HQLA</td>
<td>0</td>
</tr>
</tbody>
</table>
### Rule 9.3.29

**Liquidity coverage ratio—liquidity risk group A banking business firms**

**Chapter 9**

**Part 9.3**

#### Item 2

<table>
<thead>
<tr>
<th>Kind of funding</th>
<th>Runoff rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Backed by level 2A HQLA</td>
<td>15</td>
</tr>
</tbody>
</table>

#### Item 3

- Backed by assets that are not level 1 HQLA or level 2A HQLA, and the counterparty is any of the following:
  - a domestic sovereign
  - an MDB
  - a domestic public sector enterprise that has a risk weight of 20% or lower
- Runoff rate (%): 25

#### Item 4

- Backed by residential-mortgage-backed securities that are eligible as level 2B HQLA
- Runoff rate (%): 25

#### Item 5

- Backed by other level 2B HQLA
- Runoff rate (%): 50

#### Item 6

- All other maturing secured funding
- Runoff rate (%): 100

#### Subdivision 9.3.C.5 Calculating total expected gross cash outflows—runoff rates for other funding

**9.3.29 Treatment of net derivative cash outflows**

1. The runoff rate for net derivative cash outflows is 100%.
2. The firm must calculate those outflows in accordance with its usual valuation methods. The outflows may be calculated on a net basis by counterparty (that is, inflows offsetting outflows) only if a valid master netting agreement exists.
3. From the calculation, the firm must exclude liquidity needs that would result from increased collateral needs because of falls in the value of collateral lodged or market value movements.

*Note* For how to treat such liquidity needs, see rules 9.3.31 and 9.3.35.
(4) The firm must assume that an option will be exercised if it is in the money.

(5) If derivative payments are collateralised by HQLA, the cash outflows are to be calculated net of any corresponding cash or collateral inflows that would result, all other things being equal, from contractual obligations to lodge cash or collateral with the firm.

(6) However, subrule (5) applies only if, after the collateral were received, the firm would be legally entitled and operationally able to re-hypothecate it.

9.3.30 Treatment of increased liquidity needs related to downgrade triggers

(1) The runoff rate for increased liquidity needs related to downgrade triggers in financing transactions, derivatives and other contracts is 100% of the amount of collateral that the firm would be required to lodge for, or the contractual cash outflow associated with, any downgrade up to and including a 3-notch downgrade.

Guidance

A **downgrade trigger** is a contractual condition that requires a banking business firm to lodge additional collateral, draw down a contingent facility or repay existing liabilities early if an ECRA downgrades the firm. Contracts governing derivatives and other transactions often have such conditions. The scenario therefore requires a firm to assume that for each contract that contains downgrade triggers, 100% of the additional collateral or cash outflow will have to be lodged for a downgrade up to and including a 3-notch downgrade of the firm’s long-term credit rating.

(2) The firm must assume that a downgrade trigger linked to the firm’s short-term rating will be triggered at the corresponding long-term rating.

9.3.31 Treatment of increased liquidity needs related to possible valuation changes on lodged collateral

The runoff rate for increased liquidity needs related to possible valuation changes on collateral lodged by a banking business firm to secure derivatives and other transactions is 20% of the value of any lodged collateral that is not level 1 HQLA (net of collateral received on a counterparty basis, if the collateral received is not subject to restrictions on re-use or re-hypothecation).

Guidance

Most counterparties to derivative transactions are required to secure the mark-to-market valuation of their positions. If level 1 HQLA are lodged as collateral, no additional stock of HQLA need be maintained for possible valuation changes. However, if the firm secures such an exposure with other collateral, 20% of the value of such lodged collateral will be added to the firm’s required stock of HQLA to cover the possible loss of market value on the collateral.
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Chapter 9
Liquidity coverage ratio—liquidity risk group A banking business firms
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Rule 9.3.32

9.3.32 Treatment of increased liquidity needs related to excess non-segregated collateral
The runoff rate for increased liquidity needs related to excess non-segregated collateral that is held by a banking business firm, and could contractually be recalled at any time by a counterparty, is 100% of the value of the excess collateral.

9.3.33 Treatment of increased liquidity needs related to contractually-required collateral when counterparty has not yet demanded that collateral be lodged
The runoff rate for increased liquidity needs related to contractually-required collateral, due from a banking business firm on transactions for which the counterparty has not yet demanded that the collateral be lodged, is 100% of the value of the collateral that is contractually due.

9.3.34 Treatment of increased liquidity needs related to contracts that allow substitution of non-HQLA collateral
(1) This rule applies to the following kinds of transaction:
   (a) transactions where:
      (i) a banking business firm holds HQLA collateral;
      (ii) the counterparty has the right to substitute non-HQLA collateral for some or all of the HQLA collateral without the firm’s consent; and
      (iii) the collateral is not segregated;
   (b) transactions where:
      (i) a banking business firm has the right to receive HQLA collateral;
      (ii) the counterparty has the right to deliver non-HQLA collateral instead of some or all of the HQLA collateral without the firm’s consent; and
      (iii) the collateral is not segregated.
(2) The runoff rate for increased liquidity needs related to such a transaction is 100% of the value of HQLA collateral for which non-HQLA collateral can be substituted or delivered, as the case requires.

9.3.35 Treatment of increased liquidity needs related to market valuation changes on derivative instruments
(1) The runoff rate for increased liquidity needs related to market valuation changes on derivative instruments is 100% of the largest absolute net
collateral flow (based on both realised outflows and inflows) in a 30-calendar-day period during the previous 24 months.

Guidance
Market practice requires collateralisation of mark-to-market exposures on derivative instruments. Banking business firms face potentially substantial liquidity risk exposures to changes in the market valuation of such instruments.

(2) Inflows and outflows of transactions executed under the same master netting agreement may be treated on a net basis.

9.3.36 Treatment of loss of funding on maturing asset-backed securities and other structured financing instruments

The runoff rate for loss of funding on asset-backed securities and other structured financing instruments that mature within the relevant 30-calendar-day period is 100% of the maturing amount.

Guidance
The scenario assumes that there is no refinancing market for the maturing instruments.

9.3.37 Treatment of loss of funding on maturing asset-backed commercial paper, conduits, structured investment vehicles etc

The runoff rate for loss of funding on asset-backed commercial paper, conduits, structured investment vehicles and other similar financing arrangements that mature within the relevant 30-calendar-day period is 100% of the total of:

(a) the maturing amount;
(b) if the arrangement allows assets to be returned within that period—the value of the returnable assets; and
(c) if under the arrangement the firm could be obliged to provide liquidity within that period—the total amount of liquidity that the firm could be obliged to provide.

Guidance
Banking business firms that use asset-backed commercial paper, conduits, structured investment vehicles and other similar financing arrangements should fully consider the associated liquidity risk. The risks include:

- being unable to refinance maturing debt
- derivatives or derivative-like components that would allow the return of assets, or require the firm to provide liquidity, within the 30-calendar-day period.

If the firm’s structured financing activities are carried out through a special purpose entity (such as a conduit or structured investment vehicle), the firm should, in determining its HQLA requirements, look through to the maturity of the debt instruments issued by the entity and any embedded options in financing arrangements that could trigger the return of assets or the need for liquidity, regardless of whether the entity is consolidated.
9.3.38 Treatment of drawdowns on committed credit and liquidity facilities

(1) The runoff rates for drawdowns on committed credit and liquidity facilities are as set out in table 9.3.38.

(2) A credit facility is a contractual agreement or obligation to extend funds in the future to a retail or wholesale counterparty. For this rule, a facility that is unconditionally revocable is not a credit facility.

Note Unconditionally revocable facilities (in particular, those without a precondition of a material change in the borrower’s credit condition) are included in Contingent funding obligations (see rule 9.3.40).

(3) A liquidity facility is an irrevocable, undrawn credit facility that would be used to refinance the debt obligations of a customer if the customer were unable to roll over the obligations in financial markets.

Guidance
General working capital facilities for corporate borrowers (for example, revolving credit facilities for general corporate or working capital purposes) are to be treated as credit facilities.

Table 9.3.38 Drawdowns on committed credit and liquidity facilities—runoff rates

<table>
<thead>
<tr>
<th>Item</th>
<th>Kind of facility</th>
<th>Runoff rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Credit and liquidity facilities provided to retail and small business customers</td>
<td>5</td>
</tr>
<tr>
<td>2</td>
<td>Credit facilities provided to non-financial corporates, sovereigns, central banks, MDBs, and public sector enterprises</td>
<td>10</td>
</tr>
<tr>
<td>3</td>
<td>Liquidity facilities provided to non-financial corporates, sovereigns, central banks, MDBs, and public sector enterprises (see subrule (7))</td>
<td>30</td>
</tr>
<tr>
<td>4</td>
<td>Credit and liquidity facilities provided to banks that are subject to prudential supervision (see subrule (7))</td>
<td>40</td>
</tr>
<tr>
<td>5</td>
<td>Credit facilities provided to other financial institutions</td>
<td>40</td>
</tr>
<tr>
<td>6</td>
<td>Liquidity facilities provided to other financial institutions (see subrule (7))</td>
<td>100</td>
</tr>
<tr>
<td>7</td>
<td>Credit and liquidity facilities provided to legal entities of any other kind (see subrule (7))</td>
<td>100</td>
</tr>
</tbody>
</table>
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Rule 9.3.39

(4) For a facility, the relevant runoff rate is to be applied to the undrawn part of it.

(5) The undrawn portion of a credit or liquidity facility is to be calculated net of any HQLA lodged or to be lodged as collateral if:

(a) the HQLA have already been lodged, or the counterparty is contractually required to lodge them when drawing down the facility;

(b) the firm is legally entitled and operationally able to re-hypothecate the collateral in new cash-raising transactions once the facility is drawn down; and

(c) there is no undue correlation between the probability of drawing down the facility and the market value of the collateral.

(6) The firm may net the collateral against the outstanding amount of the facility to the extent that the collateral is not already counted in the firm’s HQLA portfolio.

(7) The amount of a liquidity facility is to be taken as the amount of outstanding debt issued by the customer concerned (or a proportionate share of a syndicated facility) that matures within the relevant 30-calendar-day period and is backstopped by the facility. Any additional capacity of the facility is to be treated as a committed credit facility.

(8) The firm must treat a facility provided to a hedge fund, money market fund or SPE, or an entity used to finance the firm’s own assets, in its entirety as a liquidity facility to a financial institution.

9.3.39 Treatment of other contractual obligations to extend funds within 30 calendar days

(1) The runoff rate for other contractual obligations to extend funds within 30 calendar days is 100%.

(2) Other contractual obligations to extend funds within 30 calendar days covers all contractual obligations to extend funds within 30 calendar days that do not fall within rules 9.3.23 to 9.3.38.

(3) The runoff rate of 100% is to be applied to:

(a) for obligations owed to financial institutions—the whole amount of such obligations; and

(b) for obligations owed to customers that are not financial institutions—the difference between:

(i) the total amount of the obligations; and
(ii) 50% of the contractual inflows from those customers over the relevant 30-calendar-day period.

9.3.40 Treatment of other contingent funding obligations

(1) The runoff rates for other contingent funding obligations are as set out in table 9.3.40.

(2) *Contingent funding obligations* covers obligations arising from guarantees, letters of credit, unconditionally revocable credit and liquidity facilities, outstanding debt securities with remaining maturity of more than 30 calendar days, and trade finance (see subrule (3)). It also covers non-contractual obligations, including obligations arising from any of the following:

(a) potential liquidity draws from joint ventures or minority investments in entities;
(b) debt-buy-back requests (including related conduits);
(c) structured products;
(d) managed funds;
(e) the use of customers’ collateral to cover other customers’ short positions.

<table>
<thead>
<tr>
<th>Table 9.3.40 Contingent funding obligations—runoff rates</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Item</strong></td>
</tr>
<tr>
<td>--------</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>2</td>
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<tr>
<td>3</td>
</tr>
<tr>
<td>4</td>
</tr>
<tr>
<td>5</td>
</tr>
<tr>
<td>6</td>
</tr>
</tbody>
</table>
### Chapter 9  
Liquidity risk  
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#### Rule 9.3.41

<table>
<thead>
<tr>
<th>Item</th>
<th>Kind of obligation</th>
<th>Runoff rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>Non-contractual obligations—managed funds</td>
<td>5</td>
</tr>
<tr>
<td>8</td>
<td>Outstanding debt securities with remaining maturity of more than 30 calendar days</td>
<td>100</td>
</tr>
<tr>
<td>9</td>
<td>Non-contractual obligations where customer short positions are covered by other customers’ collateral</td>
<td>50</td>
</tr>
<tr>
<td>10</td>
<td>Other non-contractual obligations</td>
<td>100</td>
</tr>
</tbody>
</table>

(3) **Trade finance** means trade-related obligations directly related to the movement of goods or the provision of services, such as the following:

(a) documentary trade letters of credit, documentary collection and clean collection, import bills, and export bills;

(b) guarantees directly related to trade finance obligations, such as shipping guarantees.

(4) However, lending commitments, such as direct import or export financing for non-financial corporate entities, are to be treated as committed credit facilities (see rule 9.3.38).

### 9.3.41 Treatment of other contractual cash outflows

(1) The runoff rate to be applied to other contractual cash outflows is 100%.

(2) **Other contractual cash outflows** includes outflows to cover unsecured collateral borrowings and uncovered short positions, and outflows to cover dividends and contractual interest payments, but does not include outflows related to operating costs.

### Subdivision 9.3.C.6  Calculating total expected cash inflow

#### 9.3.42 How to calculate total expected cash inflow

(1) **Total expected cash inflow** over a period is calculated by, for each contractual cash inflow over the period, multiplying it by the applicable inflow rate (giving the *adjusted inflow*), and then taking the total of all the adjusted inflows over the period.

*Note*  
Rules 9.3.43 to 9.3.47 specify inflow rates for many kinds of cash inflow and give any necessary interpretative provisions. Those rules are based on Basel III LCR. The interpretive provisions include only minimal explanation of the reasons why particular kinds of inflow receive the inflow rates specified. For a fuller explanation, consult Basel III LCR.
Guidance

An inflow rate does not represent an assumption about the risk of a default—instead, it represents the likelihood that the relevant obligation will be rolled over (so that the firm does not actually receive the cash) or that no cash will be received for some other reason. (The possibility of default is excluded by rule 9.3.42 (2) (a), which allows only inflows from performing exposures to be included.) Inflows for which an inflow rate of 0% is specified are effectively treated as not being receivable.

(2) When a banking business firm is calculating its cash inflows:

(a) it may include a contractual inflow from an exposure only if the exposure is classified under rule 4.3.3 as performing, and there is no reason to expect a default within the relevant period;

Note In rule 4.3.3, the category performing excludes exposures classified as special mention.

(b) it must not include any contingent inflow; and

(c) it must not include any inflow that would be received from an asset in the firm’s HQLA portfolio.

Guidance for subrule (2) (c)

In a stressed situation, the assets in the firm’s HQLA portfolio would already have been monetised. That is the purpose of those assets—to be monetised to provide liquidity. Consequently, in a scenario of liquidity stress, the contracted cash inflows from them would no longer be available to the firm.

Note When a firm calculates its total net cash outflows over a period for the purpose of calculating its LCR, it cannot include cash inflows over 75% of its total gross cash outflows over the period—see rule 9.3.21 (1) (b).

(3) The firm may include, in cash inflows during a period, interest payments that it expects to receive during the period.

Subdivision 9.3.C.7 Calculating total expected cash inflows—
inflow rates for secured lending and committed facilities

9.3.43 Treatment of maturing secured lending

The inflow rates for secured lending that matures during the relevant 30-calendar-day period are as set out in table 9.3.43.
9.3.44 Treatment of credit and liquidity facilities

(1) The inflow rate for credit facilities and liquidity facilities provided to the firm is 0%.

(2) Credit facility and liquidity facility have the same respective meanings as in rule 9.3.38.

Subdivision 9.3.C.8 Calculating total expected cash inflows—
inflow rates for other cash inflows

9.3.45 Treatment of operational deposits

(1) The inflow rate for operational deposits by the firm held at other financial institutions (including deposits held at the centralised institution of a network of co-operative banks) is 0%.

(2) Operational deposit has the same meaning as in rule 9.3.26 (6).

9.3.46 Treatment of net derivative cash inflows

(1) The inflow rate for net derivative cash inflows is 100%.

(2) The firm must calculate those inflows in accordance with its usual valuation methods. The inflows may be calculated on a net basis by
counterparty (that is, inflows offset outflows) only if a valid master netting agreement exists.

(3) From the calculation, the firm must exclude liquidity needs that would result from increased collateral needs because of market value movements or falls in the value of collateral lodged.

(4) The firm must assume that an option will be exercised if it is in the money to the buyer.

(5) If derivative cash inflows are collateralised by HQLA, the inflows are to be calculated net of any corresponding cash or collateral outflows that would result from contractual obligations for the firm to lodge cash or collateral.

(6) However, subrule (5) applies only if, after the collateral were received, the firm would be legally entitled and operationally able to re-hypothecate it.

9.3.47 Treatment of other contractual inflows

(1) The inflow rates for other contractual inflows are as set out in Table 9.3.47.

Table 9.3.47 Other contractual inflows—inflow rates

<table>
<thead>
<tr>
<th>Item</th>
<th>Source of inflow</th>
<th>Inflow rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Amounts to be received from retail counterparties</td>
<td>50</td>
</tr>
<tr>
<td>2</td>
<td>Amounts to be received from non-financial wholesale counterparties</td>
<td>50</td>
</tr>
<tr>
<td>3</td>
<td>Amounts to be received from financial institutions and central banks</td>
<td>100</td>
</tr>
<tr>
<td>4</td>
<td>Other contractual cash inflows</td>
<td>100</td>
</tr>
</tbody>
</table>

(2) The firm must assume that inflows will be received at the latest possible date, based on the contractual rights available to counterparties.

(3) The following inflows are not to be included:

(a) inflows (except for minimum payments of principal, fee or interest) from loans that have no specific maturity;

(b) inflows related to non-financial revenues.
Division 9.3.D  Treatment of special cases

Subdivision 9.3.D.1  Firms with unduly concentrated cash flows

9.3.48  What if firm's cash inflows are unduly concentrated

If the Regulatory Authority considers that a banking business firm is overly reliant on cash inflows from a single wholesale counterparty or a small number of wholesale counterparties, the Authority may direct the firm as to how such cash flows are to be treated in the calculation of its LCR.

Subdivision 9.3.D.2  Firms with access to parent entities’ funds

9.3.49  Use of funding facility from parent entity

The Regulatory Authority may allow a banking business firm that is a branch, or is a subsidiary of an entity established outside the QFC, to recognise, as cash inflow, access to its parent entity’s funds by way of a committed funding facility, up to a limit specified in the facility documentation. The facility:

(a) must be an irrevocable commitment; and
(b) must be appropriately documented.

Division 9.3.E  Alternative liquidity approaches

9.3.50  Introduction—Division 9.3.E

(1) This Division sets out certain other ways in which a banking business firm can meet its LCR requirement.

(2) This Division is intended to be applied by a banking business firm only if there is a shortage of HQLA denominated in Qatari riyals compared to the total stock of firms’ liabilities denominated in that currency.

Guidance

A banking business firm is required to hold an HQLA portfolio that is similar in composition (in terms of currencies) to its liabilities (see rule 9.3.6 (3)). Apart from any other considerations, the Regulatory Authority would not approve the application of an option described in this Division by a banking business firm unless the Authority were satisfied that the supply of HQLA denominated in Qatari riyals was insufficient to meet the demand for such assets from banking business firms when compared to the total of firms’ liabilities denominated in that currency.

9.3.51  Regulatory Authority approval required

A banking business firm may apply an option described in this Division only if the Regulatory Authority so approves.
9.3.52 References to Qatari riyals—Division 9.3.E
Each reference in this Division to Qatari riyals may be read as a reference to United States dollars while the exchange rate between the Qatari riyal and the United States dollar is fixed.

9.3.53 Option 1—contractual committed liquidity facility from central bank

(1) **Option 1** is for a banking business firm to have a liquidity facility that complies with subrule (2).

(2) A liquidity facility complies with this subrule if it meets all of the following conditions:
   (a) it is established under a contract between the firm and a central bank;
   (b) on any day, its maturity date falls outside the 30-calendar-day period for the relevant LCR calculation;
   (c) the contract is irrevocable before its maturity;
   (d) there is no requirement for any credit decision by the central bank;
   (e) there is a fee for the facility that is charged regardless of the amount drawn down;
   (f) the fee is set so that the net yield on the assets used to secure the facility is not higher than the net yield on a representative portfolio of level 1 HQLA and level 2 HQLA, after adjusting for any material differences in credit risk.

(3) If the Regulatory Authority approves a banking business firm’s application of option 1, then:
   (a) the firm may treat the liquidity facility as providing no more than a percentage directed by the Authority of the value of the firm’s HQLA portfolio required to be denominated in Qatari riyals; and
   (b) the remainder of the firm’s HQLA portfolio denominated in Qatari riyals must be level 1 HQLA denominated in that currency.

9.3.54 Option 2—HQLA in foreign currency to cover liquidity needs in Qatari riyals

(1) **Option 2** is for a banking business firm:
   (a) to hold, as part of its HQLA portfolio, HQLA denominated in a particular foreign currency in an amount that is significantly greater than the amount of its liabilities that are denominated in that currency; and
(b) to match the excess of HQLA denominated in the foreign currency against liabilities denominated in Qatari riyals.

Guidance
When considering whether to approve a firm’s use of option 2, the Regulatory Authority would take into account:
- whether the levels of relevant HQLA are consistent with the firm’s foreign exchange risk management capacity and needs
- whether the foreign currency is freely and reliably convertible into Qatari riyals
- whether the firm is effectively managing its positions in the HQLA, and the positions would not pose undue risk to its financial strength.

(2) If the Regulatory Authority approves a banking business firm’s application of option 2, then:

(a) for calculating the value of the firm’s HQLA portfolio, the excess of HQLA denominated in the foreign currency is subject to the haircut directed by the Authority;

Guidance
The minimum haircut for HQLA denominated in a currency other than United States dollars would be 8%, as required by Basel III LCR, paragraph 60. A lower haircut might be permitted for HQLA denominated in United States dollars because the Qatari riyal is pegged to the dollar.

(b) the firm may treat HQLA denominated in the foreign currency as providing no more than a percentage directed by the Authority of the required value of the firm’s HQLA portfolio denominated in Qatari riyals; and

(c) the remainder of the firm’s HQLA portfolio must be level 1 HQLA denominated in Qatari riyals.

9.3.55 Option 3—level 2A HQLA in part-substitution for level 1 HQLA

(1) Option 3 is for a banking business firm to hold, as part of its HQLA portfolio denominated in Qatari riyals, level 2A HQLA to a greater extent than is permitted by rule 9.3.14 (2) (a).

(2) If the Regulatory Authority approves a banking business firm’s application of option 3, then:

(a) for calculating the value of the firm’s HQLA portfolio, the additional level 2A HQLA are subject to a haircut of 20%;

Guidance
Therefore, the haircuts applicable to level 2A HQLA in the firm’s HQLA portfolio are as follows:
- 15% for level 2A HQLA up to 40% of the value of the portfolio
- 20% for additional level 2A HQLA.
(b) the firm may treat level 2A HQLA as providing no more than a percentage directed by the Authority of the required value of its HQLA portfolio denominated in Qatari riyals; and

(c) the remainder of the firm’s HQLA portfolio denominated in that currency must be level 1 HQLA.

9.3.56 Combinations of options 1, 2 and 3

If the Regulatory Authority approves a banking business firm’s application of more than 1 of options 1, 2 and 3 in relation to its HQLA portfolio denominated in Qatari riyals, level 1 HQLA must make up at least the percentage that the Authority directs of the value of the firm’s HQLA portfolio denominated in that currency.

Division 9.3.F Treatment of branches

9.3.57 Global liquidity concession—branches

(1) A liquidity risk group A banking business firm that is a branch may apply to the Regulatory Authority for a global liquidity concession.

(2) In its application the firm must satisfy the Authority that:

(a) the firm complies with all the applicable requirements in Parts 9.1 and 9.2 in relation to liquidity systems and controls;

(b) in the jurisdiction where the firm’s head office is established, there are no legal constraints on the provision of liquidity to the firm; and

(c) the head office is subject to liquidity requirements that are equivalent to, or more restrictive than, those imposed under these rules.

Guidance

1 In considering whether to grant such a concession, the Authority would take into account:

- the requirements, as to managing, monitoring and controlling liquidity risk, of the regulator responsible for the firm’s head office
- the systems and controls used by the head office to ensure that the firm’s liquidity remains adequate
- any written assurance from the head office that:
  - it will ensure that, at all times, enough liquidity is available to support the firm
  - it will notify the Authority, at the same time as it notifies its home regulator, of any material issues concerning the firm’s exposure to liquidity risk or its compliance with applicable liquidity limits, including its liquidity coverage ratio
Rule 9.3.57

- in the event of a liquidity crisis, it will give the Authority all relevant information on the whole firm’s liquidity, and a list of any known constraints (legal or otherwise) on the head office’s providing the firm with liquidity.

- any notification from the head office’s home regulator:
  - either stating that the regulator has no objection to the firm’s obtaining the concession, or acknowledging that the application has been made
  - giving information about, and confirming, the quality of the liquidity risk systems and controls and the liquidity exposures at the head office.

2. Under rule 9.3.57 (2) (b), the Authority would take into account restrictions (for example, ring-fencing measures, non-convertibility of local currency, or foreign exchange controls) that would affect the transfer of HQLA and funds within the firm or its group.

3. If the Authority grants the concession, the firm need not comply with a requirement of this Part specified by the Authority.

4. The Authority may specify the period for which the concession is valid. If no period is so specified, the concession is valid until the Authority revokes it.

5. The firm:
   (a) must give the Authority, at least quarterly, a copy of the LCR calculation for the firm, as submitted by its head office to its home regulator;
   (b) must notify the Authority immediately (but within 3 business days), in writing, of:
      (i) the results of every assessment by its home regulator that relates to the quality of liquidity systems and controls at the firm’s head office;
      (ii) any adverse finding or action taken by the firm’s home regulator;
      (iii) any change or potential change in the firm’s funding strategy or business model, or material change or material potential change in the structure of its balance-sheet; and
      (iv) any changes that affect its compliance with the requirements referred to in subrule (2).

6. On the basis of the Authority’s assessment of the firm’s liquidity risk exposures, the Authority may, at any time, by written notice, do any 1 or more of the following:
   (a) modify or exclude any of the requirements under subrule (5);
   (b) impose additional requirements;
(c) revoke the concession.
Part 9.4 Minimum liquidity ratio—liquidity risk group B banking business firms

Note for Part 9.4
This Part applies only to liquidity risk group B banking business firms—see rule 9.1.4.

Division 9.4.A Minimum liquidity ratio—general

9.4.1 Introduction—Part 9.4
(1) This Part sets out alternative approaches to maintaining liquidity that are intended to be appropriate for liquidity risk group B banking business firms. Such firms, because of their business model, could not meet a requirement to maintain a liquidity coverage ratio in accordance with Part 9.3.

(2) For certain liquidity risk group B banking business firms that are branches, rule 9.4.17 provides for a global liquidity concession.

9.4.2 How to calculate MLR
The minimum liquidity ratio or MLR for a banking business firm is calculated as follows:

\[ MLR = \frac{NLA}{NQL} \times 100 \]

where:

- \( NLA \) means the firm’s net liquefiable assets.
  Note For how to calculate the firm’s net liquefiable assets, see rule 9.4.13.

- \( NQL \) means the firm’s net qualifying liabilities.
  Note For how to calculate the firm’s net qualifying liabilities, see rule 9.4.16.

9.4.3 When firms must calculate MLR
A liquidity risk group B banking business firm must calculate its MLR for each working day.

9.4.4 Requirement to maintain MLR
A liquidity risk group B banking business firm must maintain, during each calendar month, an MLR of at least the percentage that the Regulatory Authority directs the firm to maintain.
9.4.5 Valuation of assets, liabilities, off-balance-sheet items and cash flows measured at fair value

(1) If under this Part a banking business firm is required to value an asset, liability, off-balance-sheet item or cash flow at fair value, the firm must establish and maintain systems, controls and procedures that are effective to ensure that such a valuation is prudent and reliable.

(2) For subrule (1), the firm must, if appropriate, adjust such a valuation to account for:
   (a) the limitations of the valuation model or methodology and the data used in the valuation process;
   (b) the liquidity of the asset, liability, off-balance-sheet item or cash flow; and
   (c) other factors that might reasonably be expected to affect the prudence and reliability of the valuation.

(3) To avoid doubt, adjustments that the firm makes in accordance with this rule may exceed adjustments that it makes in accordance with the firm’s financial reporting standards.

9.4.6 Interbank assets and liabilities

(1) For a liquidity risk group B banking business firm, net due from banks and net due to banks are ways of expressing the difference between:
   (a) the total of the firm’s 1-month assets due from banking business firms and banks outside the QFC; and
   (b) the total of the firm’s 1-month liabilities due to banking business firms and banks.

(2) If the calculation described in subrule (1) shows that a net amount is due to the firm, the firm is said to have net due from banks. If the calculation shows that a net amount is due from the firm, the firm is said to have net due to banks.

Guidance

Interbank assets and liabilities (of a banking business firm due from other banks, or vice versa) would include:
- deposits and placements of funds
- loans and advances.
Division 9.4.B  Net liquefiable assets

9.4.7 Assets that are liquefiable assets

(1) Assets of the following kinds are liquefiable assets:

(a) assets that fall within a class of assets specified in table 9.4.9A or 9.4.9B;

(b) for a banking business firm that has net due from banks—all or part of the net due from banks, in accordance with subrule (2);

(c) assets of another kind approved by the Regulatory Authority as liquefiable assets.

(2) A banking business firm that has net due from banks may treat as a liquefiable asset no more of the net due from banks than an amount equal to 40% of the total weighted principal amount of the firm’s qualifying liabilities.

(3) A banking business firm must treat any amount of net due from banks greater than the amount permitted by subrule (2) as a deduction from the firm’s net qualifying liabilities.

9.4.8 Assets that can be counted for calculating MLR

(1) A banking business firm must not include an asset in its liquefiable assets for calculating its MLR unless the asset meets all of the following criteria:

(a) it is readily monetisable;

(b) it is not overdue nor in default;

(c) it is unencumbered and there are no regulatory, legal, contractual or other restrictions that prevent it being liquidated, sold, transferred or assigned;

(d) its value is readily identifiable and measurable;

(e) subject to subrule (2), it is freely transferable and available to the firm and is not subject to any liquidity transfer restriction;

(f) it is not a subordinated debt security;

(g) if it is a structured financial instrument, its structure is simple and standardised;

(h) it is denominated in Qatari riyals or in a currency that is freely convertible into Qatari riyals.

(2) If an asset is held by a member of the financial group of a liquidity risk group B banking business firm and is subject to a liquidity transfer restriction, the firm may include the asset in its liquefiable assets for the
calculation of its MLR only to the extent that the firm’s qualifying liabilities (after deductions) are also included in the calculation.

9.4.9  **Liquidity conversion factors for liquefiable assets**

(1) The liquidity conversion factors for liquefiable assets are as set out in tables 9.4.9A and 9.4.9B.

(2) In table 9.4.9A:

*marketable debt security* means a debt security for which there is an established secondary market on which the security can be readily monetised.

*qualifying ECRA issuer rating* for the issuer of an asset means a long-term rating no lower than BBB-, or a short-term rating no lower than A-3, by Standard & Poor’s (or the equivalent by another ECRA).

*qualifying ECRA issue-specific rating* for an asset means a long-term rating no lower than BBB-, or a short-term rating no lower than A-3, by Standard & Poor’s (or the equivalent by another ECRA).

### Table 9.4.9A Liquidity conversion factors—marketable debt securities

<table>
<thead>
<tr>
<th>Item</th>
<th>Kind of asset</th>
<th>Liquidity conversion factor (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Marketable debt securities issued or guaranteed by the State, the Qatar Central Bank, or a domestic public sector entity:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(a) with a remaining term to maturity of not more than 1 year</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>(b) with a remaining term to maturity of more than 1 year</td>
<td>95</td>
</tr>
<tr>
<td>2</td>
<td>Marketable debt securities issued or guaranteed by a banking business firm or a bank in the State:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(a) with a remaining term to maturity of not more than 30 calendar days</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>(b) with a remaining term to maturity of more than 30 calendar days but not more than 1 year</td>
<td>95</td>
</tr>
<tr>
<td></td>
<td>(c) with a remaining term to maturity of more than 1 year</td>
<td>90</td>
</tr>
<tr>
<td>Item</td>
<td>Kind of asset</td>
<td>Liquidity conversion factor (%)</td>
</tr>
<tr>
<td>------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>-------------------------------</td>
</tr>
<tr>
<td>3</td>
<td>Marketable debt securities issued or guaranteed by the central bank or central government of a country or by a multilateral development bank, if the security has a qualifying ECRA issue-specific rating, or its issuer or guarantor has a qualifying ECRA issuer rating, and the security has a remaining term to maturity of:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(a) not more than 1 year</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>(b) more than 1 year</td>
<td>95</td>
</tr>
<tr>
<td>4</td>
<td>Marketable debt securities with a qualifying ECRA issue-specific rating, issued or guaranteed by a bank outside the QFC, with a remaining term to maturity of:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(a) not more than 30 calendar days;</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>(b) more than 30 calendar days, but not more than 1 year;</td>
<td>95</td>
</tr>
<tr>
<td></td>
<td>(c) more than 1 year</td>
<td>90</td>
</tr>
<tr>
<td>5</td>
<td>Marketable debt securities with a qualifying ECRA issue-specific rating, issued or guaranteed by a regional government of a country or other entity, with a remaining term to maturity of:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(a) not more than 1 year;</td>
<td>90</td>
</tr>
<tr>
<td></td>
<td>(b) more than one year but not more than 5 years;</td>
<td>85</td>
</tr>
<tr>
<td></td>
<td>(c) more than 5 years</td>
<td>80</td>
</tr>
<tr>
<td>6</td>
<td>Marketable debt securities without a qualifying ECRA issue-specific rating, issued or guaranteed by a bank outside the QFC, if the debt security or instrument has a remaining term to maturity of not more than 30 calendar days</td>
<td>100</td>
</tr>
</tbody>
</table>
### Liquidity Conversion Factors

<table>
<thead>
<tr>
<th>Item</th>
<th>Kind of Asset</th>
<th>Liquidity Conversion Factor (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>Marketable debt securities without a qualifying ECRA issue-specific rating,</td>
<td>80</td>
</tr>
<tr>
<td></td>
<td>issued or guaranteed by a bank outside the QFC that has a qualifying ECRA</td>
<td></td>
</tr>
<tr>
<td></td>
<td>issuer rating</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Marketable debt securities without a qualifying ECRA issue-specific rating,</td>
<td>80</td>
</tr>
<tr>
<td></td>
<td>issued or guaranteed by a regional government of a country that has a</td>
<td></td>
</tr>
<tr>
<td></td>
<td>qualifying ECRA issuer rating</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Marketable debt securities not included elsewhere in this table that are</td>
<td>80</td>
</tr>
<tr>
<td></td>
<td>re-discountable with the Qatar Central Bank or the central bank of a country</td>
<td></td>
</tr>
<tr>
<td></td>
<td>that has a qualifying ECRA issuer rating</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Marketable debt securities not included elsewhere in this table with a</td>
<td>80</td>
</tr>
<tr>
<td></td>
<td>remaining term to maturity of not more than 30 calendar days</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Residential mortgage-backed securities approved as liquefiable assets by the</td>
<td>80</td>
</tr>
<tr>
<td></td>
<td>Authority</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Other marketable debt securities approved as liquefiable assets by the</td>
<td>80</td>
</tr>
<tr>
<td></td>
<td>Authority</td>
<td></td>
</tr>
</tbody>
</table>

### Table 9.4.9B Liquidity conversion factors—other liquefiable assets

<table>
<thead>
<tr>
<th>Item</th>
<th>Kind of Asset</th>
<th>Liquidity Conversion Factor (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Currency notes and coins</td>
<td>100</td>
</tr>
<tr>
<td>2</td>
<td>Gold bullion</td>
<td>90</td>
</tr>
<tr>
<td>3</td>
<td>Claims on, or reserves maintained with, the Qatar Central Bank or another central bank that are repayable overnight, on demand, or on notice that expires on the first day of the relevant MLR period</td>
<td>100</td>
</tr>
<tr>
<td>Item</td>
<td>Kind of asset</td>
<td>Liquidity conversion factor (%)</td>
</tr>
<tr>
<td>------</td>
<td>---------------</td>
<td>-------------------------------</td>
</tr>
<tr>
<td>4</td>
<td>Net due from banks that is treated as a liquefiable asset (see rule 9.4.7 (2))</td>
<td>80</td>
</tr>
<tr>
<td></td>
<td>Note Rule 9.4.7 (2) allows an amount (up to 40% of the amount of the firm’s qualifying liabilities) of the firm’s net due from banks to be included as a liquefiable asset.</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Export bills:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(a) if payable within 30 calendar days and either drawn under letters of credit issued by banking business firms or accepted and payable by such firms;</td>
<td>90</td>
</tr>
<tr>
<td></td>
<td>(b) if covered by irrevocable re-discounting facilities approved by the Authority</td>
<td>90</td>
</tr>
</tbody>
</table>

9.4.10 Approval of other assets as liquefiable assets

(1) A banking business firm may apply to the Regulatory Authority for approval to include, in the firm’s calculation of its MLR, an asset that is:
   (a) a residential mortgage-backed security; or
   (b) a marketable debt security of a kind not mentioned in table 9.4.9A or 9.4.9B.

(2) The Authority may approve the inclusion of the asset if it is satisfied that:
   (a) the asset meets the criteria in rule 9.4.8 (1) applicable to it; and
   (b) the treatment of the asset as a liquefiable asset would not adversely affect the firm’s calculation of its MLR, taking into account the risks associated with holding the asset.

(3) The Authority may grant such an approval subject to any condition that the Authority thinks appropriate.

(4) The Authority may at any time impose a condition on such an approval, or amend or revoke a condition already imposed.
9.4.11 Management of liquefiable assets and related risks by banking business firm

(1) A banking business firm must have, and must maintain, adequate systems and controls, and procedures, for the on-going assessment and management of its liquefiable assets to ensure that:

(a) each asset satisfies all the requirements of this Division (so far as applicable);

(b) an asset that ceases to satisfy a requirement of this Division applicable to it is identified as soon as is practicable; and

(c) an asset so identified is promptly excluded from the firm’s liquefiable assets.

(2) A banking business firm must have, and must maintain, adequate systems and controls, and procedures, to monitor and control the risks (in particular, liquidity risk) associated with its holdings in liquefiable assets.

9.4.12 Regulatory Authority directions about liquefiable assets

(1) The Regulatory Authority may by written notice direct banking business firms generally not to treat, as a liquefiable asset, a specified asset, or assets in a specified class of assets, if the Authority is satisfied that the asset or such an asset:

(a) is not capable of generating liquidity for a banking business firm within 30 calendar days; or

(b) is not, or is no longer, sufficiently liquid in private markets, or readily monetisable by other means, to be treated as a liquefiable asset.

(2) The Authority may by written notice direct a particular banking business firm:

(a) to cease treating a specified asset as a liquefiable asset if the Authority is satisfied that the asset does not satisfy a specified provision of this Division; or

(b) to make specified changes to its liquefiable assets if the Authority is satisfied that:

(i) the firm has failed to comply with rule 9.4.11; and

(ii) the changes are necessary to mitigate the liquidity risk associated with the firm’s failure.
Chapter 9  Liquidity risk
Part 9.4  Minimum liquidity ratio—liquidity risk group B banking business firms

Rule 9.4.13

9.4.13 Calculating net liquefiable assets

(1) A banking business firm’s net liquefiable assets is the difference between:

(a) the total value of its liquefiable assets, minus the total value of the assets that are to be deducted (see subrule (3)); and

(b) the total value of its net qualifying liabilities.

Note For how to calculate the firm’s net qualifying liabilities, see rule 9.4.16.

(2) For this rule, the value of an asset is taken to be its principal amount multiplied by the appropriate liquidity conversion factor. The principal amount of an asset on a day is taken to be:

(a) for gold bullion or a marketable security—the asset’s fair value at the close of business on the previous working day; and

Note In relation to an asset’s fair value and adjustments that may be required, see rule 9.4.5.

(b) for any other asset—its book value (including accrued interest, if any) at the close of business on the previous working day.

(3) The kinds of asset whose values must be deducted are the following:

(a) every debt security issued by the firm that has a remaining term to maturity of 30 calendar days or less and will not, on maturity, be rolled over or refinanced;

(b) any asset that the Regulatory Authority has directed the firm to deduct;

(c) if the Authority has approved the deduction of an asset—that asset.

(4) The liquidity conversion factor to be applied to the assets that are to be deducted is 100%.

Division 9.4.C Net qualifying liabilities

9.4.14 Liabilities that are qualifying liabilities

(1) Liabilities of the following kinds are qualifying liabilities for a banking business firm:

(a) 1-month liabilities to the Qatar Central Bank or another central bank;

(b) if the firm has net due to banks, the total amount of the firm’s 1-month liabilities to other banking business firms, and to banks outside the QFC;

Note For net due to banks, see rule 9.4.6.

(c) other 1-month liabilities.
(2) The liquidity conversion factor for a qualifying liability is 100%.

**9.4.15 Deduction from qualifying liabilities if net due to banks**

If a banking business firm has net due to banks, the firm must treat, as a deduction from the firm’s qualifying liabilities, the total amount of the 1-month liabilities, due and payable within 24 hours, to the firm of:

(a) other banking business firms; and

(b) banks outside the QFC.

**9.4.16 Calculating net qualifying liabilities**

(1) A banking business firm’s net qualifying liabilities is the difference between the total value of its qualifying liabilities and the total of the amounts that it must deduct from that total value (see rule 9.4.15 and table 9.4.16).

(2) For this rule, the **principal amount** of a liability on a day is taken to be its book value (including accrued interest, if any) at the close of business on the previous working day.

*Note* In relation to the fair value of a liability and adjustments that may be required, see rule 9.4.5.

**Table 9.4.16 Deductions from qualifying liabilities and liquidity conversion factors**

<table>
<thead>
<tr>
<th>Item</th>
<th>Deduction from qualifying liabilities</th>
<th>Liquidity conversion factor (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Total 1-month liabilities of the Qatar Central Bank and other central banks to the firm (other than any amount that falls within item 3 of table 9.4.9B)</td>
<td>100</td>
</tr>
<tr>
<td>2</td>
<td>If the firm has net due to banks, the total amount of the firm’s 1-month assets due from other banking business firms and banks outside the QFC</td>
<td>100</td>
</tr>
<tr>
<td>3</td>
<td>Any amount of the firm’s net due from banks that must be treated as a deduction under rule 9.4.15</td>
<td>100</td>
</tr>
<tr>
<td>4</td>
<td>Eligible loan repayments</td>
<td>80</td>
</tr>
</tbody>
</table>
(3) In table 9.4.16:

eligible loan repayment means a loan repayment in relation to which all of the following conditions are met:

(a) the date on which the repayment is due is fixed, and is within 30 calendar days;
(b) the firm is not committed to continuing the loan, by renewal or otherwise;
(c) the loan is fully performing and the firm has no reason to expect a default.

Division 9.4.D Treatment of branches

9.4.17 Global liquidity concession—branches

(1) A liquidity risk group B banking business firm that is a branch may apply to the Regulatory Authority for a global liquidity concession.

(2) In its application the firm must satisfy the Authority that:

(a) because of its business model and in the market conditions prevailing at the time of application, the firm has no reasonable prospect of being able to comply with the other requirements of this Part;
(b) the firm complies with all the applicable requirements in Parts 9.1 and 9.2 in relation to liquidity systems and controls;
(c) in the jurisdiction where the firm’s head office is established, there are no legal constraints on the provision of liquidity to the firm; and
(d) the head office is subject to liquidity requirements that are equivalent to, or more restrictive than, those imposed under these rules.

Guidance

1 In considering whether to grant such a concession, the Authority would take into account:

- the requirements, as to managing, monitoring and controlling liquidity risk, of the regulator responsible for the firm’s head office
- the systems and controls used by the head office to ensure that the firm’s liquidity remains adequate
- any written assurance from the head office that:
  - it will ensure that, at all times, enough liquidity is available to support the firm
  - it will notify the Authority, at the same time as it notifies its home regulator, of any material issues concerning the firm’s exposure to
liquidity risk or its compliance with applicable liquidity limits, including its liquidity coverage ratio

- in the event of a liquidity crisis, it will give the Authority all relevant information on the whole firm’s liquidity, and a list of any known constraints (legal or otherwise) on the head office’s providing the firm with liquidity

- any notification from the head office’s home regulator:
  - either stating that the regulator has no objection to the firm’s obtaining the concession, or acknowledging that the application has been made
  - giving information about, and confirming, the quality of the liquidity risk systems and controls and the liquidity exposures at the head office.

2 Under rule 9.4.17 (2) (c), the Authority would take into account restrictions (for example, ring-fencing measures, non-convertibility of local currency, or foreign exchange controls) that would affect the transfer of HQLA and funds within the firm or its group.

3 If the Authority grants the concession, the firm need not comply with a requirement of this Part specified by the Authority.

4 The Authority may specify the period for which the concession is valid. If no period is so specified, the concession is valid until the Authority revokes it.

5 The firm must notify the Authority immediately (but within 3 business days), in writing, of:
   (a) the results of every assessment by its home regulator that relates to the quality of liquidity systems and controls at the firm’s head office;
   (b) the results of every assessment by its head office that relates to the quality of liquidity systems and controls at the firm;
   (c) any adverse finding or action taken by the firm’s home regulator or head office;
   (d) any change or potential change in the firm’s funding strategy or business model, or material change or material potential change in the structure of its balance-sheet; and
   (e) any changes that affect its compliance with the requirements referred to in subrule (2).

6 On the basis of the Authority’s assessment of the firm’s liquidity risk exposures, the Authority may, at any time, by written notice, do any 1 or more of the following:
   (a) modify or exclude any of the requirements under subrule (5);
   (b) impose additional requirements;
(c) revoke the concession.
Part 9.5  Net stable funding ratio—liquidity risk group A banking business firms

Notes for Part 9.5
1. This Part applies only to liquidity risk group A banking business firms—see rule 9.1.4.
2. For more detail and explanation see Basel III: the Net Stable Funding Ratio, published by the Basel Committee on Banking Supervision in October 2014 and available at http://www.bis.org/bcbs/publ/d295.pdf.

Division 9.5.A  General

9.5.1  Introduction—Part 9.5
(1) The requirement for a banking business firm to maintain a net stable funding ratio is one of the Basel Committee’s key reforms to promote a more resilient banking sector. The requirement will oblige firms to maintain a stable funding profile in relation to the composition of their assets and off-balance-sheet activities.

(2) A stable funding profile is intended to reduce the likelihood that disruptions to a firm’s regular sources of funding will erode its liquidity position in a way that would increase the risk of its failure, and might lead to broader systemic stress.

(3) The requirement is intended to limit firms’ reliance on short-term wholesale funding, promote funding stability, and encourage better assessment of funding risk on and off firms’ balance-sheets.

9.5.2  Definitions for Part 9.5
(1) In this Part:

ASF for a liquidity risk group A banking business firm means the amount of its available stable funding, calculated in accordance with this Part.

carrying value of a capital instrument, liability or asset is the value given for the instrument, liability or asset in the prudential returns of the firm concerned.

net stable funding ratio has the meaning given by rule 9.5.3.

NSFR means net stable funding ratio.

RSF for a liquidity risk group A banking business firm means the amount of its required stable funding, calculated in accordance with this Part.
Chapter 9  Liquidity risk
Part 9.5  Net stable funding ratio—liquidity risk group A banking business firms

Rule 9.5.3

(2) Expressions used in this Part that are defined in Part 9.3 have the same respective meanings in this Part as in Part 9.3.

Note  The following expressions, used in this Part, are defined in Part 9.3:

- credit facility (see rule 9.3.38)
- encumbered and unencumbered (see rule 9.3.4)
- financial institution (see rule 9.3.3)
- HQLA (and references to levels of HQLA) (see rule 9.3.3 and rules 9.3.10 to 9.3.13)
- liquidity facility (see rule 9.3.38).

9.5.3  What NSFR is

(1) A liquidity risk group A banking business firm’s NSFR, expressed as a percentage, is:

\[
\frac{ASF}{RSF} \times 100.
\]

(2) The ASF and RSF are to be calculated in accordance with this Part.

9.5.4  Obligation to maintain NSFR

A liquidity risk group A banking business firm must maintain an NSFR of at least 100%. That is, its ASF must always be equal to or greater than its RSF.

9.5.5  Obligation to notify Regulatory Authority if NSFR requirement not met

(1) A liquidity risk group A banking business firm must notify the Regulatory Authority in writing immediately (but within 3 business days) if the firm ceases to meet its NSFR requirement (or becomes aware of circumstances that may result in its ceasing to meet that requirement).

(2) In the notification the firm must clearly explain:

(a) why it ceased to meet, or thinks it may cease to meet, the requirement;

(b) when it expects to again be able to meet the requirement; and

(c) what it has done and will do to ensure that it meets the requirement in future, or continues to meet it, as the case requires.

Guidance

A banking business firm that gives such a notification should discuss with the Regulatory Authority what further steps it should take to deal with the situation.
9.5.6 Application of NSFR to financial group

(1) For calculating a consolidated NSFR for a financial group, assets held to meet a banking business firm’s NSFR may be included in the parent entity’s stable funding only so far as the related liabilities are reflected in the parent entity’s NSFR. Any surplus of assets held at the firm may be treated as forming part of the parent entity’s stable funding only if those assets would be freely available to the parent entity during a period of stress.

(2) When calculating its NSFR on a consolidated basis, a cross-border banking group must apply the rules of its home jurisdiction to all the legal entities being consolidated, except for the treatment of retail and small business deposits. Such deposits for a consolidated entity must be treated according to the rules in the jurisdiction in which the entity operates.

(3) A cross-border banking group must not take excess stable funding into account in calculating its consolidated NSFR if there is reasonable doubt about whether the funding would be available during a period of stress.

Guidance

Asset transfer restrictions (for example, ring-fencing measures, non-convertibility of local currency, foreign exchange controls) in jurisdictions in which a banking group operates would affect the availability of liquidity by restricting the transfer of assets and funding within the group. The consolidated NSFR should reflect the restrictions consistently with this Part. For example, assets held to meet a local NSFR requirement by a subsidiary that is being consolidated can be included in the consolidated NSFR to the extent that the assets are used to cover the funding requirements of that subsidiary, even if the assets are subject to restrictions on transfer. If the assets held in excess of the total funding requirements are not transferable, the firm should not count that funding.

9.5.7 Determining maturity of instruments when calculating NSFR

(1) When a banking business firm is determining the maturity of an equity or liability instrument, it must assume that a call option will be exercised at the earliest possible date.

(2) In particular, if the market expects a liability to be exercised before its legal final maturity date, the firm must assign the liability to the category that is consistent with the market expectation.

(3) For long-dated liabilities, the firm may treat only the part of cash flows falling at or beyond the 6-month and 1-year time horizons as having an effective residual maturity of 6 months or more and 1 year or more, respectively.
9.5.8 Calculating NSFR derivative liability amounts

(1) A banking business firm must calculate the value of a derivative liability based on the replacement cost for the derivative contract (obtained by marking to market) if the contract has a negative value.

(2) If there is a netting agreement with the counterparty that meets both of the conditions in subrule (3), and all of the other conditions in subrule (4) are met, the replacement cost for the set of exposures covered by the agreement is taken to be the net replacement cost.

(3) The conditions for the netting agreement are as follows:
   (a) under the agreement the firm would have a claim to receive, or an obligation to pay, only the net amount of the mark-to-market values of the transactions if the counterparty were to fail to perform;
   (b) the agreement does not contain a walkaway clause.

(4) The other conditions are as follows:
   (a) the firm holds a written, reasoned legal opinion that the relevant courts and administrative authorities would find the firm’s exposure to be the net amount referred to in subrule (3) (a) under each of the following laws:
      (i) the law of the jurisdiction in which the counterparty is established;
      (ii) if a foreign branch of the counterparty is involved, the law of the jurisdiction in which the branch is located;
      (iii) the law that governs the individual transactions;
      (iv) the law that governs the netting agreement (and any other agreement necessary to effect the netting);
   (b) the firm has procedures to ensure that netting arrangements are kept under review in the light of possible changes in the relevant law;
   (c) the Regulatory Authority is satisfied that the netting agreement is enforceable under all of the laws referred to in paragraph (a).

(5) Collateral lodged in the form of variation margin in connection with derivative contracts, regardless of the asset type, must be deducted from the negative replacement cost amount.

9.5.9 Determining maturity of assets

(1) When determining the maturity of an asset, a banking business firm must assume that any option to extend that maturity will be exercised.
(2) In particular, if the market expects the maturity of an asset to be extended, the firm must assign the asset to the category that is consistent with the market expectation.

(3) For an amortising loan, the firm may treat the part that comes due within 1 year as having residual maturity of less than 1 year.

### 9.5.10 What assets should be included

(1) Subject to subrule (2), when determining its RSF, a banking business firm:

   (a) must include financial instruments, foreign currencies and commodities for which a purchase order has been executed; but

   (b) must not include financial instruments, foreign currencies and commodities for which a sales order has been executed; even if the transactions have not been reflected in the firm’s balance-sheet under a settlement-date accounting model.

(2) Subrule (1) applies only if:

   (a) the relevant transactions are not reflected as derivatives or secured financing transactions in the firm’s balance-sheet; and

   (b) the effects of the transactions will be reflected in the firm’s balance-sheet when settled.

### 9.5.11 Treatment of securities financing transactions

(1) When determining its RSF, a banking business firm must not include securities that the firm has borrowed in securities financing transactions (such as reverse repos and collateral swaps) if the firm does not have beneficial ownership.

(2) However, the firm must include securities that it has lent in securities financing transactions if it retains beneficial ownership of them.

(3) The firm must also not include securities that it has received through collateral swaps if those securities do not appear on the firm’s balance-sheet.

(4) The firm must include securities that it has encumbered in repos or other securities financing transactions, if the firm has retained beneficial ownership of the securities and they remain on the firm’s balance-sheet.
9.5.12 Netting of securities financing transactions with a single counterparty

When determining its RSF, a banking business firm may net securities financing transactions with a single counterparty only if all of the following conditions are met:

(a) the transactions have the same explicit final settlement date;
(b) the right to set off the amount owed to the counterparty with the amount owed by the counterparty is legally enforceable both currently in the normal course of business and in the event of default, insolvency or bankruptcy;
(c) one of the following applies:
   (i) the counterparties intend to settle net;
   (ii) the counterparties intend to settle simultaneously;
   (iii) the transactions are subject to a settlement mechanism that results in the functional equivalent of net settlement.

Guidance

*Functional equivalent of net settlement* means that the cash flows of the transactions are equivalent to a single net amount on the settlement date. To achieve that equivalence, both transactions are settled through the same settlement system and the settlement arrangements are supported by cash or intraday credit facilities intended to ensure that settlement of both transactions will occur by the end of the business day and that the linkages to collateral flows do not result in the unwinding of net cash settlement.

9.5.13 Calculating NSFR derivative asset amounts

(1) When determining its RSF, a banking business firm must calculate the value of a derivative asset first based on the replacement cost for the contract (obtained by marking to market) if the contract has a positive value.

(2) If there is a netting agreement with the counterparty that satisfies both of the conditions in rule 9.5.8 (3), and all of the other conditions in rule 9.5.8 (4) are met, the replacement cost for the set of exposures covered by the agreement is taken to be the net replacement cost.

(3) Collateral received in connection with a derivative contract does not offset the positive replacement cost amount, regardless of whether or not netting is permitted under the bank’s accounting or risk-based framework, unless:
   (a) the collateral is received in the form of cash variation margin; and
   (b) all of the conditions in subrule (4) are met.
(4) The conditions are the following:
   
   (a) either:
      
      (i) the trades are cleared through a qualifying central counterparty; or

      Note: For qualifying central counterparty, see the Glossary.

      (ii) the cash received by the counterparty is not segregated;

   (b) the variation margin is calculated and exchanged every day, based on mark-to-market valuation of the relevant positions;

   (c) the variation margin is received in the same currency as the currency of settlement of the contract;

   (d) the variation margin exchanged is the full amount that would be necessary to fully extinguish the mark-to-market exposure of the contract subject to the threshold and minimum transfer amounts applicable to the counterparty;

   (e) derivative transactions and variation margins are covered by a single master netting agreement (MNA) between the counterparties;

   (f) the MNA explicitly stipulates that the counterparties agree to settle net any payment obligations covered by the agreement, taking into account any variation margin received or provided if a credit event occurs involving either counterparty;

   (g) the MNA is legally enforceable and effective in all the relevant jurisdictions, including in the event of default, bankruptcy or insolvency.

(5) Any remaining balance-sheet liability associated with:

   (a) variation margin received that does not meet all of the conditions in subrule (4); or

   (b) initial margin received;

   does not offset derivative assets and receives a 0% ASF factor.

9.5.14 Calculating ASF

The amount of a liquidity risk group A banking business firm’s ASF is calculated as follows:

   (a) first, assign each of the firm’s capital items and liabilities to 1 of the 5 categories set out in rules 9.5.15 to 9.5.19;

   (b) next, for each category add up the carrying values of all the capital items and liabilities assigned to the category;
Rule 9.5.15

(c) next, for each category multiply the total carrying values of the capital items and liabilities assigned to the category by the category’s ASF factor (also set out in rules 9.5.15 to 9.5.19), giving the **weighted amounts**;

(d) finally, add up the weighted amounts.

**9.5.15 Category 1: liabilities and capital that receive 100% ASF factor**

(1) The following liabilities and capital receive a 100% ASF factor:

(a) the total amount of the firm’s regulatory capital (as set out in Divisions 3.2.B and 3.2.C), excluding any tier 2 instrument with residual maturity of less than 1 year, before the application of capital deductions;

(b) any other capital instrument that has an effective residual maturity of 1 year or more (except any instrument with an explicit or embedded option that, if exercised, would reduce the expected maturity to less than 1 year);

(c) the total amount of secured and unsecured borrowings and liabilities (including term deposits) with effective residual maturities of 1 year or more.

(2) For subrule (1) (c), cash flows falling within the 1-year horizon but arising from liabilities with final maturity of more than 1 year do not qualify for the 100% ASF factor.

**9.5.16 Category 2: Liabilities that receive 95% ASF factor**

The liabilities that receive a 95% ASF factor are stable (as defined in rule 9.3.23 (4)) deposits with residual maturities of less than 1 year provided by retail and small-business customers.

**9.5.17 Category 3: Liabilities that receive 90% ASF factor**

The liabilities that receive a 90% ASF factor are less stable (as defined in rule 9.3.23 (8)) deposits with residual maturities of less than 1 year provided by retail and small-business customers.

**9.5.18 Category 4: Liabilities that receive 50% ASF factor**

The following liabilities receive a 50% ASF factor:

(a) funding (secured and unsecured) with residual maturity of less than 1 year, from corporate customers that are not financial institutions;

(b) operational deposits (as defined in rule 9.3.26 (6));

(c) funding with residual maturity of less than 1 year from sovereigns, public sector entities, MDBs and national development banks;
(d) other funding (secured or unsecured) not falling within paragraphs (a) to (c), with residual maturity of between 6 months and 1 year, including funding from central banks and financial institutions.

9.5.19 Category 5: Liabilities that receive 0% ASF factor

The following liabilities receive a 0% ASF factor:

(a) capital not falling within rule 9.5.15;

(b) liabilities not falling within rules 9.5.15 to 9.5.18;

Guidance for paragraph (b)
Funding from central banks and financial institutions with residual maturity of less than 6 months would fall within paragraph (b).

(c) other liabilities without a stated maturity, except that:

(i) a deferred tax liability must be categorised according to the nearest possible date on which it could be realised; and

(ii) minority interest must be treated according to the term of the instrument, usually in perpetuity.

Guidance for paragraph (c)

1 Other liabilities without a stated maturity could include short positions, positions with open maturity and deferred tax liabilities.

2 A liability referred to in paragraph (c) would receive either a 100% ASF factor if its effective maturity were 1 year or more (see rule 9.5.15), or a 50% ASF factor if its effective maturity were between 6 months and 1 year (see rule 9.5.18).

(d) NSFR derivative liabilities net of NSFR derivative assets, if NSFR derivative liabilities are greater than NSFR derivative assets;

Note For how to calculate NSFR derivative liabilities, see rule 9.5.8. For how to calculate NSFR derivative assets, see rule 9.5.13.

(e) trade-date payables arising from purchases of financial instruments, foreign currencies and commodities that:

(i) are expected to settle within the standard settlement cycle or period that is customary for the relevant exchange or type of transaction; or

(ii) have failed to settle, but are still expected to do so.

9.5.20 Calculating RSF

The amount of a liquidity risk group A banking business firm’s RSF is calculated as follows:

(a) first, assign each of the firm’s assets to 1 of the 8 categories set out in rules 9.5.21 to 9.5.28;
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Rule 9.5.21

(b) next, for each category add up the carrying values of all the assets assigned to the category;

(c) next, for each category multiply the total carrying values of the assets assigned to the category by the category’s RSF factor (also set out in rules 9.5.21 to 9.5.28), giving the weighted amounts;

(d) next, multiply the amounts of each of the firm’s off-balance-sheet exposures by the exposure’s RSF factor (set out in rule 9.5.31), giving the OBS weighted amounts;

(e) finally, add the weighted amounts and the OBS weighted amounts.

9.5.21 Category 1: assets that receive 0% RSF factor
Subject to rule 9.5.29 (for certain encumbered assets), assets of the following kinds receive a 0% RSF factor:

(a) currency notes and coins immediately available to meet obligations;

(b) central bank reserves (including required reserves and excess reserves);

(c) claims on central banks with residual maturities of less than 6 months;

(d) trade-date receivables arising from sales of financial instruments, foreign currencies and commodities that:
   (i) are expected to settle within the standard settlement cycle or period that is customary for the relevant exchange or type of transaction; or
   (ii) have failed to settle, but are still expected to do so.

9.5.22 Category 2: assets that receive 5% RSF factor
The assets that receive a 5% RSF factor are unencumbered level 1 HQLA (except assets that receive a 0% RSF factor under rule 9.5.21).

9.5.23 Category 3: assets that receive 10% RSF factor
The assets that receive a 10% RSF factor are unencumbered loans to financial institutions, with residual maturities of less than 6 months, that are secured against level 1 HQLA that the firm can freely re-hypothecate during the loans’ life.

9.5.24 Category 4: assets that receive 15% RSF factor
Assets of the following kinds receive a 15% RSF factor:

(a) unencumbered level 2A HQLA;
(b) unencumbered loans to financial institutions, with residual maturities of less than 6 months, that do not fall within rule 9.5.23.

9.5.25 **Category 5: assets that receive 50% RSF factor**
Assets of the following kinds receive a 50% RSF factor:

(a) unencumbered level 2B HQLA;
(b) HQLA that are encumbered for between 6 months and 1 year;
(c) loans, with residual maturity of between 6 months and 1 year, to financial institutions and central banks;
(d) operational deposits (as defined in rule 9.3.26 (6)) at other financial institutions;
(e) all other non-HQLA with residual maturity of less than 1 year, including loans to non-financial corporate clients, loans to retail customers and small business customers, and loans to sovereigns and public sector entities.

9.5.26 **Category 6: assets that receive 65% RSF factor**
 Assets of the following kinds receive a 65% RSF factor:

(a) unencumbered residential mortgages, with residual maturity of 1 year or more, that qualify under rule 4.4.7 for a risk weight of 35% or lower;
(b) other unencumbered loans (except loans to financial institutions), with residual maturity of 1 year or more, that qualify under rule 4.4.7 for a risk weight of 35% or lower.

9.5.27 **Category 7: assets that receive 85% RSF factor**
(1) Subject to rule 9.5.29 (for certain encumbered assets), assets of the following kinds receive an 85% RSF factor:

(a) cash, securities or other assets lodged as initial margin for derivative contracts, and cash or other assets provided to contribute to the default fund of a central counterparty;
(b) unencumbered performing loans (except loans to financial institutions), with residual maturity of 1 year or more, that do not qualify under rule 4.4.7 for a risk weight of 35% or lower;
(c) unencumbered securities with residual maturity of 1 year or more;
(d) exchange-traded equities that are not in default and do not qualify as HQLA;
(e) physical traded commodities, including gold.
2) Despite subrule (1) (a), if securities or other assets lodged as initial margin for derivative contracts would otherwise receive a higher RSF factor than 85%, they retain that higher factor.

9.5.28 **Category 8: assets that receive 100% RSF factor**

Assets of the following kinds receive a 100% RSF factor:

(a) assets that are encumbered for 1 year or more;

(b) NSFR derivative assets, net of NSFR derivative liabilities, if NSFR derivative assets are greater than NSFR derivative liabilities;

*Note* For how to calculate NSFR derivative liabilities, see rule 9.5.8. For how to calculate NSFR derivative assets, see rule 9.5.13.

(c) all other assets not falling within categories 1 to 7 (including non-performing loans, loans to financial institutions with residual maturity of 1 year or more, non-exchange-traded equities, fixed assets, items deducted from regulatory capital, retained interest, insurance assets, subsidiary interests and defaulted securities);

(d) 20% of derivative liabilities as calculated in accordance with rule 9.5.8 (before deducting variation margin lodged).

9.5.29 **Treatment of encumbered assets**

(1) Assets encumbered for between 6 months and 1 year that would, if unencumbered, receive an RSF factor of 50% or lower receive a 50% RSF factor.

(2) Assets encumbered for between 6 months and 1 year that would, if unencumbered, receive an RSF factor higher than 50% receive that higher RSF factor.

(3) Assets encumbered for less than 6 months receive the same RSF factor as an unencumbered asset of the same kind.

9.5.30 **Treatment of encumbered assets—exceptional central bank liquidity operations**

The Regulatory Authority may direct a banking business firm that, for the purposes of calculating the firm’s NSFR, assets that are encumbered for exceptional central bank liquidity operations receive a specified lower RSF factor than would otherwise apply.

**Guidance**

In general, exceptional central bank liquidity operations are considered to be non-standard, temporary operations conducted by a central bank to achieve its mandate at a time of market-wide financial stress or exceptional macroeconomic challenges.
9.5.31 **Off-balance-sheet exposures—RSF factors**

The RSF factors for off-balance-sheet exposures are as follows:

(a) irrevocable and conditionally revocable credit and liquidity facilities—5% of the undrawn portion;

(b) contingent funding obligations—as set out in table 9.5.31.

**Table 9.5.31 Contingent funding obligations—RSF factors**

<table>
<thead>
<tr>
<th>Item</th>
<th>Kind of obligation</th>
<th>RSF factor (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Irrevocable or conditionally revocable liquidity facilities</td>
<td>5</td>
</tr>
<tr>
<td>2</td>
<td>Irrevocable or conditionally revocable credit facilities</td>
<td>5</td>
</tr>
<tr>
<td>3</td>
<td>Unconditionally revocable liquidity facilities</td>
<td>0</td>
</tr>
<tr>
<td>4</td>
<td>Unconditionally revocable credit facilities</td>
<td>0</td>
</tr>
<tr>
<td>5</td>
<td>Trade-finance-related obligations (including guarantees and letters of credit)</td>
<td>3</td>
</tr>
<tr>
<td>6</td>
<td>Guarantees and letters of credit unrelated to trade finance obligations</td>
<td>5</td>
</tr>
<tr>
<td>7</td>
<td>Other non-contractual obligations, including:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>● potential requests related to structured investment vehicles and other similar</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>financing arrangements</td>
<td></td>
</tr>
<tr>
<td></td>
<td>● structured products where customers anticipate ready marketability (such as</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>adjustable-rate notes and variable-rate demand notes)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>● managed funds that are marketed with the objective of maintaining a stable</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>value</td>
<td></td>
</tr>
</tbody>
</table>

**Division 9.5.B Treatment of branches**

9.5.32 **Global net stable funding concession—branches**

(1) A liquidity risk group A banking business firm that is a branch may apply to the Regulatory Authority for a global net stable funding concession.
(2) In its application the firm must satisfy the Authority that:

(a) in the jurisdiction where the firm’s head office is established, there are no legal constraints on the provision of funding to the firm; and

(b) its head office is subject to net stable funding requirements that are equivalent to, or more restrictive than, those imposed under these rules.

 Guidance

In considering whether to grant such a concession, the Authority would take into account:

- the requirements, as to managing, monitoring and controlling stable funding, of the regulator responsible for the firm’s head office
- the systems and controls used by the head office to ensure that the firm’s stable funding remains adequate
- any written assurance from the head office that:
  - it will ensure that, at all times, enough stable funding is available to support the firm
  - it will notify the Authority, at the same time as it notifies its home regulator, of any material issues concerning its exposure to liquidity risk and any issues in relation to its compliance with applicable stable funding limits, including its required NSFR
  - in the event of a stable funding crisis, it will give the Authority all relevant information on the whole firm’s stable funding situation, and a list of any known constraints (legal or otherwise) on the head office’s providing the firm with stable funding
- any notification from the head office’s home regulator:
  - either stating that the regulator has no objection to the firm’s obtaining the concession, or acknowledging that the application has been made
  - giving information about, and confirming, the quality of the stable funding at the head office.

(3) If the Authority grants the concession, the firm need not comply with a requirement of this Part specified by the Authority.

(4) The Authority may specify the period for which the concession is valid. If no period is so specified, the concession is valid until the Authority revokes it.

(5) The firm:

(a) must give the Authority, at least quarterly, a copy of the NSFR calculation for the firm, as submitted by its head office to its home regulator;
(b) must notify the Authority immediately (but within 3 business days), in writing, of:

(i) the results of every assessment by its home regulator of the quality of stable funding at the firm’s head office;

(ii) any adverse finding or action taken by that regulator;

(iii) any change or potential change in the firm’s funding strategy or business model, or material change or material potential change in the structure of its balance-sheet; and

(iv) any changes that affect its compliance with the requirements referred to in subrule (2).

(6) The Authority may at any time, by written notice, do any 1 or more of the following (based on its assessment of the firm’s stable funding situation):

(a) modify or exclude any of the requirements under subrule (5);

(b) impose additional requirements;

(c) revoke the concession.
Part 9.6  Net stable funding ratio—liquidity risk group B banking business firms

Note for Part 9.6
This Part applies only to liquidity risk group B banking business firms—see rule 9.1.4.

Division 9.6.A  General

9.6.1  Introduction—Part 9.6

(1) The requirement for a banking business firm to maintain a net stable funding ratio is one of the Basel Committee’s key reforms to promote a more resilient banking sector. The requirement will oblige firms to maintain a stable funding profile in relation to the composition of their assets and off-balance-sheet activities.

(2) A stable funding profile is intended to reduce the likelihood that disruptions to a firm’s regular sources of funding will erode its liquidity position in a way that would increase the risk of its failure and might lead to broader systemic stress.

(3) The requirement is intended to limit firms’ reliance on short-term wholesale funding, promote funding stability, and encourage better assessment of funding risk on and off firms’ balance-sheets.

(4) This Part sets out an alternative approach to the maintenance of stable funding that is intended to be appropriate for certain banking business firms that, because of their business model, could not meet a requirement to maintain a net stable funding ratio in accordance with Part 9.5.

9.6.2  Definitions for Part 9.6

Expressions used in this Part that are defined in Part 9.3 or 9.5 have the same respective meanings in this Part as in Part 9.3 or 9.5, as the case may be.

9.6.3  What NSFR is

(1) A liquidity risk group B banking business firm’s NSFR, expressed as a percentage, is:

\[
\frac{ASF}{RSF} \times 100.
\]

(2) The ASF and RSF are to be calculated in accordance with this Part.
9.6.4 **Obligation to maintain NSFR**

A liquidity risk group B banking business firm must maintain, during each calendar month, an average NSFR of at least the percentage that the Regulatory Authority directs the firm to maintain.

9.6.5 **Obligation to notify Regulatory Authority if NSFR requirement not met**

(1) A liquidity risk group B banking business firm must notify the Regulatory Authority in writing immediately (but within 3 business days) if the firm ceases to meet its NSFR requirement (or becomes aware of circumstances that may result in its ceasing to meet that requirement).

(2) In the notification the firm must clearly explain:

   (a) why it ceased to meet, or thinks it may cease to meet, the requirement;

   (b) when it expects to again be able to meet the requirement; and

   (c) what it has done and will do to ensure that it meets the requirement in future, or continues to meet it, as the case requires.

**Guidance**

A banking business firm that gives such a notification should discuss with the Regulatory Authority what further steps it should take to deal with the situation.

9.6.6 **Application of certain rules in Part 9.5**

For calculating its NSFR, a liquidity risk group B banking business firm must apply rules 9.5.7 to 9.5.13 (so far as relevant).

9.6.7 **Calculating ASF—liquidity risk group B banking business firms**

The amount of a liquidity risk group B banking business firm’s ASF is calculated as follows:

   (a) first, for each of the firm’s capital items and liabilities, multiply its carrying value by the ASF factor set out in table 9.6.7 for a capital item or liability of that kind and maturity (giving the *weighted amounts*);

   (b) finally, add up the weighted amounts.
Chapter 9  Liquidity risk
Part 9.6  Net stable funding ratio—liquidity risk group B banking business firms

Rule 9.6.8

Table 9.6.7  ASF factors

<table>
<thead>
<tr>
<th>Item no.</th>
<th>Kind of capital item or liability</th>
<th>ASF factor (%)</th>
<th>With maturity (months)</th>
<th>no maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>&lt; 6</td>
<td>6 – &lt; 12</td>
</tr>
<tr>
<td>1</td>
<td>Capital items and instruments:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a)</td>
<td>regulatory capital (excluding tier 2 instruments)</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>(b)</td>
<td>other capital instruments not included in item (a)</td>
<td>0</td>
<td>50</td>
<td>100</td>
</tr>
<tr>
<td>(c)</td>
<td>minority interest</td>
<td>0</td>
<td>50</td>
<td>100</td>
</tr>
<tr>
<td>2</td>
<td>Marketable debt securities</td>
<td>0</td>
<td>50</td>
<td>100</td>
</tr>
<tr>
<td>3</td>
<td>Non-bank-customer deposits</td>
<td>80</td>
<td>90</td>
<td>100</td>
</tr>
<tr>
<td>4</td>
<td>Other types of funding</td>
<td>0</td>
<td>50</td>
<td>100</td>
</tr>
<tr>
<td>5</td>
<td>Trade debts payable</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>6</td>
<td>Net derivative liabilities</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>7</td>
<td>Other liabilities not listed above</td>
<td>0</td>
<td>50</td>
<td>100</td>
</tr>
</tbody>
</table>

9.6.8  Calculating RSF—liquidity risk group B banking business firms

The amount of a liquidity risk group B banking business firm’s RSF is calculated as follows:

(a) first, for each of the firm’s assets and off-balance-sheet items, multiply its carrying value by the RSF factor set out in table 9.6.8A or 9.6.8B for an asset or item of that kind and maturity (giving the weighted amounts);

(b) finally, add up the weighted amounts.
Table 9.6.8A RSF factors—on-balance-sheet assets

<table>
<thead>
<tr>
<th>Item no.</th>
<th>Kind of asset</th>
<th>RSF factor (%):</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>With maturity (months) no maturity</td>
</tr>
<tr>
<td></td>
<td></td>
<td>&lt; 6</td>
</tr>
<tr>
<td>1</td>
<td>On-balance-sheet assets (excluding assets treated as liquefiable assets for the calculation of the firm’s MLR)</td>
<td>0</td>
</tr>
<tr>
<td>2</td>
<td>Defaulted securities and non-performing loans</td>
<td>100</td>
</tr>
<tr>
<td>3</td>
<td>Net derivative assets</td>
<td>100</td>
</tr>
<tr>
<td>4</td>
<td>Other assets</td>
<td>0</td>
</tr>
</tbody>
</table>

Table 9.6.8B RSF factors—off-balance-sheet items

<table>
<thead>
<tr>
<th>Item no.</th>
<th>Kind of item</th>
<th>RSF factor (%):</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>With maturity (months) no maturity</td>
</tr>
<tr>
<td></td>
<td></td>
<td>&lt; 6</td>
</tr>
<tr>
<td>1</td>
<td>Undrawn portions of irrevocable and conditionally revocable credit facilities and liquidity facilities</td>
<td>5</td>
</tr>
<tr>
<td>2</td>
<td>Undrawn portions of unconditionally revocable credit facilities and liquidity facilities</td>
<td>0</td>
</tr>
<tr>
<td>3</td>
<td>Trade-related contingencies</td>
<td>3</td>
</tr>
</tbody>
</table>
### Division 9.6.B  Treatment of branches

#### 9.6.9  Global net stable funding concession—branches

1. A liquidity risk group B banking business firm that is a branch may apply to the Regulatory Authority for a global net stable funding ratio concession.

2. In its application the firm must satisfy the Authority that:

   a. because of its business model and in the market conditions prevailing at the time of application, the firm has no reasonable prospect of being able to comply with the other requirements of this Part;

   b. in the jurisdiction where the firm’s head office is established, there are no legal constraints on the provision of funding to the firm; and

   c. the head office is subject to liquidity requirements that are equivalent to, or more restrictive than, those imposed under these rules.

### Guidance

In considering whether to grant such a concession, the Authority would take into account:

- the requirements, as to managing, monitoring and controlling stable funding, of the regulator responsible for the firm’s head office
- the systems and controls used by the head office to ensure that the firm’s stable funding remains adequate
- any written assurance from the head office that:
  - it will ensure that, at all times, enough stable funding is available to support the firm
  - it will notify the Authority, at the same time as it notifies its home regulator, of any material issues concerning the firm’s exposure to

<table>
<thead>
<tr>
<th>Item no.</th>
<th>Kind of item</th>
<th>RSF factor (%)</th>
<th>With maturity (months)</th>
<th>no maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>&lt; 6</td>
<td>6 – &lt; 12</td>
</tr>
<tr>
<td>4</td>
<td>Non-trade-related contingencies (including guarantees and letters of credit not included in item 3)</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>5</td>
<td>Other off-balance-sheet items</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>
liquidity risk or its compliance with applicable stable funding limits, including its required NSFR
- in the event of a stable funding crisis, it will give the Authority all relevant information on the whole firm’s stable funding, and a list of any known constraints (legal or otherwise) on the head office’s providing the firm with stable funding
- any notification from the head office’s home regulator:
  - either stating that the regulator has no objection to the firm’s obtaining the concession, or acknowledging that the application has been made
  - giving information about, and confirming, the quality of the stable funding at the head office.

(3) If the Authority grants the concession, the firm need not comply with a requirement of this Part specified by the Authority.

(4) The Authority may specify the period for which the concession is valid. If no period is so specified, the concession is valid until the Authority revokes it.

(5) The firm:
   (a) must give the Authority, at least quarterly, a copy of the NSFR calculation for the firm, as submitted by its head office to its home regulator;
   (b) must notify the Authority immediately (but within 3 business days), in writing, of:
      (i) the results of every assessment by its home regulator of the quality of stable funding at the firm’s head office;
      (ii) any adverse finding or action taken by that regulator;
      (iii) any change or potential change in the firm’s funding strategy or business model, or material change or material potential change in the structure of its balance-sheet; and
      (iv) any changes that affect its compliance with the conditions referred to in subrule (2).

(6) On the basis of the Authority’s assessment of the firm’s stable funding risk exposures, the Authority may, at any time, by written notice, do any 1 or more of the following:
   (a) modify or exclude any of the requirements under subrule (5);
   (b) impose additional requirements;
   (c) revoke the concession.
Part 9.7  Limits on net cumulative maturity mismatch

Note for Part 9.7
This Part applies to all banking business firms—see rule 9.1.4.

9.7.1 Introduction—Part 9.7
The maturity mismatch approach set out in this Part assesses a banking business firm’s liquidity by measuring the maturity mismatch between its assets and its liabilities (in each case, with a specified maturity of 30 calendar days or less) within the time-bands:

(a) sight–7 calendar days; and
(b) 8–30 calendar days.

Guidance
1 A liability is said to be payable at sight if payment is due immediately on presentation. For example, a cheque is usually payable at sight.
2 On a particular day, the sight–7 calendar days time-band covers assets maturing, or liabilities payable, on presentation or within 7 calendar days. The 8–30 calendar days time-band covers assets maturing, or liabilities payable, from 8 to 30 calendar days later.
3 This Part takes no account of assets or liabilities with an unspecified maturity, or a specified maturity that is more than 30 calendar days in the future.

9.7.2 Application—Part 9.7
This Part applies to all banking business firms.

9.7.3 Determining net cumulative maturity mismatch
A banking business firm determines its net cumulative maturity mismatch for each time-band by:

(a) determining what assets and liabilities are to be taken into account, and their maturities;
(b) assigning each asset and each liability to a time-band;
(c) adding up the values of the assets and the liabilities assigned to each time-band; and
(d) subtracting liabilities from assets in each time-band.

9.7.4 Assigning liabilities to time-bands
(1) A liability must be assigned to a time-band according to its earliest contractual maturity.
(2) A contingent liability must be included in the firm’s liabilities unless the conditions necessary to crystallise it are unlikely to be fulfilled.

Guidance for subrule (2)
In deciding whether it is likely that the conditions necessary to crystallise a contingent liability will be fulfilled, an authorised firm could rely on general market information, its knowledge of the counterparty and general behavioural analysis.

9.7.5 Assigning assets to time-bands

(1) An asset must be assigned to a time-band according to its latest contractual maturity, except that:

(a) an undrawn committed standby facility provided by another banking business firm is to be treated as being at sight;
(b) readily marketable assets (see subrule (2)) are to be treated as being at sight; and
(c) assets that have been lodged as collateral are not to be included.

(2) An asset is readily marketable if all of the following are true:

(a) the currency in which it is denominated is freely tradeable;
(b) prices are regularly quoted for it;
(c) it is regularly traded;
(d) it can readily be monetised on a recognised exchange.

(3) On a case by case basis, the Regulatory Authority may allow a banking business firm to assign, to the sight–7 calendar days time-band, a longer-term asset that is relatively easy to monetise.

9.7.6 Haircuts for readily marketable assets

(1) The haircuts to be applied to readily marketable assets of each kind are as set out in table 9.7.6. The haircut for an asset is to be applied to the mark-to-market value of the asset.

(2) For the table, an asset is investment grade if it is rated no lower than BBB- (long-term) or A-3 (short-term) by Standard & Poor’s (or the equivalent by another ECRA).

(3) In the table:

MDB means multilateral development bank.

Note For a list of multilateral development banks that qualify for 0% risk weight, and examples of other multilateral development banks that do not, see the note following table 4.4.7A.

PSE means public sector enterprise.
### Table 9.7.6 Haircuts for assets

<table>
<thead>
<tr>
<th>Item</th>
<th>Kind of asset</th>
<th>Haircut (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. Sovereign, central bank, non-commercial PSE and MDB investment-grade securities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A.1</td>
<td>Marketable securities with 12 months’ or less residual maturity, issued or guaranteed by a sovereign, a central bank, a non-commercial PSE or an MDB</td>
<td>0</td>
</tr>
<tr>
<td>A.2</td>
<td>Marketable securities with more than 12 months’ but not more than 5 years’ residual maturity, issued or guaranteed by a sovereign, a central bank, a non-commercial PSE or an MDB</td>
<td>5</td>
</tr>
<tr>
<td>A.3</td>
<td>Marketable securities with more than 5 years’ residual maturity, issued or guaranteed by a sovereign, a central bank, a non-commercial PSE or an MDB</td>
<td>10</td>
</tr>
<tr>
<td><strong>B. Sovereign, central bank, non-commercial PSE and MDB non-investment-grade securities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B.1</td>
<td>Marketable securities issued by a sovereign, a central bank, a non-commercial PSE or an MDB, where the credit exposure is to the issuer, regardless of maturity</td>
<td>20</td>
</tr>
<tr>
<td>B.2</td>
<td>Marketable securities issued by a sovereign, a central bank, a non-commercial PSE or an MDB, where the credit exposure is not to the issuer, regardless of maturity</td>
<td>40</td>
</tr>
<tr>
<td><strong>C. Non-government investment-grade securities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C.1</td>
<td>Marketable securities, issued by a corporate issuer or commercial PSE, with 6 months’ or less residual maturity</td>
<td>5</td>
</tr>
<tr>
<td>C.2</td>
<td>Marketable securities, issued by a corporate issuer or commercial PSE, with more than 6 months’, but 5 years’ or less, residual maturity</td>
<td>10</td>
</tr>
<tr>
<td>C.3</td>
<td>Marketable securities, issued by a corporate issuer or commercial PSE, with more than 5 years’ residual maturity</td>
<td>15</td>
</tr>
</tbody>
</table>
9.7.7 Calculating net cumulative maturity mismatch position

A banking business firm must determine its net cumulative maturity mismatch position in relation to deposits as follows:

\[
\frac{NCM}{TD} \times 100
\]

where:

- \( NCM \) is the net cumulative maturity mismatch.
- \( TD \) is the firm’s total deposits.

9.7.8 Limit on net cumulative maturity mismatch position

(1) The limits on a banking business firm’s net cumulative maturity mismatch position are as follows:
   
   (a) for the sight–7 calendar days time-band—negative 15%;
   
   (b) for the sight–30 calendar days time-band—negative 25%.

(2) If a banking business firm’s net cumulative maturity mismatch position exceeds the relevant limit set out in subrule (1), the firm must notify the Regulatory Authority about the matter in writing immediately (but within 3 business days), clearly explaining what steps it will take to bring the position back within the limit.

9.7.9 Recognition of funding facility from parent entity

(1) This rule applies to a banking business firm that is a branch, or is a subsidiary of an entity that is established outside the QFC.

(2) The Regulatory Authority may allow such a firm to recognise, as an asset, access to its parent entity’s funds by way of a committed funding facility, up to a limit specified in the facility documentation. The facility:
   
   (a) must be an irrevocable commitment; and

---

<table>
<thead>
<tr>
<th>Item</th>
<th>Kind of asset</th>
<th>Haircut (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>D.</td>
<td>Non-government non-investment-grade securities</td>
<td></td>
</tr>
<tr>
<td>D.1</td>
<td>Marketable securities, issued by a corporate issuer or commercial PSE, regardless of maturity</td>
<td>60</td>
</tr>
<tr>
<td>E.</td>
<td>Equities</td>
<td></td>
</tr>
<tr>
<td>E.1</td>
<td>Equities that qualify for a risk weight of 4% or less</td>
<td>20</td>
</tr>
</tbody>
</table>

(4) The Regulatory Authority may vary the haircut for an asset to reflect the conditions of a particular market or institution.
(b) must be appropriately documented.
Part 9.8 Monitoring

Note for Part 9.8
This Part applies to all banking business firms—see rule 9.1.4.

Division 9.8.A Introductory

9.8.1 Introduction—Part 9.8
(1) This Part imposes requirements for banking business firms to monitor certain indicators of their liquidity.

(2) The indicators are:
   (a) contractual maturity mismatches;
   (b) concentration of funding;
   (c) available unencumbered assets; and
   (d) LCR by significant currencies.

9.8.2 What monitoring requires
A requirement in this Part for a banking business firm to monitor an indicator requires the firm to be continuously aware of the indicator, and to re-evaluate it as often as necessary, given:
   (a) the nature, scale and complexity of the firm’s business; and
   (b) the prevailing market conditions.

Division 9.8.B Monitoring maturity mismatches

9.8.3 Purpose of monitoring
The monitoring of a banking business firm’s contractual maturity mismatches is intended to identify gaps between contractual inflows and outflows in particular time-bands, and to reveal the extent to which the firm relies on maturity transformation.

9.8.4 Contractual maturity mismatch
(1) A banking business firm:
   (a) must monitor its contractual maturity mismatches, according to time-bands directed by the Regulatory Authority; and
   (b) must carry out its own maturity mismatch analyses, based on realistic, going-concern assumptions about the behaviour of inflows and outflows of funds in both normal situations and stress situations.

(2) The analyses should be based on the firm’s strategic and business plans and must be shared with, and discussed with, the Authority.
(3) The firm must be able to show how it plans to bridge any identified gaps in its internally generated maturity mismatches, and to explain any differences between the assumptions applied and the contractual terms.

**Division 9.8.C Monitoring concentration of funding**

**9.8.5 Purpose of monitoring**

The monitoring of the concentration of a banking business firm’s funding is meant:

(a) to identify sources of the firm’s wholesale funding that are of such significance that the withdrawal of that funding could cause liquidity problems for the firm; and

(b) therefore, to encourage the firm to diversify its sources of such funding.

**9.8.6 What is to be monitored**

A banking business firm must monitor:

(a) concentration of funding by counterparty;
(b) concentration of funding by instrument or product; and
(c) concentration of funding by significant currency.

**9.8.7 Concentration of funding by counterparty**

(1) A banking business firm must calculate its concentration of funding by counterparty as a percentage for each significant counterparty or significant group of connected counterparties, by means of the following formula:

\[ \frac{N}{T} \times 100 \]

where:

- \( N \) is the total, for the counterparty or group, of:
  (a) all liabilities to the counterparty or group; and
  (b) all other direct borrowings, both secured and unsecured (such as by overnight commercial paper or certificates of deposit) from the counterparty or group.

- \( T \) is the firm’s total balance-sheet.

(2) For subrule (1):

(a) a counterparty or group is **significant** if liabilities to it account in total for more than 1% of the firm’s total liabilities; and
(b) \textit{a group of connected counterparties} is 2 or more counterparties that are connected (as defined in rule 5.1.3).

(3) For this rule, if the firm is a member of a corporate group, the firm must treat intra-group deposits and deposits from related parties as deposits by a single counterparty.

\textbf{Guidance}

Deposits from within the group and from related parties are to be identified because of the possible limitations on intra-group transactions under stressed conditions.

\section*{9.8.8 Concentration of funding by instrument or product}

(1) A banking business firm must calculate its concentration of funding by instrument or product as a percentage for each significant instrument or significant product (or significant type of instrument or significant type of product), by means of the following formula:

\[ \frac{N}{T} \times 100 \]

where:

$N$ is the total, for the instrument or product (or type of instrument or type of product) of all liabilities arising from the instrument, product or type of instrument or product.

$T$ is the firm’s total balance-sheet.

(2) For subrule (1), an instrument or product, or a type of instrument or product, is \textit{significant} if it accounts in total for more than 1\% of the firm’s total liabilities.

\section*{9.8.9 Concentration of funding by currency}

(1) A banking business firm must monitor its concentration of funding by currency by maintaining a list of its liabilities, maturing in each time-band, denominated in each significant currency.

(2) For subrule (1):

(a) a currency is \textit{significant} for the firm if liabilities denominated in it account in total for more than 5\% of the firm’s total liabilities; and

(b) the time-bands are as follows:

(i) less than 30 calendar days;

(ii) 1-3 months;

(iii) 3-6 months;

(iv) 6-12 months;

(v) more than 12 months;

(vi) unspecified maturity.
Division 9.8.D Monitoring available unencumbered assets

9.8.10 Purpose of monitoring
The monitoring of a banking business firm’s available unencumbered assets and collateral is meant to track assets and collateral:

(a) that could be used in secondary markets as collateral to raise additional HQLA (as defined in rule 9.3.3) or secured funding; or
(b) that would be eligible as collateral for a central bank’s standing facility.

9.8.11 What is to be monitored

(1) In this rule:
unencumbered has the meaning given by rule 9.3.4 (1).

(2) A banking business firm must monitor all of the following:

(a) the amount, type and location of the firm’s available unencumbered assets that are useable as collateral in secondary markets;
(b) collateral, received from customers, that the firm is permitted to deliver or re-pledge, and how much of such collateral it is delivering or re-pledging;
(c) the firm’s available unencumbered assets that are eligible as collateral for central banks’ standing facilities;
(d) the estimated haircut that the secondary market or relevant central bank would require for each asset;
(e) the costs likely to be involved.

(3) In doing so, the firm must categorise its available unencumbered assets and collateral by significant currency. A currency is significant if the firm’s stock of available unencumbered assets and collateral denominated in the currency amounts to 5% or more of the firm’s total amount of such assets and collateral.

(4) The firm must monitor:

(a) the expected monetised value of such assets and collateral (rather than their notional amount); and
(b) where the assets or collateral are held (in terms of both their location and what business lines have access to them).
Divison 9.8.E  Monitoring LCR by significant currencies

9.8.12 Purpose of monitoring
The monitoring of a banking business firm’s LCR (as defined in rule 9.3.3) by significant currencies is meant to track possible currency mismatches.

9.8.13 What is to be monitored
(1) A banking business firm must monitor:
   (a) its stock of HQLA (as defined in rule 9.3.3) in each significant currency; and
   (b) its expected total net cash outflows (net of any hedges) in each such currency over the next 30 calendar days.

(2) For subrule (1):
   (a) the firm’s total net cash outflows over the next 30 calendar days are to be calculated in accordance with rule 9.3.21; and
   (b) a currency is significant for the firm if liabilities denominated in it amount to 5% or more of the firm’s total liabilities.
Chapter 10  Group risk

Part 10.1  General

10.1.1  Introduction

(1) This Chapter sets out the requirements for a banking business firm’s management of corporate group risk and the measurement of financial group capital requirement and resources.

(2) Group membership can be a source of both strength and weakness to a banking business firm. The purpose of group risk requirements is to ensure that the firm takes into account the risks related to its membership of a corporate group and maintains adequate capital resources so as to exceed its financial group capital requirement.

10.1.2  Corporate group and financial group

(1) A banking business firm’s corporate group is made up of:
   (a) the firm;
   (b) any parent entity of the firm;
   (c) any subsidiary (direct or indirect) of the firm; and
   (d) any subsidiary (direct or indirect) of a parent entity of the firm.

(2) A banking business firm’s financial group is made up of:
   (a) the firm;
   (b) any subsidiary (direct or indirect) of the firm, if the subsidiary belongs to a sector of the financial industry; and
   (c) any entity that the Regulatory Authority directs the firm to include.

Note  The instructions for preparing returns divide the financial industry into the following sectors: banking, non-life insurance, life insurance, financial services, equity investments and non-equity investments.

(3) A banking business firm may apply to the Regulatory Authority for approval to exclude an entity from its financial group. The authority will grant such an approval only after the firm satisfies the authority that inclusion of the entity would be misleading or inappropriate for the purposes of supervision.

Guidance

The Regulatory Authority would consider a range of factors when requiring a banking business firm to treat another entity as part of its financial group. These factors would include regulatory risk factors, including direct and indirect participation, influence or contractual obligations, interconnectedness, intra-group exposures, intra-group services, regulatory status and legal framework.
10.1.3 Requirements—group risk

(1) A banking business firm must effectively manage risks arising from its membership in a corporate group.

(2) A banking business firm that is a member of a corporate group must establish and maintain systems and controls to monitor:
   (a) the effect on the firm of its membership in the group;
   (b) the effect on the firm of the activities of other members of the group;
   (c) compliance with group supervision and reporting requirements; and
   (d) funding within the group.

Guidance

A banking business firm may take into account its position within its corporate group. It would be reasonable for a small firm within a larger group to place some reliance on its parent to ensure that there are appropriate systems and controls to manage group risk.

(3) The firm must also have systems to enable it to calculate its financial group capital requirement and resources. The systems must include a means of analysing realistic scenarios and the effects on the financial group’s capital requirement and resources if those scenarios occurred.

10.1.4 Role of governing body—group risk

A banking business firm’s governing body must ensure that the firm’s group risk management policy addresses, on a group-wide basis, all risks arising from the firm’s relationship with every other member of its group.
Part 10.2

Group capital requirement and resources

10.2.1 Application of Part 10.2

(1) This Part does not apply to a banking business firm if:
   (a) the firm is already subject to group prudential supervision by the Regulatory Authority because another member of its group is an authorised firm; or
   (b) the Regulatory Authority has confirmed in writing, in response to an application from the firm, that the authority is satisfied that the group is the subject of consolidated prudential supervision by an appropriate regulator.

(2) A banking business firm that has received confirmation must immediately inform the authority in writing if any circumstance on which the confirmation was based changes.

10.2.2 Financial group capital requirement and resources

(1) A banking business firm must ensure at all times that its financial group capital resources exceed its financial group capital requirement.

(2) In calculating its financial group capital resources, the firm must not include capital resources or adjusted capital resources (as the case may be) of subsidiaries or participations of that group to the extent that those capital resources or adjusted capital resources exceed the capital requirement for that subsidiary or participation and are not freely transferable within the group.

Guidance

1 Capital resources or adjusted capital resources would not be freely transferable if they are subject to an obligation to maintain minimum capital requirements to meet domestic solvency requirements, or to comply with debt covenants.

2 If a banking business firm breaches rule 10.2.2 (1), the Regulatory Authority would take into account the circumstances of the case, including any remedial steps taken by another regulator or the firm, in deciding what enforcement action to take.

10.2.3 Solo limits to apply to group

Unless the Regulatory Authority directs otherwise, a prudential limit in these rules that applies to a banking business firm also applies to the firm’s financial group.

Examples

1 The restriction in rule 5.3.3 (2) (that the total of a banking business firm’s net exposures to a counterparty or connected counterparties must not exceed 25% of its regulatory capital) applies to the firm’s financial group, so that the group’s net...
exposures to a counterparty or connected counterparties must not exceed 25% of the group’s regulatory capital.

2 Similarly, the restriction in rule 5.3.3 (2A) (that the total of all of the firm’s net large exposures must not exceed 800% of its regulatory capital) applies to the firm’s financial group, so that the group’s total net large exposures to counterparties or connected counterparties must not exceed 800% of the group’s regulatory capital.
Chapter 12
Collateral and customer mandates for investment dealers

Part 12.1
Collateral

12.1.1 Application to investment dealers

(1) This Part applies to an investment dealer that receives or holds relevant investments of a customer to secure the customer’s obligations to the dealer in the course of, or in connection with, the dealer’s investment business, if:

(a) the customer’s entire legal and beneficial interest in those investments has been transferred to the dealer; or

(b) the dealer has a right to use those investments as if the customer’s entire legal and beneficial interest in them had been transferred to the dealer;

and, in either case, the dealer is obliged to return equivalent investments to the customer when the customer’s obligations to the dealer are satisfied.

(2) If an investment dealer receives or holds a relevant investment under an arrangement described in subrule (1) (b) but has not yet exercised its right to use the investment, this Part does not apply in relation to the investment until after the dealer has exercised its right to use it.

(3) Relevant investments are investments of the following kinds (in each case, within the meaning given in FSR, Schedule 3, Part 3), and rights in such investments:

(a) shares;
(b) debt instruments;
(c) warrants;
(d) securities receipts;
(e) units in collective investment schemes;
(f) options;
(g) futures;
(h) contracts for differences.

(4) This Part does not apply in relation to an investment in which the dealer’s interest is a bare security interest. An interest is a bare security interest if it gives the dealer the right to realise the investment only on the customer’s default but no right to use it in other circumstances.
(5) If under subrule (2) or (4) this Part does not apply in relation to an investment, the dealer concerned must treat the investment as a custody investment under INMA.

12.1.2 Adequate records to be kept

(1) An investment dealer must keep adequate records to enable it to meet any future obligations to customers in relation to the investments, including any return of equivalent relevant investments to customers.

(2) However, if the investments are received under an arrangement described in rule 12.1.1 (1) (b), subrule (1) applies only if the dealer has exercised its right to use them as if the customer’s entire legal and beneficial interest in them had been transferred to the dealer.

12.1.3 Periodic statements to customer

(1) An investment dealer must prepare, and send to each customer, periodic statements listing the investments and their market values.

(2) Each statement must be prepared as at a date (the reporting date) that is not more than:
   (a) 6 months after the last statement; or
   (b) if another interval between statements is agreed with the customer—the agreed interval after the last statement.

(3) Each statement must be sent to the customer within 1 month after the reporting date.

(4) The dealer must send each statement directly to the customer and not to another person, unless it has written instructions from the customer requiring or allowing it to send the statement to the other person.
Part 12.2  Customer mandates

12.2.1  Application to investment dealers

(1) This Part applies to an investment dealer that receives or holds a customer mandate in the course of, or in connection with, the dealer’s investment business.

(2) In this Part:

mandate, of an investment dealer, means a written authority from the dealer’s customer under which the dealer may control assets or liabilities of the customer in the course of, or in connection with, the dealer’s investment business.

Examples of authority
- authority for direct debit of a bank account
- authority to charge a credit card.

12.2.2  Systems and controls

(1) If an investment dealer holds 1 or more mandates, it must establish appropriate systems and controls in relation to its use of the mandates to prevent the misuse of the authority given by the mandates.

(2) The systems and controls must include the following:

(a) an up-to-date list of the dealer’s mandates and all the conditions and restrictions on the use of each mandate;

(b) a record of every transaction entered into using a mandate;

(c) appropriate controls to ensure that each transaction is within the scope of the authority given by the relevant mandate;

(d) details of the procedures and authorities for giving and receiving instructions under the mandates;

(e) taking all reasonable steps to ensure that any employee who is, or is likely to be, required to give or receive instructions under a mandate is fully aware of its terms, including:

(i) the procedures and authorities referred to in paragraph (d); and

(ii) all the conditions and restrictions (if any) on its use.
Chapter 13  Transitional

13.1.1 Definitions for Chapter 13

*modification* means a declaration by the Regulatory Authority under FSR, article 16 (1) (a).

*PIIB* means the *Investment and Banking Business Rules 2005* (as in force immediately before 1 January 2015).

*waiver* means a declaration by the Regulatory Authority under FSR, article 16 (1) (b).

13.1.2 Authorised firms to remain authorised

(1) An entity that was an authorised firm immediately before 1 January 2015 continues to be an authorised firm in accordance with this rule.

(5) Any condition attached to the firm’s authorisation that was in effect immediately before 1 January 2015 continues to have effect according to its terms.

13.1.3 Modifications and waivers

(1) A modification of a provision of PIIB that was in effect immediately before 1 January 2015 continues to have effect, according to its terms, as a modification of the provision of these rules corresponding as nearly as possible to the provision of PIIB.

(2) A waiver of a provision of PIIB (other than a waiver in relation to an authorised firm that is a branch, the effect of which was that the firm was not required to hold capital) that was in effect immediately before 1 January 2015 continues to have effect, according to its terms, as a waiver of the provision of these rules corresponding as nearly as possible to the provision of PIIB.

Guidance

A waiver the effect of which was that an authorised firm was not required to hold capital lapses on 1 January 2015 if the firm is a branch, because there is no requirement under these rules for a branch to hold capital.

13.1.4 Powers of Regulatory Authority not diminished

Nothing in this Chapter prevents the Regulatory Authority from withdrawing a firm’s authorisation or revoking a condition, waiver or modification.
# Schedule 1

## Recognised exchanges

(see glossary)

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(see r 1.1.3)

absolute value of a number means the value of the number irrespective of sign.

accounting standards include accounting rules, principles, practices and conventions.

additional tier 1 capital has the meaning given by rule 3.2.10.

affiliate, of a party, means any entity of which the party holds 10% or more, but less than a majority, of the voting power.

approved website means a website that is approved under the Interpretation and Application Rules 2005, rule 3.1.2.

asset-backed commercial paper or ABCP means securities with an original maturity of 1 year or less that are backed by assets or other exposures held in an SPE.

asset-backed securities means securities that are backed by receivables.

Note Mortgage-backed security, which is backed by mortgage receivables, is a subset of asset-backed security.

authorisation means an authorisation granted under FSR, Part 5.

authorised firm (or firm) means a person that has an authorisation.

banking business firm has the meaning given by rule 1.3.1.

base capital requirement has the meaning given by rule 3.2.4.


Basel Accords is the collective name for Basel I, Basel II and Basel III, which are a set of reform measures issued by the Basel Committee on Banking Supervision to improve the regulation, supervision, risk management and capital adequacy of financial institutions, as amended from time to time.

Basel Core Principles for Effective Banking Supervision means the Principles issued under that name by the Basel Committee on Banking Supervision, as amended from time to time.

branch means the local office in the QFC of a legal person incorporated outside the QFC.

business day means a day that is not a Friday, a Saturday, or a public or bank holiday in Qatar.

capital adequacy ratio has the meaning given by rule 3.2.6.

capital conservation buffer has the meaning given by rule 3.3.1 (2).
capital relief is the reduction, in the credit risk capital requirement for an exposure, obtained from the use of a CRM technique.

cash collateral has the meaning given by rule 4.5.8.

CET 1 capital means common equity tier 1 capital.


clean-up call has the meaning given by rule 4.6.16 (1).

common equity tier 1 capital (or CET 1 capital) has the meaning given by rule 3.2.8.

controlled early amortisation provision has the meaning given by rule 4.6.37 (2).

connected, in relation to a party, has the meaning given by rule 5.1.3.

Corporate group has the meaning given by rule 10.1.2 (1).

counter-cyclical capital buffer has the meaning given by rule 3.3.1 (3).

counterparty means any person with or for whom a banking business firm carries, on or intends to carry on, banking business or associated business.

credit enhancement, in relation to a securitisation, means a contractual arrangement in which a banking business firm or other entity retains or assumes a securitisation exposure and, in substance, provides some degree of added protection to other parties to the transaction. In essence it is the raising of the credit quality of the securitisation above that of the underlying assets.

Examples
1 Credit enhancement may be provided internally, by the issuer, through the use of excess spread reserves, over-collateralisation or cash collateral accounts.
2 It may be also be provided by a third party through guarantees, letters of credit or protection insurance.

credit risk has the meaning given by rule 4.1.2.

credit risk capital requirement means the amount of capital that a firm must have to cover its credit risk.

CRM technique means a credit risk mitigation technique under Part 4.5.

CTRL means the Governance and Controlled Functions Rules 2012.

customer means a person to whom a banking business firm provides, has provided or offers to provide a service or product, and includes:
(a) in relation to a deposit taker—a business customer of the firm (within the meaning given in CIPR); and
(b) in relation to an investment dealer—a business customer or Islamic Banking Business Prudential Rules 2015.
day means a period of 24 hours starting at midnight.

dealing in investments means the regulated activity described in FSR, Schedule 3, Part 2, paragraph 4.

deposit-taker has the meaning given by rule 1.3.2.

deposit taking means the regulated activity described in FSR, Schedule 3, Part 2, paragraph 1.

early amortisation provision has the meaning given by rule 4.6.37 (1).

Note For controlled and non-controlled early amortisation provisions see subrules 4.6.37 (2) and (3).

ECRA means external credit rating agency.

eligible bilateral netting agreement: see rule 3.4.11 (2).

eligible financial collateral has the meaning given by rule 4.5.7.

eligible guarantor has the meaning given by rule 4.5.15.

eligible liquidity facility, in relation to a securitisation, has the meaning given by rule 4.6.28 (2).

eligible netting agreement has the meaning given by rule 4.5.18.

eligible protection provider has the meaning given by rule 4.6.35 (2)

eligible servicer cash advance facility, in relation to a securitisation, has the meaning given by rule 4.6.31 (3).

entity means any kind of entity, and includes, for example, any person.

exercise control: an entity (entity A) exercises control over another (entity B) if:

(a) entity A holds 10% or more of the shares of entity B, or is entitled to exercise or control the exercise of 10% or more of the voting power in entity B;

(b) entity A holds 10% or more of the shares in a parent entity of entity B or is entitled to exercise or control the exercise of 10% or more of the voting power in a parent entity of entity B; or

(c) entity A is able to exercise significant influence over the management of entity B or a parent entity of entity B because of entity A’s shareholding or voting power, or by contractual or other arrangements.

exposure means the maximum loss that a banking business firm might suffer as a result of the default or failure of a counterparty, connected counterparties, issuer or connected issuers.

external credit rating agency (or ECRA) means:

(a) Moody’s Investors Service;
(b) Fitch Ratings;
(c) Standard and Poor’s;
(d) a rating agency that is affiliated with one of the agencies mentioned in paragraphs (a) to (c);
(e) Islamic International Rating Agency, B.S.C; and
(f) any other agency approved by the Regulatory Authority.

**financial group** has the meaning given by rule 10.1.2 (2).

**FSR** means the Financial Services Regulations.

**gain-on-sale**, in relation to a banking business firm, means the gain that arises when there is an increase in equity or assets of the firm as a result of originating exposures into a securitisation (for example, an increase associated with expected future margin income, or a profit on the sale of exposures).

**GCC** means Gulf Cooperation Council.

**governing body** of an entity means its board of directors, committee of management or other governing body (whatever it is called).

**home jurisdiction**, for an entity, means the jurisdiction where the entity’s authorisation or licence was granted.

**home regulator**, for an entity, means the financial regulator in the jurisdiction in which the entity’s authorisation or licence was granted.

**ICAAP** means internal capital adequacy assessment process.

**IFRS** means the International Financial Reporting Standards, as amended and in force from time to time.

**impaired credit** has the meaning given by rule 4.3.5 (1).

**implicit support**, to a securitisation, means support that is in excess of an originator’s predetermined contractual obligations under the securitisation.

**INMA** means the Investment Management and Advisory Rules 2014.

**internal capital adequacy assessment process** (or **ICAAP**) has the meaning given by rule 3.1.5.

**investment dealer** has the meaning given by rule 1.3.3.

**investment grade** means a rating of at least BBB- or equivalent.

**jurisdiction** means any kind of legal jurisdiction, and includes, for example:

(a) the State of Qatar;
(b) a foreign country (whether or not an independent sovereign jurisdiction), or a state, province or other territory of such a foreign country; and

(c) the QFC or a similar jurisdiction.

**large exposure** has the meaning given by rule 5.3.1 (1).

**legal person** means an entity (other than an individual) on which the legal system of a jurisdiction confers rights and imposes duties, and includes, for example, any entity that can own, deal with or dispose of property.

**liquidity facility**, in relation to a securitisation, has the meaning given by rule 4.6.28 (1).

**minimum capital requirement** has the meaning given by rule 3.2.3 (2).

**monetise** (used of an asset) means convert into cash (whether by sale, repo or in any other way).

**month** means calendar month—that is, the period beginning at the start of any day of one of the 12 named months of the year and ending:

(a) at the end of the day before the corresponding day of the next named month; or

(b) if there is no corresponding day—at the end of the last day of next named month.

**non-controlled early amortisation provision** has the meaning given by rule 4.6.37 (3).

**OECD** means Organisation for Economic Cooperation and Development.

**parent entity**, for a legal person (A), means any of the following:

(a) a legal person that holds a majority of the voting power in A;

(b) a legal person that is a member of A (whether direct or indirect, or though legal or beneficial entitlement) and alone, or together with 1 or more legal persons in the same corporate group, holds a majority of the voting power in A;

(c) a parent entity of any legal person that is a parent entity of A.

*Note* **Legal person** and **corporate group** are defined in this glossary.

**person** means:

(a) an individual (including an individual occupying an office or position from time to time); or

(b) a legal person.
**potential future credit exposure** has the meaning given by rule 4.4.11 (3).

**problem assets** has the meaning given by rule 4.1.3 (3).

**providing credit facilities** means the regulated activity described in FSR, Schedule 3, Part 2, paragraph 6.

**prudential risk** is the collective term for credit risk, market risk, operational risk, IRRBB and liquidity risk.

**QFC** means Qatar Financial Centre.

**QFC Authority** means the Qatar Financial Centre Authority established under article 3, Law No. 7 of 2005 of the State of Qatar.

**qualifying central counterparty** means an entity:

(a) that is licensed or authorised to operate as a central counterparty-in relation to the instruments concerned; and

(b) that is based and prudentially supervised in a jurisdiction in which the financial regulator that is responsible for the prudential supervision of the entity:

(i) has established rules and regulations for central counterparties that are consistent with *Principles for Financial Market Infrastructures*, published by the International Organization of Securities Commissions in July 2011; and

(ii) has publicly indicated that it applies those rules and regulations to the entity on an ongoing basis.

*Note* The *Principles* is available at:

**recognised exchange** means an exchange set out in Schedule 1 or in a notice published by the Regulatory Authority on an approved website.

**regulated activity** means an activity that is a regulated activity under FSR.

**Regulatory Authority** means the Qatar Financial Centre Regulatory Authority.

**regulatory capital** has the meaning given by rule 3.2.7.

**related party** of a banking business firm, has the meaning given by rule 4.8.3.

**re-securitisation** has the meaning given by rule 4.6.2 (4).

**retained securitisation exposure** has the meaning given by rule 4.6.20.

**risk-based capital requirement** has the meaning given by rule 3.2.5.
**Glossary**

**Rules** means rules made by the Regulatory Authority under FSR, article 15 (1), and includes:

(a) any standard, principle or code of practice made by the authority; and

(b) any other instrument made or in force under any Rules.

**securitisation** has the meaning given by rule 4.6.2 (1).

**securitisation exposures** has the meaning given by rule 4.6.4.

**securitisation involving revolving exposures** has the meaning in rule 4.6.36.

**special purpose entity** or **SPE** has the meaning given by rule 4.6.8.

**subsidiary**: a legal person (**A**) is a subsidiary of another legal person (**B**) if **B** is a parent entity of **A**.

**synthetic securitisation** has the meaning given by rule 4.6.3 (3).

**terms of business** (of a banking business firm for a customer) means a statement or statements in writing of the terms on which the firm will conduct business with or for the customer.

**tier 2 capital** has the meaning given by rule 3.2.12.

**total risk-weighted assets** has the meaning given by rule 3.2.1 (2).

**US GAAP** means the United States Generally Accepted Accounting Principles, as amended and in force from time to time.

**traditional securitisation** has the meaning given by rule 4.6.3 (2).

**writing** means any form of writing, and includes, for example, any way of representing or reproducing words, numbers, symbols or anything else in legible form (for example, by printing or photocopying).
Endnotes

1 Abbreviation key

- \text{a} = \text{after}
- \text{am} = \text{amended}
- \text{amdt} = \text{amendment}
- \text{app} = \text{appendix}
- \text{art} = \text{article}
- \text{att} = \text{attachment}
- \text{b} = \text{before}
- \text{ch} = \text{chapter}
- \text{def} = \text{definition}
- \text{div} = \text{division}
- \text{eg} = \text{example}
- \text{g} = \text{guidance}
- \text{glos} = \text{glossary}
- \text{hdg} = \text{heading}
- \text{ins} = \text{inserted/added}
- \text{n} = \text{note}
- \text{om} = \text{omitted/repealed}
- \text{orig} = \text{original}
- \text{par} = \text{paragraph/subparagraph}
- \text{prev} = \text{previously}
- \text{pt} = \text{part}
- \text{r} = \text{rule/subrule}
- \text{renum} = \text{renumbered}
- \text{reloc} = \text{relocated}
- \text{s} = \text{section}
- \text{sch} = \text{schedule}
- \text{sdiv} = \text{subdivision}
- \text{sub} = \text{substituted}

2 Rules history

\textbf{Banking Business Prudential Rules 2014}

\textit{made by}

\textbf{Banking Business Prudential Rules 2014 (QFCRA Rules 2014-2)}

Made 17 December 2014
Commenced 1 January 2015
Version No. 1

\textit{as amended by}

\textbf{Miscellaneous Amendments Rules 2015 (QFCRA Rules 2015–1, sch 5, pt 5.1 and sch 6, pt 6.1)}

Made 13 June 2015
Commenced 1 July 2015
Version No. 2

\textbf{Islamic Banking Business Prudential (Consequential) and Miscellaneous Amendments Rules 2015 (QFCRA Rules 2015–3, sch 1, pt 1.2, sch 2 and sch 3, pt 3.2)}

Made 13 December 2015
Commenced 1 January 2016
Version No. 3
Endnotes

Banking Business Prudential (Securitisation) Amendments Rules 2017 (QFCRA Rules 2017–2)
Signed 29 March 2017
Commenced 1 April 2017
Version No. 4

Banking Business Prudential (Liquidity Risk and Miscellaneous) Amendments Rules 2018 (QFCRA Rules 2018–1, sch 1)
Signed 25 March 2018
Commenced 1 May 2018
Version No. 5

COND Repeal and Miscellaneous Amendments Rules 2019 (QFCRA Rules 2019-4, sch 2, pt 2.1)
Made 26 March 2019
Commenced 1 January 2020
and

Banking Business Prudential (Leverage Ratio) Amendments Rules 2019 (QFCRA Rules 2019-6, sch 1, pts 1.1 and 1.2)
Made 26 June 2019
Commenced 1 January 2020
Version No. 6

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