Banking Business Prudential (Leverage Ratio) Amendments Rules 2019

QFCRA Rules 2019-6

The Board of the Qatar Financial Centre Regulatory Authority makes the following rules, and gives the following guidance, under the *Financial Services Regulations*.

Dated 26 June 2019.

Abdulla Bin Saoud Al-Thani
Chairman

QATAR FINANCIAL CENTRE
REGULATORY AUTHORITY

Banking Business Prudential (Leverage Ratio) Amendments Rules 2019

QFCRA Rules 2019-6

made under the

Financial Services Regulations

Contents

1 Name of rules

These rules are the *Banking Business Prudential (Leverage Ratio) Amendments Rules 2019*.

2 Commencement

These rules commence on 1 January 2020.

3 Amendment

These rules amend the *Banking Business Prudential Rules 2014*.

4 Explanatory notes

An explanatory note in these rules is not part of these rules.

Schedule 1 Amendments

(see rule 3)

Part S1.1 Amendments relating to leverage ratio

S1.1 Part 3.4

substitute

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:

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

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 of 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:

$$exposure = 1.4 \times (RC + PFCE)$$

where:

$\boldsymbol{RC} = \boldsymbol{max}\ \{(\boldsymbol{V} - \boldsymbol{CVM_r} + \boldsymbol{CVM_p}), 0\}$ (in which $\boldsymbol{V}$ is the mark-to-market value of the contract; $\boldsymbol{CVM_r}$ is any cash variation margin received that meets the conditions set out in rule 3.4.17 and does not reduce $\boldsymbol{V}$ under the relevant accounting standard; and $\boldsymbol{CVM_p}$ 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:

$$exposure = NRC + PFCE_{adj}$$

where:

$\boldsymbol{NRC} = \boldsymbol{max}\ \{\sum \boldsymbol{M_i}, 0\}$ (in which $\sum \boldsymbol{M_i}$ is the sum of the positive and negative mark-to-market values of all the contracts covered by the agreement).

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

$$\boldsymbol{PFCE_{adj}} = 0.4\,(\boldsymbol{PFCE_{gross}}) + 0.6\,(\boldsymbol{NGR} \times \boldsymbol{PFCE_{gross}})$$

where $\boldsymbol{PFCE_{gross}}$ and $\boldsymbol{NGR}$ 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

(iii) *Capital requirements for bank exposures to central counterparties (April 2014)*, available at www.bis.org/publ/bcbs282.pdf.

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

(2) When calculating $PFCE_{gross}$, 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:

$$\boldsymbol{NGR} = \frac{\boldsymbol{NCCE}}{\boldsymbol{GCCE}};$$

where

NCCE = max $\{\sum M_i , 0\}$ (in which $\sum \boldsymbol{M_i}$ 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:

$$\boldsymbol{NGR} = \frac{\boldsymbol{NCCEaggregate}}{\boldsymbol{GCCEaggregate}};$$

where:

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

$\boldsymbol{GCCE_{aggregate}}$ 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).

Guidance

To achieve that equivalence, both contracts 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 contracts will occur by the end of the business day, and the linkages to collateral flows do not result in the unwinding of net cash settlement. The failure of any one contract in the settlement mechanism should delay settlement of only the matching cash leg or create an obligation to the settlement mechanism, supported by an associated credit facility.

(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:

$\boldsymbol{max}\ \{(\sum E_i - \sum C_i), 0\}$;

where:

$\sum \boldsymbol{E_i}$ is the total fair value of securities and cash lent to the counterparty for all contracts covered by the agreement.

$\sum \boldsymbol{C_i}$ 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

Item	Exposure	CCF
1	Commitments (other than securitisation liquidity facilities) with an original maturity of up to 1 year	20%
2	Commitments (other than securitisation liquidity facilities) with an original maturity of over 1 year	50%
3	Commitments that are unconditionally cancellable at any time without notice, or that effectively provide for automatic cancellation if the borrower's creditworthiness deteriorates	10%
4	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))	100%
5	Forward asset purchases, forward deposits and partly-paid shares and securities that represent commitments with certain drawdown	100%
6	Certain contract-related contingent items (for example, performance bonds, bid bonds, warranties and standby letters of credit related to particular contracts)	50%
7	Note issuance facilities and revolving underwriting facilities	50%
8	Short-term self-liquidating trade letters of credit arising from the movement of goods (for example, documentary credits collateralised by the underlying shipment)	20% (for both issuing and confirming firms)

Item	Exposure	CCF
9	Off-balance-sheet securitisation exposures (except an eligible liquidity facility or an eligible servicer cash advance facility)	100%
10	Eligible liquidity facilities and eligible servicer cash advance facilities	50%
11	Liquidity facilities and servicer cash advance facilities (if undrawn and able to be unconditionally cancelled without notice)	10%

(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.

Explanatory note

This amendment inserts a new Part 3.4 dealing with leverage ratio in place of the present placeholder text.

Part S1.2 Other amendments

S1.2 After rule 1.1.3

insert

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.

Explanatory note

This amendment and the next relocate a standard provision regarding the specification of amounts of money in different currencies.

S1.3 Rule 3.1.7

omit

S1.4 Rule 9.5.13 (4) (a)

substitute

(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;

Explanatory note

This amendments and the next insert 2 glossary entries and make consequential amendments.

S1.5 Rule 9.5.13 (6)

omit

S1.6 Glossary

insert

eligible bilateral netting agreement: see rule 3.4.11 (2).

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: http://www.iosco.org/library/pubdocs/pdf/IOSCOPD350.pdf.