Cayman Monetary Regulatory Authority International

At the forefront of financial regulation, the Cayman Monetary Regulatory Authority International (CMRAI) is dedicated to upholding the highest standards of financial oversight and compliance. Our mission is to safeguard the stability and integrity of the global financial system by ensuring that financial services operate within a framework of transparency, accountability, and excellence.

As a trusted partner to financial institutions worldwide, CMRAI provides rigorous supervision, innovative solutions, and strategic guidance to foster a secure and thriving financial environment. With decades of experience and a commitment to global standards, we stand as a pillar of trust and security in an ever-evolving financial landscape.

With a legacy of excellence in financial oversight, the Cayman Monetary Regulatory Authority International (CMRAI) is a beacon of trust in the international financial community. Our role extends beyond regulation; we are innovators, collaborators, and protectors of the global financial ecosystem. By fostering compliance, promoting best practices, and embracing technological advancements, CMRAI ensures that financial services remain resilient and adaptable in a dynamic global market.

Our comprehensive approach to regulation encompasses a deep understanding of financial risks and a proactive stance on emerging challenges. We are committed to empowering financial institutions with the tools and guidance necessary to navigate complex regulatory landscapes, thereby contributing to global economic stability and growth.

The Liquidity Coverage Ratio: frequently asked questions 1. A bank has a reverse repurchase agreement, receiving collateral that consists of a pool of assets including non-HQLA. Can the whole portion of Level 1 and Level 2 assets of the collateral basket be counted towards HQLA (subject to the other requirements on HQLA- eligible assets)? Answer: An HQLA-eligible asset received as a component of a pool of collateral for a secured transaction (e.g. reverse repo) can be included in the stock of HQLA (with associated haircuts) to the extent that it can be monetised separately. 2. If a bank pledges a pool of HQLA and non-HQLA collateral with a clearing entity such as a central counterparty (CCP) against secured funding transactions, may it count any HQLA- eligible securities that are held as part of the collateral pool, but remain unused at end-of-day as part of the stock of HQLA? Answer: The bank may count the unused portion of HQLA-eligible collateral pledged towards its stock of HQLA (with associated haircuts). If the bank cannot determine which specific assets remain unused, it may assume that assets are encumbered in order of increasing liquidity value, consistent with the methodology set out in the LCR framework. 3. Which cash flow assumptions are applied if a bank pledges a pool of HQLA and non-HQLA collateral to secured funding transactions and a portion of the secured funding transactions has a residual maturity greater than 30 days? Answer: All secured transactions maturing within 30 days should be reported according to the collateral actually pledged as of close of business on the LCR measurement date applying the outflow assumptions in paragraph 18.30. If the bank cannot determine which specific assets in the collateral pool are used to collateralise the transactions with a residual maturity greater than 30 days, it may assume that assets are encumbered to these transactions in order of increasing liquidity value, consistent with the methodology set out in paragraph 18.29 of the LCR framework in such a way that assets with the lowest liquidity value in the LCR are assigned to the transactions with the longest residual maturities first. 4. Which cash flow assumptions are applied for secured transactions where assets are received on the basis of a collateral pool that is subject to potential collateral substitution? Answer: The risks associated with collateral substitution on secured lending transactions with a residual maturity less than or equal to 30 days should be considered as a contingent outflow in accordance with paragraph 18.37 of the LCR framework. 5. Does the maximum LTV criterion of 80% mean that the average pool LTV is to be less than 80% or that each loan has to have less than 80% LTV? Answer: The LTV requirement in paragraph 14.4 refers to the weighted average (by loan balance) LTV of the portfolio of underlying mortgages, not to any individual mortgage, i.e. mortgages that have an LTV greater than 80% are not excluded per se. 6. Does at issuance in paragraph 14.4 refer to the issuance of the RMBS or of the underlying mortgages? Answer: At issuance refers to the time when the RMBS is issued, i.e. the average LTV of the underlying mortgages at the time of the issuance of the RMBS must not be higher than 80%. 7. Does the sovereign in paragraphs 14.2(d) and (e) refer to the bank s home country, host country, the country in which the bank does not have any presence but has liquidity risk exposure denominated in that currency, or all of them? Answer: Sovereign and central bank debt securities, even with a rating below AA , should be considered eligible as Level 1 assets only when these assets are issued by the sovereign or central bank in the bank s home country or in host countries where the bank has a presence via a subsidiary or branch. Therefore, paragraphs 14.2(d) and (e) do not apply to a country in which the bank s only presence is liquidity risk exposures denominated in the currency of that country 8. Some jurisdictions have more than one index that could reasonably claim to be a major

one. Can the primary index be construed to mean a primary index where there is more than one relevant index (to be defined, as already specified, by the supervisor in each jurisdiction concerned)? Answer: Home jurisdiction supervisors may determine what constitutes a major stock index in their jurisdiction, which in some cases may permit inclusion of more than one index. 9. Paragraph 14.4(c) (iii) refers to an index in that jurisdiction or where the liquidity risk is taken, as decided by the supervisor in the jurisdiction where the index is located . It is not clear what is meant by taking a risk . Answer: Equities that are a constituent of a major stock index can only be assigned to the stock of HQLA if the stock index is located within the home jurisdiction of the bank or if the bank has liquidity risk exposure through a branch or other legal entity in that jurisdiction. 10. If a deposit is contractually pledged to a bank as collateral to secure a credit facility or loan granted by the bank that will not mature or be settled in the next 30 days, should the pledged deposit be excluded from the calculation of the total expected cash outflows under the LCR? Answer: The pledged deposit may be excluded from the LCR calculation only if the following conditions are met: the loan will not mature or be settled in the next 30 days; the pledge arrangement is subject to a legally enforceable contract disallowing withdrawal of the deposit before the loan is fully settled or repaid; and the amount of deposit to be excluded cannot exceed the outstanding balance of the loan (which may be the drawn portion of a credit facility). The above treatment does not apply to a deposit which is pledged against an undrawn facility, in which case the higher of the outflow rate applicable to the undrawn facility or the pledged deposit applies. 11. How should central counterparties (CCPs) be treated in the context of the LCR? Specifically, (a) Should deposits from a CCP be regarded as operational deposits, noting that such deposits are usually associated with clearing activities? Answer: As for any other qualifying operational deposits, the conditions set out in paragraphs 18.13 18.19 must be fulfilled. (b) There may be various cash inflows and outflows between a CCP and its member banks. Can a bank net off such cash flows with respect to trades cleared with a CCP when calculating the LCR? Answer: There is no specific treatment of cash flows between CCPs and its member banks, i.e. netting is restricted to cases where it is permitted in the LCR framework (e.g. derivative cash flows that are subject to the same master netting agreement in paragraph 18.31). 12. The language of paragraph 19.16, which directly references paragraph 18.31 (the sum of all net cash inflows should receive a 100% inflow factor, but calculated as per paragraph 18.31) seems at odds with paragraph 19.1 (contractual inflows that are fully performing and for which the bank has no reason to expect a default within 30 days can be counted but contingent inflows cannot): Would it be correct to assume that expected contractual derivatives cash inflows from in the money options for which the bank is the option holder can be included without contravening the high-level principle in paragraph 19.1 that contingent inflows are not to be recognised? Answer: Yes, paragraph 18.31 states that options should be assumed to be exercised when they are in the money to the option buyer , e.g. cash inflows from contractual derivatives that are in the money count towards derivatives cash inflows in the LCR. This is an exception to both paragraph 19.1, which excludes contingent inflows, and paragraph 19.10, which excludes inflows with no specific date from the LCR. 13. Can it also be assumed that in the money options are exercised on expiry, for consistency across different option types and market practice? Answer: No, any option that expires or can be exercised within the next 30 days and that is in the money to the option buyer should be considered. The cash flow shall reflect the state of the transaction as of the reporting date. 14. Could you confirm that

options with delivery settlement during the relevant period could be considered as cash flows to the extent of the liquidity value of the delivered assets? Or whether all options are assumed to be cash-settled? Answer: Options with delivery settlement shall be considered according to the liquidity value of the delivered assets, i.e. the assets are subject to the haircuts that would be applied if these assets were collateral in secured transactions or collateral swaps. If contractual arrangements allow for both physical delivery and cash settlement, cash settlement may be assumed. 15. What is the assumed behaviour in case of options with delivery settlement where the delivery obligation can be fulfilled with a variety of asset classes, i.e. the party liable has the choice between different securities? Answer: If the delivery obligation can be fulfilled with different security classes, delivery of the least valuable security possible (cheapest to deliver) can be assumed. This applies symmetrically to both the inflow and outflow perspective, such that the obligor is assumed to deliver the security with the lowest liquidity value. 16. What is the required treatment of FX derivatives in the LCR, i.e. where the gross amount for currency X is exchanged for the gross amount of currency Y? Does it depend on whether the cash flows are subject to a valid master netting agreement as indicated in paragraph 18.31? Answer: Cash flows arising from FX derivative transactions that involve a full exchange of principal amounts on a simultaneous basis (or within the same day) may be reflected in the LCR as a net cash flow figure, even where those deals are not covered by a master netting agreement. 17. How should a bank determine whether or not a deposit it has placed at another financial institution is an operational deposit? Answer: The same methodology applied in paragraphs 18.13 for operational deposit outflows should also be applied to determine if deposits held at another financial institution are operational deposits and receive a 0% inflow. As a general principle if the bank receiving the deposit classifies the deposit as operational, the bank placing it should also classify it as an operational deposit.