Basic Decision No 145

Addressed to banks

Attached is a copy of Basic Decision No 12768 of 8 March 2018, relating to the Liquidity Coverage Ratio (LCR).

Beirut, 8 March 2018

The Governor of Banque du Liban

Riad Toufic Salamé

Basic Decision No 12768

Liquidity Coverage Ratio (LCR)

The Governor of Banque du Liban,
Pursuant to the Code of Money and Credit, particularly Articles 70 and 174 thereof,
Pursuant to the Liquidity Coverage Ratio Standard issued by the Basle Committee, and
Pursuant to the Decision of the Central Council of Banque du Liban, taken in its meeting of 21 February 2018,

Decides the following:

Article 1:

Banks operating in Lebanon must keep a Liquidity Coverage Ratio which reflects their internal assessment of liquidity risk and is consistent with their liquidity risk profile, provided this ratio exceeds 100% for each significant currency, as defined in Article 4 (1) below.

Article 2:

The Liquidity Coverage Ratio shall apply at the following two levels:

- Individual financial statements (branches in Lebanon) for the bank in Lebanon.
- Individual financial statements for the overseas branch and for the other directly owned overseas subsidiaries.

Article 3:

The Liquidity Coverage Ratio shall be calculated separately for each significant currency, according to the following equation:

$$\frac{\textbf{Stock of High Quality Liquid Assets}}{\textbf{Total Net Cash Outflows over the Next 30 Calendar Days}} > 100\%$$

Article 4:

For the purpose of calculating the Liquidity Coverage Ratio, the following criteria shall be adopted:

1- In addition to the Lebanese pound for banks operating in Lebanon, a currency is considered significant if it represents 5% or more of total liabilities.
   A currency is considered significant for each overseas subsidiary if it represents 5% or more of total liabilities.

2- The stock of high quality liquid assets (HQLA) is the total unencumbered assets that possess the following characteristics:
   - Low risk.
   - Quickly convertible into cash at little loss of value, and without impact on the bank's profitability and solvency.
   - Ease and certainty of valuation.
   - Listed or traded on an active market.
   - Low volatility.

3- The stock of HQLA comprises two categories of assets: Level 1 Assets, and Level 2 Assets. In turn, Level 2 Assets includes two classes of assets: Level 2-A Assets and Level 2-B Assets, as shown in the Annex.
   a- "Level 2" assets denominated in a significant currency can only comprise up to 40% of the total stock of HQLA denominated in that currency.
   b- Level 2-B assets denominated in a significant currency should comprise no more than 15% of the total stock of HQLA denominated in that currency, and must also be included within the overall 40% cap on Level 2 assets.

4- The stock of HQLA shall not include:
   a- The statutory reserve requirements and the mandatory placements with Banque du Liban.
   b- The mandatory placements of the overseas subsidiary with the central bank of the host country.

5- Total net cash outflows for 30 calendar days is defined as: total expected cash outflows over the next 30 days minus total expected cash inflows over the same period, provided the amount of total cash inflows is capped at 75% of total cash outflows.

Total net cash outflows over the next 30 calendar days = Total expected cash outflows – Min {total expected cash inflows; 75% of total expected cash outflows}

6- In case the foreign-currency denominated sovereign bonds that qualify for the stock of HQLA have a non-0% risk weight, when calculating solvency ratios, they shall be eligible within this stock up to the amount of net cash outflows in that specific foreign currency.

7- Annex 1 shall specify the items that constitute the stock of HQLA, cash outflows and cash inflows, along with corresponding factors.

Article 5:

In case a Lebanese parent bank has an overseas subsidiary operating in a jurisdiction where the LCR calculation methodology differs from the one specified in the provisions of this Decision, the parent bank may request BDL approval to adopt, concerning that overseas subsidiary, the calculation methodology applied in the host jurisdiction, provided the request is submitted with both the regulatory framework and the calculation methodology in place in the host country.

Article 6:

The bank shall provide all the data needed for LCR calculation, shall designate the persons in charge of the data reporting process, and shall set up the relevant regulatory framework for LCR automated calculation and periodic monitoring.

Article 7:

For the purpose of managing and examining the liquidity position, banks are required:

1- To adopt additional scenarios for this ratio, by applying several additional assumptions which include, but are not limited to:
   a- Calculating net cash outflows for 90 calendar days instead of 30 calendar days.
   b- Assigning higher factors for expected cash outflows.
2- To develop any necessary complementary liquidity tools, and to set internal liquidity limits in a way to ensure the sound management and monitoring of risk liquidity at the level of each subsidiary and of the banking group as a whole, while preserving the self-sufficiency of each subsidiary and restricting reliance on the parent bank.
3- To conduct stress tests and examine their impact on the existing liquidity ratios, provided the stress tests include, but are not limited to:
   a- A significant increase in deposit run-off rates.
   b- A significant decline in funding sources.
   c- Non- reliance on the central bank, unless liquidity lines are extended.

<u>Article 8</u>:

The Board Risk Committee shall monitor the liquidity risk exposure of the banking group as a whole, and shall discuss the Management's reports concerning developments in liquidity position.

<u>Article 9</u>:

In case the Liquidity Coverage Ratio falls below the threshold mentioned in Article 1, in any significant currency, at the bank operating in Lebanon or the overseas subsidiary, the parent bank must send to the Banking Control Commission, within one week from the date of that decline, the plan prepared to comply again with the required threshold, along with the necessary period of time.

<u>Article 10</u>:

Islamic banks shall not be governed by the provisions of this Decision.

<u>Article 11</u>:

The Banking Control Commission shall issue the relevant instructions to implement the provisions of this Decision.

<u>Article 12</u>:

This Decision shall come into force upon its issuance.

<u>Article 13</u>:

This Decision shall be published in the Official Gazette.

Beirut, 8 March 2018

The Governor of Banque du Liban

Riad Toufic Salamé

Annex

Factors applied to LCR items

	Maturity	Factors
1- Stock of High Quality Liquid Assets		
a- Level 1		
Coins and banknotes	All maturities	100%
Non-mandatory placements with BDL or with the central bank of the overseas subsidiary, denominated in domestic currency and foreign currencies (including CDs)		100%
TBs issued in domestic currency and foreign currencies by the Lebanese Government or the Government of the host country		100%
Financial instruments issued or secured by countries, central banks, or regional bodies, qualifying for 0% risk weighting (Basle 2 Standardized Approach)		100%
b- Level 2A		
Financial instruments issued or secured by countries, central banks, or regional bodies, qualifying for 20% risk weighting	All maturities	85%
Unrelated non-financial sector's bonds rated as AA- and above		85%
c- Level 2B		
Unrelated non-financial sector's bonds rated between BBB- and A+	All maturities	50%
Unrelated non-financial sector's common equity shares		50%
2- Cash Outflows		
a- Retail deposits		
Retail deposits with a residual maturity of 30 days or less		
High Net Worth Individuals' deposits- Resident	30 days or less	15%
Other deposits- Resident	30 days or less	10%

High Net Worth Individuals' deposits- Non resident	30 days or less	20%
Other deposits- Non-resident	30 days or less	15%
Retail deposits with a residual maturity <u>above 30 days</u>	above 30 days	2%
b- Unsecured wholesale funding		
SMEs' deposits		
SMEs' deposits with a residual maturity of 30 days or less	30 days or less	10%
SMEs' deposits with a residual maturity above 30 days	above 30 days	2%
Non-financial corporates' deposits		
Resident	30 days or less	40%
Non Resident	30 days or less	40%
Funding from central banks, public sector entities, and regional bodies	30 days or less	40%
Funding from banks and other financial institutions (including insurance companies)		
Banks and financial institutions' operational deposits	30 days or less	25%
(Related and unrelated) banks' non-operational deposits and loans	30 days or less	100%
Other financial institutions' non-operational deposits and loans	30 days or less	100%
Other Unsecured Wholesale Funding		
fiduciary contracts Deposits resulting from	30 days or less	%١٠٠
schemes Deposits of collective investment	30 days or less	%١٠٠
Issued bonds	30 days or less	%١٠٠
Issued CDs	30 days or less	%١٠٠
Other issued debt instruments	30 days or less	%١٠٠
bonds Issued subordinated loans and	30 days or less	%١٠٠
Dated Preferred Shares	30 days or less	%١٠٠
c-Secured Funding		
Transactions with Banque du Liban	30 days or less	
of which: backed by Level 1 HQLA	30 days or less	0%

of which: backed by Level 2A HQLA	30 days or less	0%
of which: backed by Level 2B HQLA	30 days or less	0%
of which: backed by non-HQLA	30 days or less	0%
Transactions with counterparties other than BDL, backed by Level 1 HQLA	30 days or less	0%
Transactions with counterparties other than BDL, backed by Level 2A HQLA	30 days or less	15%
Transactions with counterparties other than BDL, backed by Level 2B HQLA	30 days or less	
of which: funding from sovereign counterparties (other than BDL) or regional bodies or multilateral development banks	30 days or less	25%
of which: funding from other counterparties	30 days or less	50%
Transactions with counterparties other than BDL, backed by non- HQLA	30 days or less	100%
d- Additional requirements		
Derivatives Cash Outflows	-	100%
Additional liquidity required in specific cases	-	100%
Undrawn committed credit and liquidity lines		
Undrawn committed credit and liquidity lines- Retail	-	5%
Undrawn committed credit and liquidity lines- SMEs	-	5%
Undrawn committed credit and liquidity lines- Corporate	-	10%
Undrawn committed credit and liquidity lines- Banks	-	40%
Undrawn committed credit and liquidity lines- Other financial institutions	-	40%
Undrawn committed credit and liquidity lines- Other institutions	-	%١٠٠
e- Contingent liabilities and other contractual outflows		
Uncommitted facilities	-	5%
Collaterals	-	5%
Documentary credits	-	5%

Other foreign trade finance instruments	-	5%
Non-contractual contingent liabilities	-	5%
Other contractual outflows	-	100%
3- Cash Inflows		
a- Secured Lending including reverse repo and securities borrowing		
in case the collateral is <u>not used</u> to cover the bank's other transactions		
of which: secured transactions backed by Level 1 HQLA	30 days or less	0%
of which: secured transactions backed by Level 2A HQLA	30 days or less	15%
of which: secured transactions backed by Level 2B HQLA	30 days or less	50%
of which: Margin Loans Against Non- HQLA	30 days or less	50%
of which: secured reverse repo and other lending transactions with correspondents backed by non-HQLA	30 days or less	100%
in case the collateral is <u>used</u> to cover the bank's other transactions		
of which: secured transactions backed by Level 1 HQLA	30 days or less	0%
of which: secured transactions backed by Level 2A HQLA	30 days or less	0%
of which: secured transactions backed by Level 2B HQLA	30 days or less	0%
of which: Margin Loans Against Non- HQLA	30 days or less	0%
of which: secured reverse repo and other lending transactions with correspondents backed by non-HQLA	30 days or less	0%
b- Other cash inflows (by counterparty)		
Contractual inflows maturing within 30 days (performing only)		
of which: Retail Loans	30 days or less	50%
of which: Loans to SMEs	30 days or less	50%
of which: Corporate Loans	30 days or less	50%
of which: (Central Banks)	30 days or less	100%
Non-operational placements (banks and financial institutions)	30 days or less	100%
Operational placements (banks and financial institutions)	30 days or less	0%
of which: other counterparties	30 days or less	50%

c-Other cash inflows		
Derivatives Cash Inflows	30 days or less	100%
Contractual cash inflows from debt instruments maturing within 30 days (not qualifying as HQLA)	30 days or less	100%
Other cash inflows	30 days or less	100%