BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Liquidity coverage ratio: Reporting clarifications

In July 2015, PRA Supervisory Statement 29/15 'CRD IV: interim LCR reporting'[1] detailed the reporting arrangements the PRA expects firms to follow in the period between 1 October 2015 and the introduction of the new EU reporting templates in accordance with the amending implementing technical standards on liquidity reporting to be adopted by the European Commission for the Liquidity Coverage Ratio (LCR). This document sets out reporting clarifications on areas of inconsistency identified from a survey of a selection of UK firms. The PRA will revisit this matter if and when the EBA issues relevant guidance or Q&A on the LCR or on LCR reporting. Firms should be aware that the EBA or the European Commission could adopt a position on the LCR or LCR reporting that is different from the one expressed here. Only the Court of Justice of the European Union can provide definitive interpretations of EU legislation.

A. Retail deposits

1. Outflow rates to be used when deposits are assessed as subject to higher outflow rates.

> Template C.73 – Outflows
>
> Rows 50, 60, 70 – Deposits subject to higher outflows:
>
> *'Articles 25(2) and (3) of Commission delegated regulation (EU) 2015/61*
>
> *Credit institutions shall report here the full balance of the deposits subject to higher outflow rates in accordance with paragraph 2 and 3 of Article 25 of Commission delegated regulation (EU) 2015/61. Those retail deposits where the assessment under paragraph 2 of Article 25 for their categorization has not been carried out or is not completed shall also be reported here.'*

Reporting clarification

The PRA recognises that, even where firms may be able to classify the deposits into bands as set out in Article 25(3), not all firms may be able to determine an appropriate outflow rate within the band. In order to ensure consistency, the PRA expects a firm which cannot determine the outflow rate to be prudent in its assumptions whilst assigning an outflow rate. The PRA would typically expect this to mean that the firm would apply the highest outflow rates applicable to the band, until the firm has completed the analysis to determine the outflow rate, unless the firm can justify otherwise. The PRA would expect to review firms' approaches to determining an appropriate outflow rate during the Liquidity Supervisory Review and Evaluation Process (L-SREP) reviews.

2. Deposits reported as exempt from the calculation of outflows

> Row 1150 – Retail deposits exempted from the calculation of outflows (Memorandum items):
>
> *'Article 25(4) of Commission delegated regulation (EU) 2015/61*
>
> *Credit institutions shall report here those categories of deposits exempted from the calculation of outflows if the conditions of Art. 25 (4) (a) or (b) have been met (i.e. when the depositor is not allowed to withdraw within 30 calendar days or for early withdrawals within 30 calendar days subject to specific penalty).'*

[1] See http://www.bankofengland.co.uk/pra/Pages/publications/ss/2015/ss2915.aspx

Reporting clarification

The PRA is aware of inconsistencies in firms' approaches to two types of retail products which may be reported under this clause:

- Individual savings accounts (ISAs) – Under HMRC ISA transfer rules, ISAs can be transferred to a different provider within a 30 calendar day period[2] even if they are opened for a fixed term. The PRA does not expect to see ISAs reported in line 1150.
- Fixed term deposits during a cooling-off period – As per terms and conditions applicable to firms' fixed term deposits, the PRA is aware that some products are subject to a "cooling-off period", during which time the depositor is allowed to withdraw the deposit without a penalty. The PRA would not expect to see such deposits reported in line 1150 during their cooling-off period.

For the avoidance of doubt, the PRA does not expect that its proposal in Chapter 2 of PS18/15 'Depositor and dormant account protection – consequential amendments'[3] to allow depositors to withdraw funds from term deposit accounts following the reduction in the Financial Services Compensation Scheme (FSCS) coverage should cause firms to reconsider whether these deposits can be excluded from the LCR calculation.

B. Off balance sheet items

> Template C.73 Outflows
>
> Row 720 - Other products and services:
>
> *Article 23(2) of Commission delegated regulation (EU) 2015/61*
>
> *Credit institutions shall report here on those products or services referred to in Article 23 (1) of the Commission delegated regulation (EU) 2015/61.*
>
> *The amount to be reported shall be the maximum amount that could be drawn from those products or services referred to in Article 23 (1) of the Commission Delegated Regulation (EU) 2015/61.*
>
> *The applicable weight to be reported shall be the weight as determined by the competent authorities in accordance with the procedure set out in Article 23(2) of Commission delegated regulation (EU) 2015/61.*

Reporting clarification

The PRA recognises that there is some confusion over what should be reported in this section for certain items. The PRA asks firms to follow the clarification below for the product types listed. Where firms use an outflow rate in accordance with Article 23, the PRA shall review the outflow rates firms use.

1. Credit cards & Overdrafts

Rows 760 & 770 – Other products and services (Credit cards & overdrafts)

The PRA recognises that some firms cannot be sure in their classification of undrawn credit card and overdraft balances, whether or not they fall under committed credit facilities. Unless firms believe that these balances should be reported elsewhere in the return they should be reported in rows 760 and 770. Firms should apply an outflow rate higher than 0%, taking into account the reputational damage to the firm if it cancelled these products whilst the firm was in stress. The rate should be based on

[2] https://www.gov.uk/individual-savings-accounts/transferring-your-isa
[3] http://www.bankofengland.co.uk/pra/Pages/publications/ps/2015/ps1815.aspx

analysis carried out by the firm which takes into account historical data. Firms may supplement this with analysis of relevant stress scenarios and seasonality.

2. Mortgage pipeline

All mortgages after final offer stage can be treated as pipeline. This follows the Mortgage Lending and Administration Return (MLAR) guidance (section D4)[4]: *'the aggregate of formally agreed advances (whether or not the mortgage offer has been accepted by the prospective borrower), including amounts recommended for retention, all instalment elements, and further advances'.*

Row 750 – Other products and services (mortgages that have been agreed but not yet drawn down)

Firms should report the full value of their mortgage pipeline in row 750 and should apply an outflow rate based on an assessment by the firm based on historical analysis of drawdown rates (over at least the last 12 months, where possible).

3. Trade finance

Row 860 – Other products and services (trade finance off-balance sheet related products)

Firms should report the full amount of trade finance off balance sheet products in row 860. Firms should conduct analysis of potential outflows based on historical data, stress scenarios, seasonality etc. to identify the outflow rate. This outflow rate should be higher than 0% and up to 5%.

4. Other off balance sheet and contingent funding obligations

Row 730 – Other products and services (other off-balance sheet and contingent funding obligations)

Firms should report all other products and services they feel appropriate and should regularly assess the likelihood and potential volume of liquidity outflows of these over a 30 calendar day period to obtain an appropriate outflow rate.

C. <u>Other</u>

Text taken from Commission Delegated Regulation (EU) No 2015/61

Article 8(2)

'Assets used to provide credit enhancement in structured transactions or to cover operational costs of the credit institution shall not be deemed to be readily accessible to the credit institution.'

Template C.72 – Liquid Assets:

<u>Reporting clarification</u>

The PRA recognises that there is potential inconsistency in terms of which assets firms may choose to deduct operational costs from, as per Article 8(2). The PRA expects firms to apply prudent assumptions in this regard – deducting these from central bank reserves if the firm has access to them, and otherwise deducting them from liquid assets in the order of decreasing liquidity (ie level 1 assets before other classes of liquid assets). The PRA also expects the firm to report the amount deducted in row 590 of C.72.

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[4] http://www.bankofengland.co.uk/pra/documents/regulatorydata/mlar/sup_chapter16_annex19bg_20120401.pdf