Bank of England PRA

LQR.02 – Liquidity market risk sensitivities

Part I: General comments

The purpose of this template is to capture the effect of changes of market variables on:

- Values of counterbalancing capacity assets; and
- Values of derivatives positions and values of securities financing transactions and the resulting gross margin movements by collateral type. This also includes the effect of changes in market variables on the existing collateral given/received.

Report figures with the signage indicating the direction of movement, i.e. negative figures for: value decreases; and collateral outflows.

In Section 1 (Sensitivity of counterbalancing capacity), the assets in scope are those defined in “Part V: Counterbalancing Capacity” of the instructions for “LQ.01 Cash flow mismatch report” (applicable column is initial stock).

In Sections 2 & 3 (Margin on derivatives and securities financing transactions, and Other collateral needs), values reported must include:

- Values of margin/collateral received/given;
- The effect of changes of market variables on values of derivatives positions and the resulting gross margin movements by collateral type;
- The effect of changes of market variables on values of securities financing transactions and the resulting gross margin movements by collateral type;
- The effect of changes of market variables on values of existing collateral given/received and the resulting gross margin movements by collateral type. This element should include collateral for all types of margin (i.e. including for initial margin and variation margin).

Exclude impacts to the extent that they are: outflows from segregated accounts; or inflows into segregated accounts.
Reflect any overcollateralization that may result from the application of haircuts.
Initial margin is included to the extent of existing collateral which is meeting the existing initial margin requirement. Report on the basis that the changes of market variables affect the VM requirement (not the IM requirement).

Firms may only treat inflows and outflows of transactions on a net basis where they are executed under the same master netting agreement.

Examples:

GBP interest rate swap (receiving fixed) out the money. Collateralised by gilts given.

Rates up = value of derivative decreases (causes outflow of collateral for VM); value of existing collateral decreases (causes outflow of collateral to replenish IM/VM).

Gilt repo (have borrowed GBP cash, have lent gilts)

Rates up = value of gilts decreases (causes outflow of collateral via giving more gilts or returning some of the cash).

USD equities derivative out the money. Collateralised by gilts given (cross-currency margining)

GBP weakens = USD'equivalent of the gilts decreases (causes outflow of collateral via giving more gilts to replenish IM/VM).

Cross-currency collateral swap (have borrowed US Treasuries, have lent gilts)

GBP weakens = GBP'equivalent of the USD increases (causes outflow of collateral via posting more GBP or returning some of the USD).

Cross-currency swap (have borrowed USD, have lent GBP)

GBP weakens = GBP'equivalent of the USD increases (causes outflow of collateral via posting more GBP or returning some of the USD).

Transparency is important for gross margin movement collateral types. For example, if the change in market variable causes a decrease in derivatives valuation and a firm is permitted to post corporate bonds, but the starting position is in the money for the firm and the firm has received gilts, then the outflow may be partially gilts (return the counterparty's collateral first) then partially corporate bonds.

Unless otherwise required by the credit support annex (e.g. if it contains an obligation to return collateral received before posting own assets), firms must assume that both they and their counterparty would post the lowest quality eligible collateral under the relevant credit support annex and report the value in the relevant row and column.

For Other collateral needs, only include collateral flows due less than or equal to three months.

Part II: Instructions concerning specific columns and rows

CELL (S)	ITEM	INSTRUCTIONS
Z0010	Ring–fenced fund / matching adjustment portfolio / remaining part	This identifies whether the reported figures are with regard to a RFF, matching adjustment portfolio or remaining part. One of the options in the following closed list must be used: 1 — Ring-fenced fund 2 — Matching adjustment portfolio 3 — Remaining part
Z0020	Fund/Portfolio number	This number is attributed by the undertaking and should be consistent over time and with the fund/portfolio number reported in LQ.00.03.01.

CELL (S)	ITEM	INSTRUCTIONS
C0010	Cash	Report the value / change in value / collateral movement of cash placed with institutions authorised or licensed by their jurisdiction to accept deposits where the entire balance is accessible without penalty either on demand or by close of business on the day following that on which the deposit was made (i.e. sight deposits).
C0020	UK government bonds	Report the value / change in value / collateral movement of assets representing claims on or guaranteed by the central government of the United Kingdom.
C0030	Highest quality tradeable assets excl. UK central govt	Report the value / change in value / collateral movement of assets representing claims on or guaranteed by: • the Bank of England or the central bank of a third countries, provided that the central bank or its third country is assigned a credit assessment by a nominated ECAI which is at least credit quality step 1;

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		• the central government of a third country, provided that it is assigned a credit assessment by a nominated ECAI which is at least credit quality step 1; • the multilateral development banks referred to in Solvency Capital Requirement – Standard Formula 3D24.2(2) or the international organisations referred to in Solvency Capital Requirement – Standard Formula 3D24.2(3); • regional governments or local authorities of the UK which are treated as exposures to the central government of the United Kingdom. • regional governments or local authorities in a third country which are treated as exposures to the central government of that third country which is assigned a credit assessment by a nominated ECAI which is at least credit quality step 1.
C0040	High quality tradeable assets	Report the value / change in value / collateral movement of assets representing claims on or guaranteed by: • regional governments or local authorities in the United Kingdom (not treated as exposures to the central government) that are assigned a credit assessment by a nominated ECAI which is at least credit quality step 1 or are denominated and funded in pounds sterling; • public sector entities in the United Kingdom (not treated as exposures to the central government) that are

CELL (S)	ITEM	INSTRUCTIONS
		assigned a credit assessment by a nominated ECAI which is at least credit quality step 1 or have an original maturity of three months or less; • the central government or the central bank of a third country where that asset is assigned a credit assessment by a nominated ECAI which is credit quality step 2; • a regional government, local authority or public sector entity in a third country that is assigned a credit assessment by a nominated ECAI which is at least credit quality step 1. • covered bonds subject by law to special official supervision designed to protect bondholders and assigned a credit assessment by a nominated ECAI which is at least credit quality step 1; • corporate debt securities where the securities issue size is at least GBP 220 million (or the equivalent in domestic currency) and are assigned a credit assessment by a nominated ECAI which is at least credit quality step 1 or the equivalent credit quality step in the event of a short term credit assessment.
C0050	Investment grade corporate bonds (CQS 2&3)	Report the value / change in value / collateral movement of corporate debt securities which meet all of the following requirements: • they are assigned a credit assessment by a nominated ECAI which is either credit quality step 2

CELL (S)	ITEM	INSTRUCTIONS
		or 3 or the equivalent credit quality step in the event of a short term credit assessment; • the securities issue size is at least GBP 220 million (or the equivalent in domestic currency).
C0060	Equities and other tradeable assets	Report the value / change in value / collateral movement of any other unencumbered assets not reported in C0010 through C0050 that are traded in large, deep, and active repo or cash markets characterised by a low level of concentration.
Data items for sensitivity of counterbalancing capacity		
R0010	Value of unencumbered assets	Report the current market value of unencumbered assets.
R0020	Interest rates rise (all material currencies)	Report the change in the value of assets if interest rates rise by 100bps across the term structures of the relevant risk free reference interest rates in all material currencies. This sensitivity should implicitly assume that both government bond yields and risk free rates move by the same amount.
R0030	Interest rates fall (all material currencies)	Report the change in the value of assets if interest rates fall by 100bps across the term structures of the relevant risk free reference interest rates in all material currencies. This sensitivity should implicitly assume that both government bond yields and risk free rates move by the same amount.
R0040	Interest rates rise (GBP rates only)	Report the change in the value of assets if interest rates rise by 100bps

CELL (S)	ITEM	INSTRUCTIONS
		across the term structures of the relevant sterling risk free reference interest rates. This sensitivity should implicitly assume that both government bond yields and risk free rates move by the same amount.
R0050	Interest rates fall (GBP rates only)	Report the change in the value of assets if interest rates fall by 100bps across the term structures of the relevant sterling risk free reference interest rates. This sensitivity should implicitly assume that both government bond yields and risk free rates move by the same amount.
R0060	GBP exchange rates fall	Report the change in the value of assets if GBP exchange rates fall by 25%. The stress should be interpreted as increasing the value of assets held in currencies other than GBP by 33% in GBP terms.
R0070	Inflation falls	Report the change in the value of assets if there is a decrease in market implied inflation by a uniform 50bps across the curve.
R0080	Government bond spreads rise	Report the change in the value of assets if all government bond spreads over the relevant risk free reference rates in all material currencies rise by 50bps, i.e. risk free reference rates and the yield on other assets are unchanged, but government bond yields rise by a uniform 50bps across the curve.

<table>
<tr><th>CELL (S)</th><th>ITEM</th><th>INSTRUCTIONS</th></tr>
<tr><td>R0090</td><td>Credit spreads widen</td><td>Report the change in the value of assets if the following stresses are applied to each rating for the credit spreads sensitivity:

<table><tr><td>Credit Rating</td><td>Credit Quality Step</td><td>Credit Spread increase</td></tr><tr><td>AAA</td><td>0</td><td>125bps</td></tr><tr><td>AA</td><td>1</td><td>175bps</td></tr><tr><td>A</td><td>2</td><td>250bps</td></tr><tr><td>BBB</td><td>3</td><td>300bps</td></tr><tr><td>BB and lower</td><td>4+</td><td>400bps</td></tr></table>
This must reflect a uniform widening across the curve for a given credit rating.

This sensitivity is intended primarily to capture corporate bond exposures. Firms should adopt an approach consistent with their reporting in MR.01.</td></tr>
<tr><td colspan="3">Data items for margin on derivatives and securities financing transactions</td></tr>
<tr><td>R0100</td><td>Margin received</td><td>Report the value of margin received on derivatives and securities financing transaction (SFT) contracts.</td></tr>
<tr><td>R0110</td><td>Margin given</td><td>Report the value of margin given on derivatives and SFT contracts.</td></tr>
<tr><td>R0120</td><td>Inflows / margin which would be received: Interest rates rise (all material currencies)</td><td>Report the additional margin which would be received on derivatives and SFT contracts if interest rates rise by 100bps across the term structures of the relevant risk free reference interest rates in all material currencies.

This sensitivity should implicitly assume that both government bond yields and</td></tr>
</table>

CELL (S)	ITEM	INSTRUCTIONS
		risk free rates move by the same amount.
R0130	Inflows / margin which would be received: Interest rates fall (all material currencies)	Report the additional margin which would be received on derivatives and SFT contracts if interest rates fall by 100bps across the term structures of the relevant risk free reference interest rates in all material currencies. This sensitivity should implicitly assume that both government bond yields and risk free rates move by the same amount.
R0140	Inflows / margin which would be received: Interest rates rise (GBP rates only)	Report the additional margin which would be received on derivatives and SFT contracts if interest rates rise by 100bps across the term structures of the relevant sterling risk free reference interest rates. This sensitivity should implicitly assume that both government bond yields and risk free rates move by the same amount.
R0150	Inflows / margin which would be received: Interest rates fall (GBP rates only)	Report the additional margin which would be received on derivatives and SFT contracts if interest rates fall by 100bps across the term structures of the relevant sterling risk free reference interest rates. This sensitivity should implicitly assume that both government bond yields and risk free rates move by the same amount.
R0160	Inflows / margin which would be received: GBP exchange rates fall	Report the additional margin which would be received on derivatives and SFT contracts if GBP exchange rates fall by 25%.

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<tr><td>R0170</td><td>Inflows / margin which would be received: Inflation falls</td><td>Report the additional margin which would be received on derivatives and SFT contracts if there is a decrease in market implied inflation by a uniform 50bps across the curve.</td></tr>
<tr><td>R0180</td><td>Inflows / margin which would be received: Government bond spreads rise</td><td>Report the additional margin which would be received on derivatives and SFT contracts if all government bond spreads over the relevant risk free reference rates in all material currencies rise by 50bps, i.e. risk free reference rates and the yield on other assets are unchanged, but government bond yields rise by a uniform 50bps across the curve.</td></tr>
<tr><td>R0190</td><td>Inflows / margin which would be received: Credit spreads widen</td><td>Report the additional margin which would be received on derivatives and SFT contracts if the following stresses are applied to each rating for the credit spreads sensitivity:

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<tr><td>AAA</td><td>0</td><td>125bps</td></tr>
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<tr><td>R0200</td><td>Outflows / margin which would be given: Interest</td><td>Report the additional margin which would be given on derivatives and SFT</td></tr>
</table>

CELL (S)	ITEM	INSTRUCTIONS
	rates rise (all material currencies)	contracts if interest rates rise by 100bps across the term structures of the relevant risk free reference interest rates in all material currencies. This sensitivity should implicitly assume that both government bond yields and risk free rates move by the same amount.
R0210	Outflows / margin which would be given: Interest rates fall (all material currencies)	Report the additional margin which would be given on derivatives and SFT contracts if interest rates fall by 100bps across the term structures of the relevant risk free reference interest rates in all material currencies. This sensitivity should implicitly assume that both government bond yields and risk free rates move by the same amount.
R0220	Outflows / margin which would be given: Interest rates rise (GBP rates only)	Report the additional margin which would be given on derivatives and SFT contracts if interest rates rise by 100bps across the term structures of the relevant sterling risk free reference interest rates. This sensitivity should implicitly assume that both government bond yields and risk free rates move by the same amount.
R0230	Outflows / margin which would be given: Interest rates fall (GBP rates only)	Report the additional margin which would be given on derivatives and SFT contracts if interest rates fall by 100bps across the term structures of the relevant sterling risk free reference interest rates. This sensitivity should implicitly assume that both government bond yields and

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<tr><td></td><td></td><td>risk free rates move by the same amount.</td></tr>
<tr><td>R0240</td><td>Outflows / margin which would be given: GBP exchange rates fall</td><td>Report the additional margin which would be given on derivatives and SFT contracts if GBP exchange rates fall by 25%.</td></tr>
<tr><td>R0250</td><td>Outflows / margin which would be given: Inflation falls</td><td>Report the additional margin which would be given on derivatives and SFT contracts if there is a decrease in market implied inflation by a uniform 50bps across the curve.</td></tr>
<tr><td>R0260</td><td>Outflows / margin which would be given: Government bond spreads rise</td><td>Report the additional margin which would be given on derivatives and SFT contracts if all government bond spreads over the relevant risk free reference rates in all material currencies rise by 50bps, i.e. risk free reference rates and the yield on other assets are unchanged, but government bond yields rise by a uniform 50bps across the curve.</td></tr>
<tr><td>R0270</td><td>Outflows / margin which would be given: Credit spreads widen</td><td>Report the additional margin which would be given on derivatives and SFT contracts if the following stresses are applied to each rating for the credit spreads sensitivity:

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<tr><td>Credit Rating</td><td>Credit Quality Step</td><td>Credit Spread increase</td></tr>
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Data items for Other collateral needs		
R0280	Collateral / margin received	Report the value of collateral received on contracts other than derivatives and SFT contracts.
R0290	Collateral / margin given	Report the value of collateral given on contracts other than derivatives and SFT contracts.
R0300	Inflows / collateral which would be received: Interest rates rise (all material currencies)	Report the additional collateral which would be received on contracts other than derivatives and SFT contracts if interest rates rise by 100bps across the term structures of the relevant risk free reference interest rates in all material currencies. This sensitivity should implicitly assume that both government bond yields and risk free rates move by the same amount.
R0310	Inflows / collateral which would be received: Interest rates fall (all material currencies)	Report the additional collateral which would be received on contracts other than derivatives and SFT contracts if interest rates fall by 100bps across the term structures of the relevant risk free reference interest rates in all material currencies. This sensitivity should implicitly assume that both government bond yields and risk free rates move by the same amount.
R0320	Inflows / collateral which would be received: Interest rates rise (GBP rates only)	Report the additional collateral which would be received on contracts other than derivatives and SFT contracts if

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		interest rates rise by 100bps across the term structures of the relevant sterling risk free reference interest rates. This sensitivity should implicitly assume that both government bond yields and risk free rates move by the same amount.
R0330	Inflows / collateral which would be received: Interest rates fall (GBP rates only)	Report the additional collateral which would be received on contracts other than derivatives and SFT contracts if interest rates fall by 100bps across the term structures of the relevant sterling risk free reference interest rates. This sensitivity should implicitly assume that both government bond yields and risk free rates move by the same amount.
R0340	Inflows / collateral which would be received: GBP exchange rates fall	Report the additional collateral received on contracts other than derivatives and SFT contracts if GBP exchange rates fall by 25%.
R0350	Inflows / collateral which would be received: Inflation falls	Report the additional collateral which would be received on contracts other than derivatives and SFT contracts if there is a decrease in market implied inflation by a uniform 50bps across the curve.
R0360	Inflows / collateral which would be received: Government bond spreads rise	Report the additional collateral which would be received on contracts other than derivatives and SFT contracts if all government bond spreads over the relevant risk free reference rates in all material currencies rise by 50bps, i.e. risk free reference rates and the yield on other assets are unchanged, but government bond yields rise by a uniform 50bps across the curve.

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<tr><td>R0370</td><td>Inflows / collateral which would be received: Credit spreads widen</td><td>Report the additional collateral which would be received on contracts other than derivatives and SFT contracts if the following stresses are applied to each rating for the credit spreads sensitivity:

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<tr><td>R0380</td><td>Outflows / collateral which would be given: Interest rates rise (all material currencies)</td><td>Report the additional margin which would be given on contracts other than derivatives and SFT contracts if interest rates rise by 100bps across the term structures of the relevant risk free reference interest rates in all material currencies.

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<tr><td>R0390</td><td>Outflows / collateral which would be given: Interest</td><td>Report the additional margin which would be given on contracts other than derivatives and SFT contracts if interest</td></tr>
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	rates fall (all material currencies)	rates fall by 100bps across the term structures of the relevant risk free reference interest rates in all material currencies. This sensitivity should implicitly assume that both government bond yields and risk free rates move by the same amount.
R0400	Outflows / collateral which would be given: Interest rates rise (GBP rates only)	Report the additional margin which would be given on contracts other than derivatives and SFT contracts if interest rates rise by 100bps across the term structures of the relevant sterling risk free reference interest rates. This sensitivity should implicitly assume that both government bond yields and risk free rates move by the same amount.
R0410	Outflows / collateral which would be given: Interest rates fall (GBP rates only)	Report the additional margin which would be given on contracts other than derivatives and SFT contracts if interest rates fall by 100bps across the term structures of the relevant sterling risk free reference interest rates. This sensitivity should implicitly assume that both government bond yields and risk free rates move by the same amount.
R0420	Outflows / collateral which would be given: GBP exchange rates fall	Report the additional margin which would be given on contracts other than derivatives and SFT contracts if GBP exchange rates fall by 25%.
R0430	Outflows / collateral which would be given: Inflation falls	Report the additional margin which would be given on contracts other than derivatives and SFT contracts if there is a decrease in market implied inflation by a uniform 50bps across the curve.

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<tr><td>R0450</td><td>Outflows / collateral which would be given: Credit spreads widen</td><td>Report the additional margin which would be given on contracts other than derivatives and SFT contracts if the following stresses are applied to each rating for the credit spreads sensitivity:

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