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
		This identifies whether the reported figures
		are with regard to a RFF, matching
	Ding forced fund /	adjustment portfolio or remaining part.
Z0010	Ring–fenced fund / matching adjustment portfolio / remaining part	One of the options in the following closed
20010		list must be used:
		1 — Ring-fenced fund
		2 — Matching adjustment portfolio
		3 — Remaining part
		This number is attributed by the
70000	Fund/Portfolio number	undertaking and should be consistent over
Z0020		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;

CELL (S)	ITEM	INSTRUCTIONS
CELL (3)	THEM	 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
OELL (9)		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.
		Report the value / change in value / collateral movement of corporate debt
C0050	Investment grade corporate bonds (CQS 2&3)	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	r sensitivity of counterbalan	icing 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.
	Interest rates fall (GBP	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.
R0050	rates only)	
		This sensitivity should implicitly assume that both government bond yields and risk free rates move by the same amount.
		Report the change in the value of assets if GBP exchange rates fall by 25%.
R0060	GBP exchange rates fall	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.

CELL (S)	ITEM	INSTRUCTIONS		
		Report the change in the value of		
		assets if the following stresses are		
		applied to e	ach rating fo	r the credit
		spreads sei	•	
		Credit	Credit	Credit
		Rating	Quality	Spread
			Step	increase
		AAA	0	125bps
		AA	1	175bps
		Α	2	250bps
R0090	Credit spreads widen	BBB	3	300bps
		BB and	4+	400bps
		lower		
		rating. This sensiti capture cor Firms should	porate bond d adopt an a	ed primarily to exposures.
Data items for	margin on derivatives and	securities fi	nancing trai	nsactions
		-	_	gin received on
R0100	Margin received		and securitie	J
		transaction (SFT) contracts.		
R0110	Margin given	Report the value of margin given on		
		derivatives and SFT contracts.		
		Report the additional margin which		
		would be received on derivatives and		
	Inflows / margin which	SFT contracts if interest rates rise by		
D0400	would be received: Interest	100bps across the term structures of		
R0120	rates rise (all material	the relevant risk free reference interest rates in all material currencies.		
	currencies)	rates in all r	naterial curre	encies.
		This sensiti	vity should in	nnlicitly assume
		This sensitivity should implicitly assume that both government bond yields and		
1		That both go	, voi i i i i i i i i i i	The yields and

CELL (S)	ITEM	INSTRUCTIONS
		risk free rates move by the same
		amount.
		Report the additional margin which
		would be received on derivatives and
		SFT contracts if interest rates fall by
	Inflows / margin which	100bps across the term structures of
	Inflows / margin which would be received: Interest	the relevant risk free reference interest
R0130	rates fall (all material	rates in all material currencies.
	currencies)	This sensitivity should implicitly assume
		that both government bond yields and
		risk free rates move by the same
		amount.
		Report the additional margin which
		would be received on derivatives and
		SFT contracts if interest rates rise by
		100bps across the term structures of
	Inflows / margin which	the relevant sterling risk free reference
R0140	would be received: Interest	interest rates.
	rates rise (GBP rates only)	
		This sensitivity should implicitly assume
		that both government bond yields and
		risk free rates move by the same
		amount.
		Report the additional margin which
		would be received on derivatives and
		SFT contracts if interest rates fall by
	laftana / manania mbiab	100bps across the term structures of
D0450	Inflows / margin which	the relevant sterling risk free reference
R0150	would be received: Interest	interest rates.
	rates fall (GBP rates only)	This sensitivity should implicitly assume
		that both government bond yields and
		risk free rates move by the same
		amount.
		Report the additional margin which
	Inflows / margin which	would be received on derivatives and
R0160	would be received: GBP	SFT contracts if GBP exchange rates
	exchange rates fall	fall by 25%.
		···

CELL (S)	ITEM		INSTRUCTION	ONS		
		Report the	additional ma	argin which		
	Inflows / margin which	would be re	ceived on de	erivatives and		
R0170	would be received:	SFT contra	SFT contracts if there is a decrease in			
	Inflation falls	market implied inflation by a uniform				
		50bps across the curve.				
		Report the	Report the additional margin which			
		would be re	ceived on de	erivatives and		
		SFT contracts if all government bond				
	Inflows / margin which	spreads ov	er the relevar	nt risk free		
R0180	would be received:	reference ra	ates in all ma	iterial		
RUTOU	Government bond spreads	currencies	rise by 50bps	s, i.e. risk free		
	rise	reference ra	ates and the	yield on other		
		assets are	unchanged, l	out government		
		bond yields	rise by a uni	iform 50bps		
		across the	curve.			
		Report the	additional ma	argin which		
		would be re	ceived on de	erivatives and		
		SFT contra	cts if the follo	wing stresses		
		are applied	to each ratin	g for the credit		
		spreads sensitivity:				
		Credit	Credit	Credit		
		Rating	Quality	Spread		
			Step	increase		
		AAA	0	125bps		
	Inflows / margin which	AA	1	175bps		
R0190	would be received: Credit	A	2	250bps		
	spreads widen	BBB	3	300bps		
		BB and	4+	400bps		
		lower				
			1			
		This must r	eflect a unifo	rm widening		
		across the	curve for a gi	iven credit		
		rating.				
		This sensiti	vity is intend	ed primarily to		
		capture cor	porate bond	exposures.		
		Firms shou	ld adopt an a	ipproach		
		consistent with their reporting in MR.01.				
R0200	Outflows / margin which		additional ma	•		
	would be given: Interest	would be given on derivatives and SFT				

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
R0210	Outflows / margin which would be given: Interest rates fall (all material currencies)	amount. 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

CELL (S)	ITEM	I	NSTRUCTION	ONS
		risk free rate	es move by t	he same
		amount.		
	Outflows / margin which	Report the additional margin which		
R0240	would be given: GBP	would be given on derivatives and SFT		
10240	exchange rates fall		GBP exchan	ge rates fall by
	oxonango ratos ian	25%.		
		Report the additional margin which		
	Outflows / margin which			atives and SFT
R0250	would be given: Inflation	contracts if t		
	falls	market impli		by a uniform
		50bps acros		argin udajah
		Report the a		argin which atives and SFT
		contracts if a		
	Outflows / margin which	spreads ove	•	
	would be given:	reference ra		
R0260	Government bond spreads	currencies rise by 50bps, i.e. risk free reference rates and the yield on other		
	rise			
		assets are u	nchanged, b	out government
		bond yields rise by a uniform 50bps		
		across the curve.		
		Report the a	idditional ma	argin which
		would be give	en on deriva	atives and SFT
			•	stresses are
		applied to ea	•	r the credit
		spreads sen	sitivity:	
		Credit	Credit	Credit
		Rating	Quality	Spread
	Outflows / margin which	Nating	Step	increase
R0270	would be given: Credit	AAA	0	125bps
	spreads widen	AA	1	175bps
		A	2	250bps
		BBB	3	300bps
		BB and	4+	400bps
		lower		
		This must re across the crating.		•

CELL (S)	ITEM	INSTRUCTIONS
		This sensitivity is intended primarily to capture corporate bond exposures. Firms should adopt an approach consistent with their reporting in MR.01.
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

CELL (S)	ITEM	INSTRUCTIONS
		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.

CELL (S)	ITEM		INSTRUCTION	ONS
R0370	Inflows / collateral which would be received: Credit spreads widen	Report the would be rethan derivathe following each rating sensitivity: Credit Rating AAA AA BBB BB and lower This must racross the erating. This sensiticapture confirms should consistent would be retained.	ceived on contives and SF g stresses are for the credit Quality Step 0 1 2 3 4+ effect a unifor curve for a given with their reports	Illateral which ontracts other T contracts if re applied to a spreads Credit Spread increase 125bps 175bps 250bps 300bps 400bps rm widening ven credit ed primarily to exposures. approach orting in MR.01.
R0380	Outflows / collateral which would be given: Interest rates rise (all material currencies)	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. This sensitivity should implicitly assume that both government bond yields and risk free rates move by the same amount.		
R0390	Outflows / collateral which would be given: Interest	Report the additional margin which would be given on contracts other than derivatives and SFT contracts if interest		

CELL (S)	ITEM	INSTRUCTIONS		
	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		
R0400	Outflows / collateral which would be given: Interest rates rise (GBP rates only)	amount. 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.		

CELL (S)	ITEM	INSTRUCTIONS			
R0440		Report the additional margin which			
		would be given on contracts other than			
		derivatives and SFT contracts if all			
	Outflows / collateral which	government bond spreads over the			
	would be given:	relevant risk free reference rates in all			
	Government bond spreads	material currencies rise by 50bps, i.e.			
	rise	risk free reference rates and the yield			
		on other assets are unchanged, but			
		government bond yields rise by a			
		uniform 50bps across the curve.			
		Report the additional margin which			
		would be g	would be given on contracts other than		
		derivatives and SFT contracts if the			
		following st	following stresses are applied to each		
		rating for the credit spreads sensitivity:			
	Outflows / collateral which would be given: Credit spreads widen	0 111	0 111		
		Credit	Credit	Credit	
		Rating	Quality	Spread	
		AAA	Step 0	increase 125bps	
		AA	1	175bps	
		A	2	250bps	
R0450		BBB	3	300bps	
		BB and	4+	400bps	
		lower	4	40000	
		lowei			
		This must reflect a uniform widening			
		across the curve for a given credit			
		rating.	- 9		
		This sensitivity is intended primarily to			
		capture corporate bond exposures.			
		Firms should adopt an approach			
		consistent with their reporting in N			