Table of contents

Introduction, Scope of Application, and Implementation Date

a. Introduction[1,2,3]

1. The global financial crisis that began in 2007 increased awareness of the importance of liquidity risk management in the banking system, and of the need for holding an adequate stock of High Quality Liquid Assets, even if the banking corporations have adequate levels of capital. Against this background, in December 2010, the Basel Committee on Banking Supervision published a new framework named Basel III: A Global Regulatory Framework for more Resilient Banks and Banking Systems (hereinafter, “Basel III”). One of the central reforms of Basel III is the Liquidity Coverage Ratio. The objective of the Liquidity Coverage Ratio is to promote the short term resilience of the liquidity risk profile of banking corporations. It does this by ensuring that banking corporations hold an adequate stock of unencumbered High Quality Liquid Assets, which can be converted easily and immediately in private markets into cash in order to meet the liquidity needs for a 30 calendar day liquidity stress scenario.
2. This directive adopts the Basel III recommendations regarding the Liquidity Coverage Ratio in the banking system in Israel. The directive reflects the position of the Supervisor of Banks on each of the issues in which the Supervisor is granted room for judgment.
3. The directive establishes a minimum liquidity level for banking corporations. The banking corporations are expected to meet this ratio alongside compliance with the qualitative requirements for liquidity risk management.
4. The Supervisor may demand higher minimum liquidity levels from a specific banking corporation, if the Supervisor is of the view that the Liquidity Coverage Ratio does not adequately represent the liquidity risk faced by the banking corporation.

b. Scope of application

5. This directive is to be implemented by a banking corporation, excluding a joint services company.

(a) The directive is to be implemented on a solo and consolidated basis by a banking corporation at the head of the banking group.

(b) Other banking corporations are to implement the directive on only a consolidated basis.

(c) A branch of a foreign bank is to follow the requirements in Annex 3.

---

[1] Repealed.
[2] Repealed.
[3] Repealed.

(d) This Directive shall not apply to a credit card company, subject to the following conditions being satisfied:

(1) The company maintains an internal model for liquidity management, which takes into account all its liquidity needs and their characteristics;

(2) The company holds liquid assets in accordance with its liquidity needs based on the internal model, plus a safety cushion that takes into account stress scenarios.

In this regard, "credit card company" is a company that is an acquirer as it is defined in Section 36i of the Banking (Licensing) Law, 5741-1981, which issues payment cards, as these terms are described in the Debit Cards Law, 5746-1986.

c. Implementation Date

6. The Liquidity Coverage Ratio shall come into effect on April 1, 2015, but the minimum requirement shall be set at 60 percent and will increase to 80 percent on January 1, 2016, and to 100 percent on January 1, 2017.

I. The objective of the Liquidity Coverage Ratio and use of High Quality Liquid Assets

16. This directive aims to ensure that a banking corporation has an adequate stock of unencumbered High Quality Liquid Assets that consists of cash or assets that can be converted into cash at little or no loss of value in private markets, to meet the banking corporation's liquidity needs for a 30 calendar day liquidity stress scenario. At a minimum, the stock of unencumbered HQLA should enable the banking corporation to survive until Day 30 of the stress scenario, by which time it is assumed that appropriate corrective actions can be taken by management and supervisors, or that the banking corporation can be resolved in an orderly way. Furthermore, it gives the central bank additional time to take appropriate measures should they be regarded as necessary. As noted in Proper Conduct of Banking Business Directive no. 342, banking corporations are also expected to be aware of any potential cash flow mismatches within the 30 day period and ensure that sufficient HQLA are available to meet any cash flow gaps throughout the period.

17. The directive requires that, absent a situation of financial stress, the value of the ratio be no lower than 100 percent.[4] That is, the stock of HQLA should at least equal total net cash outflows on an ongoing basis, because the stock of

[4] The 100 percent threshold is the minimum requirement absent a period of financial stress, and after the gradual implementation arrangements are complete. During the gradual implementation period, the minimum requirement is as per the guidelines in Section 6.

unencumbered HQLA is intended to serve as a line of defense against the potential onset of liquidity stress. During a period of financial stress, however, banking corporations may use their stock of HQLA, thereby falling below 100 percent, as maintaining the LCR at 100 percent under such circumstances could produce undue negative effects on the banking corporation and other market participants. The Supervisor will subsequently assess this situation and will adjust the response flexibly according to the circumstances.

18. The Supervisor will examine a number of firm- and market-specific factors in determining the appropriate response as well as other considerations related to both domestic and global frameworks and conditions. Potential considerations include, but are not limited to:

(i) The reason(s) that the LCR fell below 100 percent. This includes use of the stock of HQLA, an inability to roll over funding or large unexpected draws on contingent obligations. In addition, the reasons may relate to overall credit, funding and market conditions, including liquidity in credit, asset and funding markets, affecting individual banking corporations or all institutions, regardless of their own condition;

(ii) The extent to which the reported decline in the LCR is due to a firm-specific or market-wide shock;

(iii) A banking corporation’s overall health and risk profile, including activities, compliance with other supervisory requirements, internal risk systems, controls and other management processes, among others;

(iv) The magnitude, duration and frequency of the reported decline of HQLA;

(v) The potential for contagion to the financial system and additional restricted flow of credit or reduced market liquidity due to actions to maintain an LCR of 100 percent;

(vi) The availability during a crisis of other sources of contingent funding such as central bank funding[5], or other actions by prudential authorities.

(a) If a banking corporation’s liquidity coverage ratio declines below 100 percent on a given day, it should report such deviation immediately to the Banking Supervision Department.

(b) If a banking corporation’s liquidity coverage ratio is below 100 percent for three consecutive days, it should report such deviation immediately to the Banking Supervision Department, together with a plan to close the gap.

[5] According to Proper Conduct of Banking Business Directive no. 342, a banking corporation is required to draw up a contingency funding plan.

II. Definition of Liquidity Coverage Ratio

19. The scenario for this directive entails a combined banking corporation-specific and market-wide shock that would result in:

(a) the run-off of a proportion of retail deposits;

(b) a partial loss of unsecured wholesale funding capacity;

(c) a partial loss of secured, short-term financing with certain collateral and counterparties;

(d) additional contractual outflows that would arise from a downgrade in the banking corporation's public credit rating by up to and including three notches, including collateral posting requirements;

(e) increases in market volatilities that impact the quality of collateral or potential future exposure of derivative positions and thus require larger collateral haircuts or additional collateral, or lead to other liquidity needs;

(f) unscheduled draws on committed but unused credit and liquidity facilities that the banking corporation has provided to its clients; and

(g) the potential need for the banking corporation to buy back debt or honor noncontractual obligations in the interest of mitigating reputational risk.

20. Repealed.

21. This stress test is the Supervision's minimum requirement. Banking corporations are expected to conduct their own stress tests to assess the level of liquidity they should hold beyond this minimum, and construct their own scenarios that could cause difficulties for their specific business activities. Such internal stress tests should incorporate shorter or longer time horizons than the one mandated by this directive.

22. The LCR has two components:

(a) Value of the stock of HQLA in stressed conditions; and

(b) Total net cash outflows, calculated according to the scenario parameters outlined below.

$$\frac{\text{Stock of High Quality Liquid Assets}}{\text{Total net cash outflows over the next 30 calendar days}} \geq 100\%$$

A. Stock of High Quality Liquid Assets

23. The numerator of the LCR is the "stock of HQLA". Under the directive, banking corporations must hold a stock of unencumbered HQLA to cover the total net cash outflows (as defined below) over a 30-day period under the prescribed stress scenario. In order to qualify as "HQLA", assets should be liquid in markets during a time of stress and, ideally, be central bank eligible. The following sets out the

characteristics that such assets should generally possess and the operational requirements that they should satisfy.[6]

1. Characteristics of HQLA

24. Assets are considered to be HQLA if they can be easily and immediately converted into cash at little or no loss of value. The liquidity of an asset depends on the underlying stress scenario, the volume to be monetized and the timeframe considered. Nevertheless, there are certain assets that are more likely to generate funds without incurring large discounts through sale or repurchase agreement (repo) due to fire-sales even in times of stress. This section outlines the factors that influence whether or not the market for an asset can be relied upon to raise liquidity when considered in the context of possible stresses.

(i) Fundamental characteristics

- **Low risk**: Assets that are less risky tend to have higher liquidity. High credit standing of the issuer and a low degree of subordination increase an asset's liquidity. Low duration[7], low legal risk, low inflation risk and denomination in a convertible currency with low foreign exchange risk all enhance an asset's liquidity.
- **Ease and certainty of valuation**: An asset's liquidity increases if market participants are more likely to agree on its valuation. Assets with more standardized, homogenous and simple structures tend to be more fungible, thus promoting liquidity. The pricing formula of a high-quality liquid asset must be easy to calculate and not depend on strong assumptions. The inputs into the pricing formula must also be publicly available. In practice, this should rule out the inclusion of most structured or exotic products.
- **Low correlation with risky assets**: The stock of HQLA should not be subject to wrong-way (highly correlated) risk. For example, assets issued by financial institutions are more likely to be illiquid in times of liquidity stress in the banking sector.
- **Listed on a developed and recognized exchange**: Being listed increases an asset's transparency.

(ii) Market-related characteristics

- **Active and sizable market**: The asset should have active outright sale or repo markets at all times. This means that:

[6] Refer to the sections on "Definition of HQLA" and "Operational requirements" for the characteristics that an asset must meet to be part of the stock of HQLA and the definition of "unencumbered" respectively.
[7] Duration measures the price sensitivity of a security to changes in interest rate.

− There should be historical evidence of market breadth and market depth. This could be demonstrated by low bid-ask spreads, high trading volumes, and a large and diverse number of market participants. Diversity of market participants reduces market concentration and increases the reliability of the liquidity in the market.

− There should be robust market infrastructure in place. The presence of multiple committed market makers increases liquidity as quotes will most likely be available for buying or selling HQLA.

• **Low volatility**: Assets whose prices remain relatively stable and are less prone to sharp price declines over time will have a lower probability of triggering forced sales to meet liquidity requirements. Volatility of prices and spreads are simple proxy measures of market volatility. There should be historical evidence of relative stability of market terms (i.e., prices and haircuts) and volumes during stressed periods.

• **Flight to quality**: Historically, the market has shown tendencies to move into these types of assets in a systemic crisis. The correlation between proxies of market liquidity and banking system stress is one simple measure that could be used.

25. As outlined by these characteristics, the test of whether liquid assets are of “high quality” is that, by way of sale or repo, their liquidity-generating capacity is assumed to remain intact even in periods of severe idiosyncratic and market stress. Lower quality assets typically fail to meet that test. An attempt by a banking corporation to raise liquidity from lower quality assets under conditions of severe market stress would entail acceptance of a large fire-sale discount or haircut to compensate for high market risk. That may not only erode the market’s confidence in the banking corporation, but would also generate mark-to-market losses for banking corporations holding similar instruments and add to the pressure on their liquidity position, thus encouraging further fire sales and declines in prices and market liquidity. In these circumstances, private market liquidity for such instruments is likely to disappear quickly.

26. HQLA (except Level 2B assets as defined below) should ideally be eligible at central banks for intraday liquidity needs and overnight liquidity facilities.[8] In the past, central banks have provided a further backstop to the supply of banking system liquidity under conditions of severe stress. Central bank eligibility should thus provide additional confidence that banks are holding assets that could be used in events of severe stress without damaging the broader financial system.

27. It should be noted however, that central bank eligibility does not by itself constitute the basis for the categorization of an asset as HQLA.

---

[8] Repealed.

2. Operational requirements

28. All assets in the stock of HQLA are subject to the following operational requirements. The purpose of the operational requirements is to recognize that not all assets outlined in sections 49-54 that meet the asset class, risk-weighting and credit-rating criteria should be eligible for the stock as there are other operational restrictions on the availability of HQLA that can prevent timely monetization during a stress period.

29. These operational requirements are designed to ensure that the stock of HQLA is managed in such a way that the banking corporation can, (and is able to demonstrate that it can) immediately use the stock of assets as a source of funds that is available for the banking corporation to convert into cash through outright sale or repo, to fill funding gaps between cash inflows and outflows at any time during the 30-day stress period, with no restriction on the use of the liquidity generated.

30. A banking corporation should periodically monetize a representative proportion of the assets in the stock through repo or outright sale, in order to test its access to the market, the effectiveness of its processes for monetization, the availability of the assets, and to minimize the risk of negative signaling during a period of actual stress.

31. All assets in the stock should be unencumbered. “Unencumbered” means free of legal, regulatory, contractual or other restrictions on the ability of the banking corporation to liquidate, sell, transfer, or assign the asset. An asset in the stock should not be pledged (either explicitly or implicitly) to secure, collateralize or credit-enhance any transaction, nor be designated to cover operational costs (such as rents and salaries). Assets received in reverse repo and securities financing transactions that are held at the banking corporation, have not been rehypothecated, and are legally and contractually available for the banking corporation's use can be considered as part of the stock of HQLA. In addition, assets which qualify for the stock of HQLA that have been pre-positioned or deposited with, or pledged to, the central bank or a public sector entity (PSE) but have not been used to generate liquidity may be included in the stock.[9]

32. A banking corporation should exclude from the stock those assets that, although meeting the definition of “unencumbered” specified in section 31, the banking corporation would not have the operational capability to monetize to meet

[9] If a banking corporation has deposited, pre-positioned or pledged Level 1, Level 2 and other assets in a collateral pool and no specific securities are assigned as collateral for any transactions, it may assume that assets are encumbered in order of increasing liquidity value in the LCR, i.e., assets ineligible for the stock of HQLA are assigned first, followed by Level 2B assets, then Level 2A and finally Level 1. This determination must be made in compliance with any other requirements, such as concentration or diversification.

outflows during the stress period. Operational capability to monetize assets requires having procedures and appropriate systems in place, including providing the function identified in section 33 with access to all necessary information to execute monetization of any asset at any time. Monetization of the asset must be executable, from an operational perspective, in the standard settlement period for the asset class in the relevant jurisdiction.

33. The stock should be under the control of the function charged with managing the liquidity of the banking corporation (e.g., the treasurer), meaning the function should have the continuous authority, and legal and operational capability, to monetize any asset in the stock. Control must be evidenced either by maintaining assets in a separate pool managed by the function with the sole intent for use as a source of, if needed, or by demonstrating that the function can monetize the asset at any point in the 30-day stress period and that the proceeds of doing so are available to the function throughout the 30-day stress period without directly conflicting with a stated business or risk management strategy. For example, an asset should not be included in the stock if the sale of that asset, without replacement throughout the 30-day period, would remove a hedge that would create an open risk position in excess of internal limits.

34. A banking corporation is permitted to hedge the market risk associated with ownership of the stock of HQLA and still include the assets in the stock. If it chooses to hedge the market risk, the banking corporation should take into account (in the market value applied to each asset) the cash outflow that would arise if the hedge were to be closed out early (in the event of the asset being sold).

35. A banking corporation should monitor the legal entity and physical location where collateral is held and how it may be mobilized in a timely manner. Specifically, it should have a policy in place that identifies legal entities, geographical locations, currencies and specific custodial or bank accounts where HQLA are held. In addition, the banking corporation should determine whether any such assets should be excluded for operational reasons and therefore, have the ability to determine the composition of its stock on a daily basis.

36. As noted in sections 171 and 172, qualifying HQLA that are held to meet statutory liquidity requirements at the legal entity or sub-consolidated level (where applicable) may only be included in the stock at the consolidated level to the extent that the related risks (as measured by the legal entity's or sub-consolidated group's net cash outflows in the LCR) are also reflected in the consolidated LCR. Any surplus of HQLA held at the legal entity can only be included in the consolidated stock if those assets would also be freely available to the consolidated (parent) entity in times of stress.

37. In assessing whether assets are freely transferable for regulatory purposes, a banking corporation should be aware that assets may not be freely available to the consolidated entity due to regulatory, legal, tax, accounting or other impediments. Assets held in legal entities without market access should only be included to the

extent that they can be freely transferred to other entities that could monetize the assets.

38. In certain jurisdictions, large, deep and active repo markets do not exist for eligible asset classes, and therefore such assets are likely to be monetized through outright sale. In these circumstances, a banking corporation should exclude from the stock of HQLA those assets where there are impediments to sale, such as large fire-sale discounts which might cause it to breach minimum solvency requirements, or requirements to hold such assets, including, but not limited to, statutory minimum inventory requirements for market making.

39. Banking corporations should not include in the stock of HQLA any assets, or liquidity generated from assets, they have received under right of rehypothecation, if the beneficial owner has the contractual right to withdraw those assets during the 30-day stress period.[10]

40. Assets received as collateral for derivatives transactions that are not segregated and are legally available to be rehypothecated may be included in the stock of HQLA provided that the banking corporation records an appropriate outflow for the associated risks as set out in section 116.

41. The LCR stress scenario does not cover expected or unexpected intraday liquidity needs. As required by Proper Conduct of Banking Business Directive no. 342, a banking corporation should actively manage its intraday liquidity positions and risks to meet payment and settlement obligations on a timely basis under both normal and stressed conditions and thus contribute to the smooth functioning of payment and settlement systems.

42. The LCR is expected to be met and reported on a total combined currency basis and, separately, on a foreign currency basis. However, banking corporations are expected to be able to meet their liquidity needs in each currency and maintain HQLA consistent with the distribution of their liquidity needs by currency, so that the banking corporation will be able to use the stock to generate liquidity in the currency and jurisdiction in which the net cash outflows arise. As such, the LCR by currency is to be monitored by the banking corporation in order to track any potential currency mismatch issues that could arise. In managing foreign exchange liquidity risk, the banking corporation should take into account the risk that its ability to swap currencies and access the relevant foreign exchange markets may erode rapidly under stressed conditions. It should be aware that sudden, adverse exchange rate movements could sharply widen existing mismatched positions and alter the effectiveness of any foreign exchange hedges in place.

[10] Refer to section 146 for the appropriate treatment if the contractual withdrawal of such assets would lead to a short position (e.g., because the banking corporation had used the assets in longer-term securities financing transactions).

43. In order to mitigate cliff effects that could arise, if an eligible liquid asset became ineligible (e.g., due to rating downgrade), a banking corporation is permitted to keep such an asset in its stock of liquid assets for an additional 30 calendar days. This would allow the banking corporation additional time to adjust its stock as needed or replace the asset.

3. Diversification of the stock of HQLA

44. The stock of HQLA should be well diversified within the asset classes themselves (except for sovereign debt of the banking corporation's home jurisdiction or from the jurisdiction in which the banking corporation operates; central bank reserves; central bank debt securities; and cash). Although some asset classes are more likely to remain liquid irrespective of circumstances, ex-ante it is not possible to know with certainty which specific assets within each asset class might be subject to shocks. Banking corporations should therefore have policies and limits in place in order to avoid concentration with respect to asset types, issue and issuer types, and currencies (consistent with the distribution of net cash outflows by currency) within asset classes.

4. Definition of HQLA

45. The stock of HQLA should comprise assets with the characteristics outlined in sections 24–27. This section describes the type of assets that meet these characteristics and can therefore be included in the stock.

46. There are two categories of assets that can be included in the stock. Assets to be included in each category are those that the banking corporation is holding on the first day of the stress period, irrespective of their residual maturity. "Level 1" assets can be included without limit, while "Level 2" assets can only comprise up to 40 percent of the stock.

47. Level 2B assets are to comprise no more than 15 percent of the total stock of HQLA. They must also be included within the overall 40 percent cap on Level 2 assets.

48. The 40 percent cap on Level 2 assets and the 15 percent cap on Level 2B assets should be determined after the application of required haircuts, and after taking into account the unwind of short-term securities financing transactions and collateral swap transactions maturing within the 30 calendar days that involve the exchange of HQLA. In this context, short term transactions are transactions with a maturity date up to and including 30 calendar days. The details of the calculation methodology are provided in Annex 1.

(i) Level 1 assets

49. Level 1 assets can comprise an unlimited share of the pool and are not subject to a haircut under the LCR.[11] However, in view of market characteristics and typical repo haircuts, Israeli government securities may be included as Level 1 assets after applying the Bank of Israel haircut rates for *makam* and government bonds that serve as collateral for credit, as applicable at the time of calculation.

    The Bank of Israel haircut rates will be applied to *makam* and Israeli government bonds in NIS and in foreign currency, except if the banking corporation's total position is not greater than 20 percent of the stock exchange trading volume of that bond type. If the total position is greater than said percentage, the haircut rates will only be applied to the amount of the position greater than the said percentage of trading volume. If the holding is of a bond type that is not traded on the stock exchange, the haircut rates will be calculated on the entire position, without said easing.

    In this matter, "stock exchange trading volume" refers to the monthly average trading volume of a specific bond type over the course of the preceding 3 months. The application of the share of average monthly trading volume to the various series of each government bond type shall be proportionate to the weight of said series in the total bond type. Trading volume includes stock exchange and off-exchange transactions, in accordance with Tel Aviv Stock Exchange publications.

50. Level 1 assets are limited to:

(a) coins and banknotes;

(b) central bank reserves (including required reserves)[12], to the extent that the central bank policies allow them to be drawn down in times of stress;[13]

    Reserves at the Bank of Israel shall not include the required reserve at the time of the calculation, including foreign-currency derivatives required reserves. Nonetheless, Bank of Israel reserves may include required reserves in respect of deposits with a run-off rate of 100 percent in the LCR.

(c) marketable securities representing claims on or guaranteed by sovereigns, central banks, PSEs, the Bank for International Settlements, the International Monetary

[11] For purpose of calculating the LCR, Level 1 assets in the stock of HQLA should be measured at an amount no greater than their current market value.

[12] In this context, central bank reserves include overnight deposits with the central bank, and term deposits with the central bank that: (i) are explicitly and contractually repayable on notice from the depositing bank; or (ii) that constitute a loan against which the banking corporation can borrow on a term basis or on an overnight but automatically renewable basis (only where the banking corporation has an existing deposit with the relevant central bank). Other term deposits with central banks are not eligible for the stock of HQLA; however, if the term expires within 30 days, the term deposit could be considered as an inflow per section 154.

[13] The extent to which central bank reserves should count towards the stock of liquid assets should be based on local supervisor instructions.

Fund, the European Central Bank and European Community, or multilateral development banks[14], and satisfying all of the following conditions:

- assigned a 0 percent risk-weight under for Proper Conduct of Banking Business no. 203;[15]
- traded in large, deep and active repo or cash markets characterized by a low level of concentration;
- have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions; and
- not an obligation of a financial institution or any of its affiliated entities.[16]

(d) where the sovereign has a non-zero percent risk weight, sovereign or central bank debt securities issued in domestic currencies by the sovereign or central bank in the country in which the liquidity risk is being taken or in the banking corporation's home country; and

(e) where the sovereign has a non-zero percent risk weight, domestic sovereign or central bank debt securities issued in foreign currencies are eligible up to the amount of the banking corporation's stressed net cash outflows in that specific foreign currency stemming from the bank's operations in the jurisdiction where the banking corporation's liquidity risk is being taken.

(ii) Level 2 assets

51. Level 2 assets (comprising Level 2A assets and any Level 2B assets permitted by the Supervisor) can be included in the stock of HQLA, subject to the requirement that they comprise no more than 40 percent of the overall stock after haircuts have been applied. The method for calculating the cap on Level 2 assets and the cap on Level 2B assets is set out in section 48 and Annex 1.

52. A 15 percent haircut is applied to the current market value of each Level 2A asset held in the stock of HQLA. Level 2A assets are limited to the following:

---

[14] The categorization of market participants is identical to that defined in Proper Conduct of Banking Business no. 203, unless otherwise specified.

[15] Section 50(c) includes only marketable securities that qualify under section 53 of Proper Conduct of Banking Business Directive no. 203. When a 0 percent risk-weight has been assigned at national discretion according to the provision in section 54 of said Directive, the treatment should follow section 50(d) or 50(e).

[16] This requires that the holder of the security must not have recourse to the financial institution or any of the financial institution's affiliated entities. In practice, this means that securities, such as government-guaranteed issuance during the financial crisis, which remain liabilities of the financial institution, would not qualify for the stock of HQLA. The only exception is when the bank also qualifies as a PSE under Proper Conduct of Banking Business Directive no. 203, where securities issued by the banking corporation could qualify for Level 1 assets if all necessary conditions are satisfied.

(a) Marketable securities representing claims on or guaranteed by sovereigns, central banks, PSEs or multilateral development banks that satisfy all of the following conditions:[17]

- assigned a 20 percent risk weight under Proper Conduct of Banking Business Directive no. 203;
- traded in large, deep and active repo or cash markets characterized by a low level of concentration;
- have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions (i.e., maximum decline of price not exceeding 10 percent or increase in haircut not exceeding 10 percentage points over a 30-day period during a relevant period of significant liquidity stress); and
- not an obligation of a financial institution or any of its affiliated entities.[18]

(b) Corporate debt securities (including commercial paper)[19] and covered bonds[20] that satisfy all of the following conditions:

- in the case of corporate debt securities: not issued by a financial institution or any of its affiliated entities;
- in the case of covered bonds: not issued by the banking corporation itself or any of its affiliated entities;
- have a long-term credit rating from a recognized external credit assessment institution (ECAI) of at least AA-[21] or in the absence of a long term rating, a short-term rating equivalent in quality to the long-term rating;
- traded in large, deep and active repo or cash markets characterized by a low level of concentration; and

---

[17] Sections 50(d) and (e) may overlap with section 52(a) in terms of sovereign and central bank securities with a 20 percent risk weight. In such a case, the assets can be assigned to the Level 1 category according to Section 50(d) or (e), as appropriate.

[18] Refer to footnote 16.

[19] Corporate debt securities (including commercial paper) in this respect include only plain-vanilla assets whose valuation is readily available based on standard methods and does not depend on private knowledge, i.e., these do not include complex structured products or subordinated debt.

[20] Covered bonds are bonds issued and owned by a banking or mortgage corporation and are subject by law to special public supervision designed to protect bond holders. Proceeds deriving from the issue of these bonds must be invested in conformity with the law in assets which, during the whole period of the validity of the bonds, are capable of covering claims attached to the bonds and which, in the event of the failure of the issuer, would be used on a priority basis for the reimbursement of the principal and payment of the accrued interest.

[21] In the event of split ratings, the applicable rating should be determined according to the method used in Proper Conduct of Banking Business Directive no. 203. Local rating scales (rather than international ratings) of a Supervisor-approved ECAI that meet the eligibility criteria outlined in section 91 of the Basel II Capital Framework can be recognized if corporate debt securities or covered bonds are held by a banking corporation for local currency liquidity needs arising from its operations in that local jurisdiction. This also applies to Level 2B assets.

- have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions: i.e., maximum decline of price or increase in haircut over a 30-day period during a relevant period of significant liquidity stress not exceeding 10 percent.

(iii) Level 2B assets

53. Certain additional assets (Level 2B assets) may be included in Level 2.[22] Banking corporations also must have appropriate systems and measures to monitor and control the potential risks (e.g., credit and market risks) that they could be exposed to in holding these assets.

54. A larger haircut is applied to the current market value of each Level 2B asset held in the stock of HQLA. Level 2B assets are limited to the following:

(a) Repealed.

(b) Corporate debt securities (including commercial paper)[23] that satisfy all of the following conditions may be included in Level 2B, subject to a 50 percent haircut:

- not issued by a financial institution or any of its affiliated entities;
- either (i) are corporate debt securities (including commercial paper) traded on a recognized and supervised exchange, with a long-term credit rating from a recognized ECAI between A- and A+ or in the absence of a long term rating, a short-term rating equivalent in quality to the long-term rating; or (ii) are corporate debt securities (including commercial paper) traded on the Tel Aviv Stock Exchange (TASE) with a credit rating from a local external credit assessment institution equivalent to an international rating of A- and greater (in this respect, a local rating of AA- and above);
- traded in large, deep and active repo or cash markets characterized by a low level of concentration; and
- have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions, i.e., a maximum decline of price not exceeding 20 percent or increase in haircut not exceeding 20 percentage points during a 30-day relevant period of significant liquidity stress.

(c) Repealed.

54a. The Supervisors shall permit including within Level 2B assets the undrawn value of any contractual committed liquidity facility (CLF) provided by the Bank of Israel that meets the following conditions:

---

[22] Repealed.
[23] Refer to footnote 19.

(a) The facility (termed a Restricted-use committed liquidity facility (RCLF)) must, in normal times, be subject to a commitment fee on the total (drawn and undrawn) facility amount that is at least the greater of:

- 75 basis points per annum; or
- at least 25 basis points per annum above the difference in yield on the assets used to secure the RCLF and the yield on a representative portfolio of HQLA, after adjusting for any material differences in credit risk.

In periods of market-wide stress the commitment fee on the RCLF (drawn and undrawn amount) may be reduced, but remain subject to the minimum requirements applicable to CLFs used by countries with insufficient HQLA, as included in the Basel Committee's document (these requirements were not included in this Directive because Israel is not a "country with insufficient HQLA").

(b) The RCLF must be supported by unencumbered collateral of a type specified by the Bank of Israel. The collateral must be held in a form which supports immediate transfer to the Bank of Israel should the facility need to be drawn and sufficient (post haircut) to cover the total size of the facility. Collateral used to support a RCLF cannot simultaneously be used as part of HQLA.

(c) Conditional on the banking corporation being assessed to be solvent, the RCLF contract must otherwise be irrevocable prior to maturity and involve no other ex-post credit decision by the Bank of Israel. The commitment period must exceed the 30-day stress period stipulated by the LCR framework.

(d) In Israel, said RCLF shall be recognized by the Supervisor as long as the Bank of Israel shall offer a liquidity facility meeting the conditions noted above and the banking corporation will ask to rely on such a facility, and subject to approval in advance from the Supervisor.

54b. Repealed.

54c. A banking corporation that is a controlled subsidiary of a banking corporation may include in HQLA the full undrawn value of a liquidity facility that the controlling banking corporation commits to provide it in a stress scenario, subject to all the conditions below:

(a) The liquidity facility is anchored in an agreement;

(b) The controlling banking corporation subtracts the full undrawn value of the liquidity facility from its stock of HQLA. For the controlling banking corporation, the facility shall be subtracted after the calculation of the restrictions on Level 2 and Level 2B assets; and

(c) The liquidity facility shall not comprise more than 50 percent of the controlled banking corporation's post-haircut total HQLA.

iv. Treatment for jurisdictions with insufficient HQLA

Sections 55–67 are repealed.[24,25,26,27,28,29,30,31,32]

v. Treatment for Shari'ah-compliant banks

68. Repealed.

[24] Repealed.
[25] Repealed.
[26] Repealed.
[27] Repealed.
[28] Repealed.
[29] Repealed.
[30] Repealed.
[31] Repealed.
[32] Repealed.

B. Total net cash outflows

69. The term total net cash outflows[33] is defined as the total expected cash outflows minus total expected cash inflows in the specified stress scenario for the subsequent 30 calendar days. Total expected cash outflows are calculated by multiplying the outstanding balances of various categories or types of liabilities and off-balance sheet commitments by the rates at which they are expected to run off or be drawn down. Total expected cash inflows are calculated by multiplying the outstanding balances of various categories of contractual receivables by the rates at which they are expected to flow in under the scenario up to an aggregate cap of 75 percent of total expected cash outflows.

Total net cash outflows over the next 30 calendar days = Total expected cash outflows *minus* the smaller of {total expected cash inflows; 75 percent of total expected cash outflows}

70. Repealed.

71. Annex 2 provides a summary of the factors that are applied to each category.

72. Banking corporations will not be permitted to double count items, i.e., if an asset is included as part of the "stock of HQLA" (i.e., the numerator), the associated cash inflows cannot also be counted as cash inflows (i.e., part of the denominator). Where there is potential that an item could be counted in multiple outflow categories, (e.g., committed liquidity facilities granted to cover debt maturing within the 30 calendar day period), a banking corporation only has to assume up to the maximum contractual outflow for that product.

1. Cash outflows

(i) Retail deposit run-off

[33] Where applicable, cash inflows and outflows should include interest that is expected to be received and paid during the 30-day time horizon.

73. Retail deposits are defined as deposits placed with a banking corporation by a natural person. Deposits from legal entities, sole proprietorships or partnerships are captured in wholesale deposit categories. Retail demand deposits and term deposits will be dealt with in terms of the LCR in accordance with sections 74–80, unless otherwise excluded under the criteria set out in sections 82 and 83; deposits that are excluded by section 82 will be dealt with in terms of the LCR in accordance with section 84.

74. Retail deposits are divided into "stable" and "less stable" portions of funds as described below, with minimum run-off rates listed for each category.

(a) Stable deposits (run-off rate = 3 percent and higher)

75. Stable deposits, which usually receive a run-off factor of 5 percent, are the amount of the deposits that are fully insured[34] by an effective deposit insurance scheme or by a public guarantee that provides equivalent protection and where:

- the depositors have other established relationships with the banking corporation that make deposit withdrawal highly unlikely; or
- the deposits are in transactional accounts (e.g., accounts where salaries are automatically deposited).

Notwithstanding the above provisions, a retail deposit in Israel (in NIS or foreign currency) for which one of the above bullets applies and whose total amount is not greater than NIS 0.5 million may be considered as a stable deposit. The size of the deposit will be calculated on a customer basis.

76. In this directive, an "effective deposit insurance scheme" refers to a scheme (i) that guarantees that it has the ability to make prompt payouts, (ii) for which the

---

[34] "Fully insured" means that 100 percent of the deposit amount, up to the deposit insurance limit, is covered by an effective deposit insurance scheme. Deposit balances up to the deposit insurance limit can be treated as "fully insured" even if a depositor has a balance in excess of the deposit insurance limit. However, any amount in excess of the deposit insurance limit is to be treated as "less stable". For example, if a depositor has a deposit of 150 that is covered by a deposit insurance scheme, which has a limit of 100, where the depositor would receive at least 100 from the deposit insurance scheme if the financial institution were unable to pay, then 100 would be considered "fully insured" and treated as stable deposits while 50 would be treated as less stable deposits. However if the deposit insurance scheme only covered a percentage of the funds from the first currency unit (e.g., 90 percent of the deposit amount up to a limit of 100) then the entire 150 deposit would be less stable.

coverage is clearly defined and (iii) of which public awareness is high. The deposit insurer in an effective deposit insurance scheme has formal legal powers to fulfil its mandate and is operationally independent, transparent and accountable. A jurisdiction with an explicit and legally binding sovereign deposit guarantee that effectively functions as deposit insurance can be regarded as having an effective deposit insurance scheme.

77. The presence of deposit insurance alone is not sufficient to consider a deposit "stable".

78. Jurisdictions may choose to apply a run-off rate of 3 percent to stable deposits in their jurisdiction, if they meet the above stable deposit criteria and the following additional criteria for deposit insurance schemes:[35]

- the insurance scheme is based on a system of prefunding via the periodic collection of levies on banks with insured deposits;[36]
- the scheme has adequate means of ensuring ready access to additional funding in the event of a large call on its reserves, e.g., an explicit and legally binding guarantee from the government, or a standing authority to borrow from the government; and
- access to insured deposits is available to depositors in a short period of time once the deposit insurance scheme is triggered.[37]

Jurisdictions applying the 3 percent run-off rate to stable deposits with deposit insurance arrangements that meet the above criteria should be able to provide evidence of run-off rates for stable deposits within the banking system below 3 percent during any periods of stress experienced that are consistent with the conditions within the LCR.

---

[35] The Financial Stability Board has asked the International Association of Deposit Insurers (IADI), in conjunction with the Basel Committee and other relevant bodies where appropriate, to update its Core Principles and other guidance to better reflect leading practices. The criteria in this section will therefore be reviewed by the Committee once the work by IADI has been completed.

[36] The requirement for periodic collection of levies from banking corporations does not preclude that deposit insurance schemes may, on occasion, provide for contribution holidays due to the scheme being well-funded at a given point in time.

[37] This period of time would typically be expected to be no more than 7 business days.

(b) Less stable deposits (run-off rates = 10 percent and higher)

79. Retail deposits that do not meet the definition of a stable deposit noted above in Section 75, shall be defined as "less stable deposits".

The run-off rate of a less stable deposit in Israel (in NIS or foreign currency) shall be determined on the basis of the total amount of the deposit (on a customer basis) and shall be as noted below:

- 10 percent for a deposit up to a total of NIS 5 million
- 15 percent for a deposit greater than NIS 5 million and up to a total of NIS 10 million
- 20 percent for a deposit greater than NIS 10 million

In regard to the treatment of retail deposits in legal entities of the banking group operating abroad, see details in sections 169–170 below.

80. If a banking corporation is not able to readily identify which retail deposits would qualify as "stable" according to the above definition (e.g., the banking corporation cannot determine which deposits are covered by an effective deposit insurance scheme or a sovereign deposit guarantee), it should place the full amount in the "less stable" category.

81. Repealed.

82. Cash outflows related to retail term deposits with a residual maturity or withdrawal notice period of greater than 30 days will be excluded from total expected cash outflows if the depositor has no legal right to withdraw deposits within the 30-day horizon of the LCR, or if early withdrawal results in a significant penalty that is materially greater than the loss of interest.[38]

---

[38] If a portion of the term deposit can be withdrawn without incurring such a penalty, only that portion should be treated as a demand deposit. The remaining balance of the deposit should be treated as a term deposit.

83. If a banking corporation allows a depositor to withdraw such deposits without applying the corresponding penalty, or despite a clause that says the depositor has no legal right to withdraw, the entire category of these funds would then have to be treated as demand deposits (i.e., regardless of the remaining term, the deposits would be subject to the deposit run-off rates as specified in sections 74-80). The Supervisor may choose to outline exceptional circumstances that would qualify as hardship, under which the exceptional term deposit could be withdrawn by the depositor without changing the treatment of the entire pool of deposits.

84. Notwithstanding the provisions of section 82 above, retail term deposits with remaining term to maturity (or notice period) of greater than 30 days shall receive a run-off rate of 3 percent.

(ii) Unsecured wholesale funding run-off

85. For the purposes of the LCR, "unsecured wholesale funding” is defined as those liabilities and general obligations that are raised from non-natural persons (i.e., legal entities, including sole proprietorships and partnerships) and are **not** collateralized by legal rights to specifically designated assets owned by the borrowing institution in the case of bankruptcy, insolvency, liquidation or resolution. Obligations related to derivative contracts are explicitly excluded from this definition.

86. The wholesale funding included in the LCR is defined as all funding that is callable within the LCR’s horizon of 30 days or that has its earliest possible contractual maturity date situated within this horizon (such as maturing term deposits and unsecured debt securities) as well as funding with an undetermined maturity. This should include all funding with options that are exercisable at the investor’s discretion within the 30 calendar day horizon. For funding with options exercisable at the banking corporation’s discretion, the banking corporation should take into account reputational factors that may limit a bank's ability not to exercise the option.[39] In particular, where the market expects certain liabilities to be redeemed before their legal final maturity date, banks and supervisors should assume such behavior for the purpose of the LCR and include these liabilities as outflows.

---

[39] This could reflect a case where a banking corporation may imply that it is under liquidity stress if it did not exercise an option on its own funding.

87. Wholesale funding that is callable[40] by the funds provider subject to a contractually defined and binding notice period surpassing the 30-day horizon is not included.

88. For the purposes of the LCR, unsecured wholesale funding is to be categorized as detailed below, based on the assumed sensitivity of the funds providers to the rate offered and the credit quality and solvency of the borrowing banking corporation. This is determined by the type of funds providers and their level of sophistication, as well as their operational relationships with the banking corporation. The run-off rates for the scenario are listed for each category.

(a) Unsecured wholesale funding provided by small business customers: 5 percent, 10 percent and higher

89. Unsecured wholesale funding provided by small business customers is treated the same way as retail deposits for the purposes of this directive, effectively distinguishing between a "stable" portion of funding provided by small business customers and a "less stable" portion of funding as defined above. The same categories, definitions, and associated run-off factors apply as for retail deposits.

90. This category consists of deposits and other extensions of funds made by nonfinancial small business customers. “Small business customers” are defined in line with the definition of loans extended to small businesses in section 231 of Proper Conduct of Banking Business Directive no. 204 that are managed as retail exposures and are generally considered as having similar liquidity risk characteristics to retail accounts, provided the total aggregated funding[41] raised from one small business customer is less than NIS 5 million (on a consolidated basis where applicable).

---

[40] This takes into account any embedded options linked to the funds provider’s ability to call the funding before contractual maturity.

[41] “Aggregated funding” means the gross amount (i.e., not netting any form of credit extended to the legal entity) of all forms of funding (e.g., deposits or debt securities or similar derivative exposure for which the counterparty is known to be a small business customer). In addition, applying the limit on a consolidated basis means that where one or more small business customers are affiliated with each other, they may be considered as a single creditor such that the limit is applied to the total funding received by the banking corporation from this group of customers.

91. Where a banking corporation does not have any exposure to a small business customer that would enable it to use the definition under section 231 of Proper Conduct of Banking Business Directive no. 204, the banking corporation may include such a deposit in this category provided that the total aggregate funding raised from the customer is less than NIS 5 million (on a consolidated basis where applicable) and the deposit is managed as a retail deposit. This means that the banking corporation treats such deposits in its internal risk management systems consistently over time and in the same manner as other retail deposits, and that the deposits are not individually managed in a way comparable to larger corporate deposits.

92. Term deposits from small business customers should be treated in accordance with the treatment for term retail deposits as outlined in section 82, 83, and 84.

(b) Operational deposits generated by clearing, custody and cash management activities: 25 percent

93. Certain activities lead to financial and nonfinancial customers needing to place, or leave, deposits with a banking corporation in order to facilitate their access and ability to use payment and settlement systems and otherwise make payments. These funds may receive a 25 percent run-off factor only if the customer has a substantive dependency with the banking corporation and the deposit is required for such activities. A banking corporation that is of the opinion that its operational activities qualify for such treatment may request prior approval from the Supervisor for such treatment.

94. Qualifying activities in this context refer to clearing, custody or cash management activities that meet the following criteria:

- The customer is reliant on the banking corporation to perform these services as an independent third party intermediary in order to fulfil its normal banking activities over the next 30 days. For example, this condition would not be met if the banking corporation is aware that the customer has adequate back-up arrangements.
- These services must be provided under a legally binding agreement to institutional customers.
- The termination of such agreements shall be subject either to a notice period of at least 30 days or significant switching costs (such as those related to transaction, information technology, early termination or legal costs) to be borne by the customer if the operational deposits are moved before 30 days.

95. Qualifying operational deposits generated by such an activity are ones where:

- The deposits are by-products of the underlying services provided by the banking corporation and not sought out in the wholesale market in the sole interest of the interest income offered.
- The deposits are held in specifically designated accounts and priced without giving an economic incentive to the customer to leave any excess funds on these accounts (not limited to paying market interest rates). In the case that interest rates in a jurisdiction are close to zero, it would be expected that such accounts would be non-interest bearing. Banking corporations should be particularly aware that during prolonged periods of low interest rates, excess balances (as defined below) could be significant.

96. Any excess balances that could be withdrawn and would still leave enough funds to fulfil these clearing, custody and cash management activities do not qualify for the 25 percent factor. In other words, only that part of the deposit balance with the service provider that is proven to serve a customer's operational needs can qualify as stable. Excess balances should be treated in the appropriate category for non-operational deposits. If banking corporations are unable to determine the amount of the excess balance, then the entire deposit should be assumed to be excess to requirements and, therefore, considered non-operational.

97. Banking corporations must determine the methodology for identifying excess deposits that are excluded from this treatment. This assessment should be conducted at a sufficiently granular level to adequately assess the risk of withdrawal in an idiosyncratic stress. The methodology should take into account relevant factors such as the likelihood that wholesale customers have above average balances in advance of specific payment needs, and consider appropriate indicators (e.g., ratios of account balances to payment or settlement volumes or to assets under custody) to identify those customers that are not actively managing account balances efficiently.

98. Operational deposits would receive a 0 percent inflow assumption for the depositing banking corporation given that these deposits are required for operational reasons, and are therefore not available to the depositing banking corporation to repay other outflows.

99. Notwithstanding these operational categories, if the deposit under consideration arises out of correspondent banking or from the provision of prime brokerage

services, it will be treated as if there were no operational activity for the purpose of determining run-off factors.[42]

100. The following sections describe the types of activities that may generate operational deposits. A banking corporation should assess whether the presence of such an activity does indeed generate an operational deposit as not all such activities qualify due to differences in customer dependency, activity and practices.

101. A clearing relationship, in this context, refers to a service arrangement that enables customers to transfer funds (or securities) indirectly through direct participants in domestic settlement systems to final recipients. Such services are limited to the following activities: transmission, reconciliation and confirmation of payment orders; daylight overdraft, overnight financing and maintenance of post-settlement balances; and determination of intra-day and final settlement positions.

102. A custody relationship, in this context, refers to the provision of safekeeping, reporting, processing of assets or the facilitation of the operational and administrative elements of related activities on behalf of customers in the process of their transacting and retaining financial assets. Such services are limited to the settlement of securities transactions, the transfer of contractual payments, the processing of collateral, and the provision of custody related cash management services. Also included are the receipt of dividends and other income, client subscriptions and redemptions. Custodial services can furthermore extend to asset and corporate trust servicing, treasury, escrow, funds transfer, stock transfer and agency services, including payment and settlement services (excluding correspondent banking), and depository receipts.

103. A cash management relationship, in this context, refers to the provision of cash management and related services to customers. Cash management services refer to those products and services provided to a customer to manage its cash flows, assets and liabilities, and conduct financial transactions necessary to the customer's ongoing operations. Such services are limited to payment remittance, collection and aggregation of funds, payroll administration, and control over the disbursement of funds.

[42] Correspondent banking refers to arrangements under which one banking corporation (correspondent) holds deposits owned by other banking corporations (respondents) and provides payment and other services in order to settle foreign currency transactions (e.g., so-called nostro and vostro accounts used to settle transactions in a currency other than the domestic currency of the respondent bank for the provision of clearing and settlement of payments). Prime brokerage is a package of services offered to large active investors, particularly institutional hedge funds. These services usually include: clearing, settlement and custody; consolidated reporting; financing (margin, repo or synthetic); securities lending; capital introduction; and risk analytics.

104. The portion of the operational deposits generated by clearing, custody and cash management activities that is fully covered by deposit insurance can receive the same treatment as "stable" retail deposits

(c) Treatment of deposits in institutional networks of cooperative banks: 25 percent or 100 percent

105. An institutional network of cooperative (or otherwise named) banks is a group of legally autonomous banking corporations with a statutory framework of cooperation with common strategic focus and brand where specific functions are performed by central institutions or specialized service providers. A 25 percent run-off rate can be given to the amount of deposits of member institutions with the central institution or specialized central service providers that are placed (a) due to statutory minimum deposit requirements, which are registered at regulators or (b) in the context of common task sharing and legal, statutory or contractual arrangements so long as both the banking corporation that has received the monies and the banking corporation that has deposited participate in the same institutional network's mutual protection scheme against illiquidity and insolvency of its members. As with other operational deposits, these deposits would receive a 0 percent inflow assumption for the depositing banking corporation, as these funds are considered funds to remain with the centralized institution.

106. Approval of the Supervisor would have to be given to ensure that banking corporations utilizing this treatment actually are the central institution or a central service provider of such a cooperative (or otherwise named) network. Correspondent banking activities would not be included in this treatment and would receive a 100 percent outflow treatment, as would funds placed at the central institutions or specialized service providers for any other reason other than those outlined in (a) and (b) in the section above, or for operational functions of clearing, custody, or cash management as outlined in sections 101–103.

(d) Unsecured wholesale funding provided by non-financial corporates and sovereigns, central banks, multilateral development banks, and PSEs: 20 percent or 40 percent

107. This category comprises all deposits and other extensions of unsecured funding from nonfinancial corporate customers (that are not categorized as small business customers) and (both domestic and foreign) sovereign, central bank, multilateral development bank, and PSE customers that are not specifically held for operational purposes (as defined above). The run-off factor for these funds is 40 percent, unless the criteria in section 108 are met. Likewise, this category will cover deposits in fiduciary accounts as noted in the end of Section 109.

108. Unsecured wholesale funding provided by nonfinancial corporate customers, sovereigns, central banks, multilateral development banks, and PSEs without operational relationships can receive a 20 percent run-off factor if the entire amount of the deposit is fully covered by an effective deposit insurance scheme or by a public guarantee that provides equivalent protection.

(e) Unsecured wholesale funding provided by other legal entity customers: 100 percent

109. This category consists of all deposits and other funding from other institutions (including banking corporations, securities firms, insurance companies, etc.), fiduciaries[43], beneficiaries[44], conduits and special purpose vehicles, affiliated entities of the banking corporation[45] and other entities, that are not specifically held for operational purposes (as defined above) and not included in the prior three categories. The run-off factor for these funds is 100 percent. An exception to this provision is deposits in fiduciary accounts in which the beneficiary is an individual (natural person), and which are not managed under collective investment management, that will be dealt with in accordance with Section 107, i.e., the run-off rate for them is 40 percent.

110. All notes, bonds and other debt securities issued by the banking corporation are included in this category regardless of the holder, unless the bond is sold exclusively in the retail market and held in retail accounts (including small business customer accounts treated as retail per Sections 89-91), in which case the instruments can be treated in the appropriate retail or small business customer deposit category. To be treated in this manner, it is not sufficient that the debt instruments are specifically designed and marketed to retail or small business customers, rather, there should be limitations placed such that those instruments cannot be bought and held by parties other than retail or small business customers.

111. Customer cash balances arising from the provision of prime brokerage services, including but not limited to the cash arising from prime brokerage services as defined in Section 99, should be considered separate from any required segregated

---

[43] Fiduciary is defined in this context as a legal entity that is authorized to manage assets on behalf of a third party. Fiduciaries include asset management entities such as pension funds and other collective investment vehicles.

[44] Beneficiary is defined in this context as a legal entity that receives, or may become eligible to receive, benefits under a will, insurance policy, retirement plan, annuity, trust, or other contract.

[45] Outflows on unsecured wholesale funding from affiliated entities of the banking corporation are included in this category unless the funding is part of an operational relationship, a deposit in an institutional network of cooperative banks or the affiliated entity of a nonfinancial corporate.

balances related to client protection regimes imposed by national regulations, and should not be netted against other customer exposures included in this Directive. Offsetting balances held in segregated accounts are treated as inflows in Section 154 and should be excluded from the stock of HQLA.

(iii) Secured funding run-off

112. For the purposes of this Directive, "secured funding" is defined as those liabilities and general obligations that are collateralized by legal rights to specifically designated assets owned by the borrowing institution in the case of bankruptcy, insolvency, liquidation or resolution.

113. Loss of secured funding on short-term financing transactions: In this scenario, the ability to continue to transact repurchase, reverse repurchase and other securities financing transactions is limited to transactions backed by HQLA or with the banking corporation's domestic sovereign, PSE or central bank.[46] Collateral swaps should be treated as repurchase or reverse repurchase agreements, as should any other transaction with a similar form. Additionally, collateral lent to the banking corporation's customers to effect short positions[47] should be treated as a form of secured funding. For the scenario, a banking corporation should apply the following factors to all outstanding secured funding transactions with maturities within the 30 calendar day stress horizon, including customer short positions that do not have a specified contractual maturity. The amount of outflow is calculated based on the amount of funds raised through the transaction, and not the value of the underlying collateral.

114. Due to the high-quality of Level 1 assets, no reduction in funding availability against these assets is assumed to occur. Moreover, no reduction in funding availability is expected for any maturing secured funding transactions with the banking corporation's domestic central bank. A reduction in funding availability will be assigned to maturing transactions backed by Level 2 assets equivalent to the required haircuts. A 25 percent factor is applied for maturing secured funding transactions with the banking corporation's domestic sovereign, multilateral

[46] In this context, PSEs that receive this treatment should be limited to those that are 20 percent risk weighted or better, and "domestic" can be defined as a jurisdiction where a banking corporation is legally incorporated.

[47] A customer short position in this context describes a transaction where a banking corporation's customer sells a security it does not own, and the banking corporation subsequently obtains the same security from internal or external sources to make delivery into the sale. Internal sources include the banking corporation's own inventory of collateral as well as rehypothecatable collateral held in other customer margin accounts. External sources include collateral obtained through a securities borrowing, reverse repo, or like transaction.

development banks, or domestic PSEs that have a 20 percent or lower risk weight, when the transactions are backed by assets other than Level 1 or Level 2A assets, in recognition that these entities are unlikely to withdraw secured funding from banking corporations in a time of market-wide stress. This, however, gives credit only for outstanding secured funding transactions, and not for unused collateral or merely the capacity to borrow.

115. For all other maturing transactions the run-off factor is 100 percent, including transactions where a banking corporation has satisfied customers' short positions with its own inventory. The table below summarizes the applicable standards:

Categories for outstanding maturing secured funding transactions	**Amount to add to cash outflows**
Backed by Level 1 assets or with central banks	0 percent
Backed by Level 2A assets	15 percent
Secured funding transactions with domestic sovereign, PSEs or multilateral development banks that are not backed by Level 1 or 2A assets. PSEs that receive this treatment are limited to those that have a risk weight of 20 percent or lower.	25 percent
Backed by Level 2B assets	50 percent
All others	100 percent

(iv) Additional requirements

116. **Derivatives cash outflows:** The sum of all net cash outflows should receive a 100 percent factor. Banking corporations should calculate, in accordance with their existing valuation methodologies, expected contractual derivative cash inflows and outflows. Cash flows may be calculated on a net basis (i.e., inflows can offset outflows) by counterparty, only where a valid master netting agreement exists. Banking corporations should exclude from such calculations those liquidity requirements that would result from increased collateral needs due to market value

movements or falls in value of collateral posted.[48] Options should be assumed to be exercised when they are 'in the money' to the option buyer.

Notwithstanding the above provisions, when calculating the LCR in foreign currency, flows stemming from shekel/foreign currency derivative transactions in which the full principal value is exchanged on a simultaneous basis or within the same day may be reflected in the calculation on a net basis, even if the transactions are not covered by a master netting agreement.

117. Where derivative payments are collateralized by HQLA, cash outflows should be calculated net of any corresponding cash or collateral inflows that would result, all other things being equal, from contractual obligations for cash or collateral to be provided to the banking corporation, if the banking corporation is legally entitled and operationally capable to re-use the collateral in new cash raising transactions once the collateral is received. This is in line with the principle that banks should not double count liquidity inflows and outflows.

118. **Increased liquidity needs related to downgrade triggers embedded in financing transactions, derivatives and other contracts:** (100 percent of the amount of collateral that would be posted for, or contractual cash outflows associated with, any downgrade up to and including a 3-notch downgrade). Often, contracts governing derivatives and other transactions have clauses that require the posting of additional collateral, drawdown of contingent facilities, or early repayment of existing liabilities upon the bank's downgrade by a recognized credit rating organization. The scenario therefore requires that for each contract in which "downgrade triggers" exist, the banking corporation assumes that 100 percent of this additional collateral or cash outflow will have to be posted for any downgrade up to and including a 3-notch downgrade of the banking corporation's long-term credit rating. Triggers linked to a banking corporation's short-term rating should be assumed to be triggered at the corresponding long-term rating in accordance with published ratings criteria. The impact of the downgrade should consider impacts on all types of margin collateral and contractual triggers which change rehypothecation rights for non-segregated collateral.

119. **Increased liquidity needs related to the potential for valuation changes on posted collateral securing derivative and other transactions:** (20 percent of the value of non-Level 1 posted collateral). Market practices indicates that most counterparties to derivatives transactions typically are required to secure the mark-to-market valuation of their positions and that this is predominantly done using cash or sovereign, central bank, multilateral development banks, or PSE debt securities with a 0 percent risk weight under Proper Conduct of Banking Business Directive no. 203. When these Level 1 liquid asset securities are posted as collateral, maintaining an additional stock of HQLA for potential valuation

[48] These risks are captured in sections 119 and 123, respectively.

changes is not required. If however, counterparties are securing mark-to-market exposures with other forms of collateral, to cover the potential loss of market value on those securities, 20 percent of the value of all such posted collateral, net of collateral received on a counterparty basis (provided that the collateral received is not subject to restrictions on reuse or rehypothecation) will be added to the stock of required HQLA by the banking corporation posting such collateral. This 20 percent will be calculated based on the notional amount required to be posted as collateral after any other haircuts have been applied that may be applicable to the collateral category. Any collateral that is in a segregated margin account can only be used to offset outflows that are associated with payments that are eligible to be offset from that same account.

120. **Increased liquidity needs related to excess non-segregated collateral held by the banking corporation that could contractually be called at any time by the counterparty:** 100 percent of the non-segregated collateral that could contractually be recalled by the counterparty because the collateral is in excess of the counterparty's current collateral requirements.

121. **Increased liquidity needs related to contractually required collateral on transactions for which the counterparty has not yet demanded the collateral be posted:** 100 percent of the collateral that is contractually due but where the counterparty has not yet demanded the posting of such collateral.

122. **Increased liquidity needs related to contracts that allow collateral substitution to non-HQLA assets:** 100 percent of the amount of HQLA collateral that can be substituted for non-HQLA assets without the banking corporation's consent that have been received to secure transactions that have not been segregated.

123. **Increased liquidity needs related to market valuation changes on derivative or other transactions:** As market practice requires collateralization of mark-to-market exposures on derivative and other transactions, banking corporations face potentially substantial liquidity risk exposures to these valuation changes. Inflows and outflows of transactions executed under the same master netting agreement can be treated on a net basis. Any outflow generated by increased needs related to market valuation changes should be included in the LCR calculated by identifying the largest absolute net 30-day collateral flow realized during the preceding 24 months. The absolute net collateral flow is based on both realized outflows and inflows.

124. **Loss of funding on asset-backed securities[49], covered bonds and other structured financing instruments:** The scenario assumes the outflow of 100 percent of the funding transaction maturing within the 30-day period, when these instruments are issued by the banking corporation itself (as this assumes that the re-financing market will not exist).

125. **Loss of funding on asset-backed commercial paper, conduits, securities investment vehicles and other such financing facilities:** (100 percent of maturing amount and 100 percent of returnable assets). Banking corporations having structured financing facilities that include the issuance of short-term debt instruments, such as asset backed commercial paper, should fully consider the potential liquidity risk arising from these structures. These risks include, but are not limited to, (i) the inability to refinance maturing debt, and (ii) the existence of derivatives or derivative-like components contractually written into the documentation associated with the structure that would allow the "return" of assets in a financing arrangement, or that require the original asset transferor to provide liquidity, effectively ending the financing arrangement ("liquidity puts") within the 30-day period. Where the structured financing activities of a banking corporation are conducted through a special purpose entity[50] (such as a special purpose vehicle, conduit or structured investment vehicle—SIV), the banking corporation should, in determining the HQLA requirements, look through to the maturity of the debt instruments issued by the entity and any embedded options in financing arrangements that may potentially trigger the "return" of assets or the need for liquidity, irrespective of whether or not the SPV is consolidated.

Potential Risk Element	**HQLA Required**
Debt maturing within the calculation period	100 percent of maturing amount
Embedded options in financing arrangements that allow for the return of assets or potential liquidity support	100 percent of the amount of assets that could potentially be returned, or the liquidity required

126. **Drawdowns on committed credit and liquidity facilities:** For the purpose of this Directive, credit and liquidity facilities are defined as explicit contractual

[49] To the extent that sponsored conduits/SPVs are required to be consolidated under liquidity requirements, their assets and liabilities will be taken into account. Banking corporations are to be aware of other possible sources of liquidity risk beyond that arising from debt maturing within 30 days.
[50] A special purpose entity (SPE) as defined in Proper Conduct of Banking Business Directive no. 205 (Section 552).

agreements or obligations to extend funds at a future date to retail or wholesale counterparties. These facilities include contractually irrevocable ("committed") or conditionally revocable agreements to extend funds in the future. These off-balance sheet facilities or funding commitments can have long or short-term maturities, with short-term facilities frequently renewing or automatically rolling-over. In a stressed environment, it will likely be difficult for customers drawing on facilities of any maturity, even short-term maturities, to be able to quickly pay back the borrowings. Therefore, for purposes of this Directive, all facilities that are assumed to be drawn (as outlined in the sections below) will remain outstanding at the amounts assigned throughout the duration of the test, regardless of maturity.

127. For the purposes of this Directive, the currently undrawn portion of these facilities is calculated net of any HQLA eligible for the stock of HQLA, if the HQLA have already been posted as collateral by the counterparty to secure the facilities or that are contractually obliged to be posted when the counterparty will draw down the facility (e.g., a liquidity facility structured as a repo facility), provided that the banking corporation is legally entitled and operationally capable to re-use the collateral in new cash raising transactions once the facility is drawn, and there is no undue correlation between the probability of drawing the facility and the market value of the collateral. The collateral can be netted against the outstanding amount of the facility to the extent that this collateral is not already counted in the stock of HQLA, in line with the principle in Section 72 that items cannot be double-counted in this Directive.

128. A liquidity facility is defined as any committed, undrawn back-up facility that would be utilized to refinance the debt obligations of a customer in situations where such a customer is unable to rollover that debt in financial markets (e.g., pursuant to a commercial paper program, secured financing transactions, obligations to redeem units, etc.). In this Directive, the amount of the commitment to be treated as a liquidity facility is the amount of the currently outstanding debt issued by the customer (or proportionate share, if a syndicated facility) maturing within a 30 day period that is backstopped by the facility. The portion of a liquidity facility that is backing debt that does not mature within the 30-day window is excluded from the scope of the definition of a facility. Any additional capacity of the liquidity facility (i.e., the remaining commitment) would be treated as a committed credit facility with its associated drawdown rate as specified in Section 131. General working capital facilities for corporate entities (e.g., revolving credit facilities in place for general corporate or working capital purposes) will not be classified as liquidity facilities, but as credit facilities.

129. Notwithstanding the above, any facilities provided to hedge funds, money market funds and special purpose funding vehicles, for example SPEs (as defined in Section 125) or conduits, or other vehicles used to finance the banking corporations' own assets, should be captured in their entirety as a liquidity facility to other legal entities.

130. For that portion of financing programs that are captured in Sections 124 and 125 (i.e., are maturing or have liquidity puts that may be exercised in the 30-day horizon), banking corporations that are providers of associated liquidity facilities should not double count the maturing financing instrument and the liquidity facility for consolidated programs.

131. Any contractual loan drawdowns from committed facilities[51] and from revocable facilities within the 30-day period should be fully reflected as outflows.

(a) *Credit and liquidity facilities to retail and small business customers:* 5 percent drawdown of the undrawn portion of these facilities should be assumed.

(b) *Credit facilities to nonfinancial corporates, sovereigns and central banks, PSEs and multilateral development banks:* 10 percent drawdown of the undrawn portion of these credit facilities should be assumed.

(c) *Liquidity facilities to nonfinancial corporates, sovereigns and central banks, PSEs, and multilateral development banks:* 30 percent drawdown of the undrawn portion of these liquidity facilities should be assumed.

(d) Credit and liquidity facilities extended to banking corporations subject to prudential supervision: 40 percent drawdown of the undrawn portion of these facilities should be assumed.

(e) *Credit facilities to other financial institutions including securities firms, insurance companies, fiduciaries[52], and beneficiaries[53]:* 40 percent drawdown of the undrawn portion of these credit facilities should be assumed.

[51] Committed facilities refer to those which are irrevocable.
[52] Refer to footnote 43 for definition.
[53] Refer to footnote 44 for definition.

(f) *Liquidity facilities to other financial institutions including securities firms, insurance companies, fiduciaries, and beneficiaries:* 100 percent drawdown of the undrawn portion of these liquidity facilities should be assumed.

(g) *Credit and liquidity facilities to other legal entities (including SPEs (as defined in Section 125), conduits and special purpose vehicles*[54]*, and other entities not included in the prior categories):* 100 percent drawdown of the undrawn portion of these facilities should be assumed.

132. **Contractual obligations to extend funds within a 30-day period.** Any contractual lending obligations to financial institutions not captured elsewhere in this Directive should be captured here at a 100 percent outflow rate.

133. If the total of all contractual obligations to extend funds to retail and nonfinancial corporate clients within the next 30 calendar days (not captured in the prior categories) exceeds 50 percent of the total contractual inflows due in the next 30 calendar days from these clients, the difference should be reported as a 100 percent outflow.

134. **Other contingent funding obligations:** Are to be treated as detailed below.

135. Contingent funding obligations may be either contractual or non-contractual and are not lending commitments. Non-contractual contingent funding obligations include associations with, or sponsorship of, products sold or services provided that may require the support or extension of funds in the future under stressed conditions. Non-contractual obligations may be embedded in financial products and instruments sold, sponsored, or originated by the corporation that can give rise to unplanned balance sheet growth arising from support given by the banking corporation for reputational risk considerations. These include products and instruments for which the customer or holder has specific expectations regarding the liquidity and marketability of the product or instrument and for which failure to satisfy customer expectations in a commercially reasonable manner would likely cause material reputational damage to the corporation or otherwise impair ongoing viability.

[54] The potential liquidity risks associated with the banking corporation's own structured financing facilities should be treated according to Sections 124 and 125 of this document (100 percent of maturing amount and 100 percent of returnable assets are included as outflows).

136. Some of these contingent funding obligations are explicitly contingent upon a credit or other event that is not always related to the liquidity events simulated in the stress scenario, but may nevertheless have the potential to cause significant liquidity drains in times of stress. For this Directive, each banking corporation is to consider which of these “other contingent funding obligations” may materialize under the assumed stress events. Banking corporations should, at a minimum, use historical behavior in determining appropriate outflows.

137. Non-contractual contingent funding obligations related to potential liquidity draws from joint ventures or minority investments in entities, which are not consolidated should be captured where there is an expectation that the banking corporation will be the main liquidity provider when the entity is in need of liquidity.

138. In the case of contingent funding obligations stemming from trade finance instruments, a run-off rate of 5 percent is to be assumed. Trade finance instruments consist of trade-related obligations directly underpinned by the movement of goods or the provision of services, such as:

- documentary trade letters of credit, documentary and clean collection, import bills, and export bills; and
- guarantees directly related to trade finance obligations, such as shipping guarantees.

139. Lending commitments, such as direct import or export financing for non-financial corporate firms, are excluded from this treatment and the draw-down rates specified in Section 131 are to be applied to them.

140. Other contingent funding obligations are to be treated as listed below:

- Unconditionally revocable "uncommitted" credit and liquidity facilities are to be treated as described in Section 131;
- Guarantees and letters of credit unrelated to trade finance obligations (as described in Section 138), a run-off rate of 10 percent is to be assumed, except for performance guarantees for which a run-off rate of 3 percent may be assumed, and guarantees to back investments of homebuyers (pursuant to the Sale (Apartments) (Securing of apartment buyers' investments) Law, 5735-1974), for which a run-off rate of 0 percent may be assumed;

- non-contractual obligations such as those listed below, shall be taken into account based on the banking corporation's estimations:
  - potential requests for debt repurchases of the banking corporation's own debt or that of related conduits, securities investment vehicles and other such financing facilities;
  - structured products where customers anticipate ready marketability, such as adjustable rate notes and variable rate demand notes (VRDNs); and
  - managed funds that are marketed with the objective of maintaining a stable value such as money market mutual funds or other types of stable value collective investment funds etc.
- For issuers with an affiliated dealer or market maker, there may be a need to include an amount of the outstanding debt securities (unsecured and secured, term as well as short-term) having maturities greater than 30 calendar days, to cover the potential repurchase of such outstanding securities.

- **Non-contractual obligations where customer short positions are covered by other customers' collateral:** A 50 percent run-off factor of the contingent obligations should be applied where a banking corporation has internally matched client assets against other clients' short positions where the collateral does not qualify as Level 1 or Level 2, and the banking corporation may be obligated to find additional sources of funding for these positions in the event of client withdrawals.

141. **Other contractual cash outflows:** (100 percent). Any other contractual cash outflows within the next 30 calendar days should be captured in this ratio, such as outflows to cover unsecured collateral borrowings, uncovered short positions, or contractual dividends or interest payments. Outflows related to operating costs, however, are not included in this ratio.

2. Cash inflows

142. A banking corporation should only include in the cash inflow contractual inflows (including interest payments) from outstanding exposures that are fully performing and for which the banking corporation has no reason to expect a default within the 30-day time horizon. Contingent inflows are not included in total net cash flows.

143. Corporations need to monitor the concentration of expected inflows across wholesale counterparties in the context of liquidity management in order to ensure that their liquidity position is not overly dependent on the arrival of expected inflows from one or a limited number of wholesale counterparties.

144. **Cap on total inflows:** In order to prevent reliance solely on anticipated inflows to meet their liquidity requirement, and also to ensure that a corporation holds a minimum level of HQLA, the amount of inflows that can offset outflows is capped at 75 percent of total expected cash outflows as calculated in this Directive. This requires that a banking corporation must maintain a minimum amount of stock of HQLA equal to 25 percent of the total cash outflows.

(i) Secured lending, including reverse repos and securities borrowing

145. A banking corporation should assume that maturing reverse repurchase or securities borrowing agreements secured by Level 1 assets will be rolled-over and will not give rise to any cash inflows (0 percent). Maturing reverse repurchase or securities lending agreements secured by Level 2 HQLA will lead to cash inflows equivalent to the relevant haircut for the specific assets. A banking corporation is assumed **not** to roll-over maturing reverse repurchase or securities borrowing agreements secured by non-HQLA assets, and can assume to receive back 100 percent of the cash related to those agreements. Collateralized loans extended to customers for the purpose of taking leveraged trading positions ("margin loans") should also be considered as a form of secured lending; however, for this scenario banking corporations may recognize no more than 50 percent of contractual inflows from maturing margin loans made against non-HQLA collateral. This treatment is in line with the assumptions outlined for secured funding in the outflows section.

146. As an exception to Section 145, if the collateral obtained through reverse repo, securities borrowing, or collateral swaps, which matures within the 30-day horizon, is re-used (i.e., rehypothecated) and is used to cover short positions that could be extended beyond 30 days, a banking corporation should assume that such reverse repo or securities borrowing arrangements will be rolled-over and will not give rise to any cash inflows (0 percent), reflecting its need to continue to cover the short position or to re-purchase the relevant securities.

Maturing secured lending transactions backed by the following asset category:	**Inflow rate** **(if collateral is not used to cover short positions):**	**Inflow rate** **(if collateral is used to cover short positions):**
Level 1 assets	0 percent	0 percent
Level 2A assets	15 percent	0 percent
Level 2B assets	50 percent	0 percent
Margin lending backed by all other collateral	50 percent	0 percent
Other collateral	100 percent	0 percent

147. In the case of a banking corporation's short positions, if the short position is being covered by an unsecured security borrowing, the banking corporation should assume the unsecured security borrowing of collateral from financial market participants would run-off in full, leading to a 100 percent outflow of either cash or HQLA to secure the borrowing, or cash to close out the short position by buying back the security. This should be recorded as a 100 percent other contractual outflow according to Section 141. If, however, the banking corporation's short position is being covered by a collateralized securities financing transaction, the banking corporation should assume the short position will be maintained throughout the 30-day period and receive a 0 percent outflow.

148. Despite the roll-over assumptions in Section 145 and 146, a banking corporation should manage its collateral such that it is able to fulfill obligations to return collateral whenever the counterparty decides not to roll-over any reverse repo or securities lending transaction.[55] This is especially the case for non-HQLA collateral, since such outflows are not captured in the LCR framework.

(ii) Committed facilities

149. A banking corporation should not assume it will be able draw for its own purposes any credit facilities, liquidity facilities or other contingent funding facilities that it holds at other institutions. Such facilities receive a 0 percent

[55] Repealed.

inflow rate, meaning that this scenario does not consider inflows from committed credit or liquidity facilities. This is to reduce the contagion risk of liquidity shortages at one banking corporation causing shortages at other banking corporations and to reflect the risk that other banking corporations may not be in a position to honor credit facilities, or may decide to incur the legal and reputational risk involved in not honoring the commitment, in order to conserve their own liquidity or reduce their exposure to that banking corporation.

(iii) Other inflows by counterparty

150. For all other types of transactions, either secured or unsecured, the inflow rate will be determined by counterparty. In order to reflect the need for a banking corporation to conduct ongoing loan origination/roll-over with different types of counterparties, even during a time of stress, a set of limits on contractual inflows by counterparty type is applied.

151. When considering loan payments, the banking corporation should only include inflows from fully performing loans. Further, inflows should only be taken at the latest possible date, based on the contractual rights available to counterparties. For revolving credit facilities, the assumption is that the existing loan is rolled over and that any remaining balances are treated in the same way as a committed facility according to Section 131.

152. Inflows from loans that have no specific maturity (i.e., have non-defined or open maturity) should not be included; therefore, no assumptions should be applied as to when maturity of such loans would occur. An exception to this would be minimum payments of principal, fee or interest associated with an open maturity loan, provided that such payments are contractually due within 30 days. These minimum payment amounts should be captured as inflows at the rates prescribed in sections 153 and 154. Another exception would be on-call credit redemption as defined in the Reporting to Banking Supervision Directive "monthly balance" (Directive no. 821), under the condition that the share of the redemption recognized as inflow in respect of this credit is not greater than 20 percent of it balance.

(a) Retail and small business customer inflows

153. This scenario assumes that banking corporations will receive all payments (including interest payments and instalments) from retail and small business

customers that are fully performing and contractually due within the 30-day horizon. At the same time, however, banking corporations are assumed to continue to extend loans to retail and small business customers, at a rate of 50 percent of contractual inflows. This results in a net inflow number of 50 percent of the contractual amount.

(b) Other wholesale inflows

154. This scenario assumes that banking corporations will receive all payments (including interest payments and instalments) from wholesale customers that are fully performing and contractually due within the 30-day horizon. In addition, banking corporations are assumed to continue to extend loans to wholesale clients, at a rate of 0 percent of inflows for financial institutions and central banks, and 50 percent for all others, including nonfinancial corporates, sovereigns, multilateral development banks, and PSEs. This will result in an inflow percentage of:

- 100 percent for financial institution and central bank counterparties; and
- 50 percent for nonfinancial wholesale counterparties.

155. Inflows from securities maturing within 30 days not included in the stock of HQLA should be treated in the same category as inflows from financial institutions (i.e., 100 percent inflow). Banking corporations may also recognize in this category inflows from the release of balances held in segregated accounts in accordance with regulatory requirements for the protection of customer trading assets, provided that these segregated balances are maintained in HQLA. This inflow should be calculated in line with the treatment of other related outflows and inflows covered in this Directive. Level 1 and Level 2 securities maturing within 30 days should be included in the stock of liquid assets, provided that they meet all operational and definitional requirements, as laid out in Sections 28–54.

156. Operational deposits: Deposits held at other financial institutions for operational purposes, as outlined in sections 93–103, such as for clearing, custody, and cash management purposes, are assumed to stay at those institutions, and no inflows can be counted for these funds—i.e., they will receive a 0 percent inflow rate, as noted in Section 98.

157. The same treatment applies for deposits held at the centralized institution in a cooperative banking network, that are assumed to stay at the centralized institution as outlined in Sections 105 and 106; in other words, the depositing banking

corporation should not count any inflow for these funds—i.e., they will receive a 0 percent inflow rate.

(iv) Other cash inflows

158. Derivatives cash inflows: The sum of all net cash inflows should receive a 100 percent inflow factor. The amounts of derivatives cash inflows and outflows should be calculated in accordance with the methodology described in Section 116.

159. Where derivatives are collateralized by HQLA, cash inflows should be calculated net of any corresponding cash or contractual collateral outflows that would result, all other things being equal, from contractual obligations for cash or collateral to be posted by the banking corporation, given these contractual obligations would reduce the stock of HQLA. This is in accordance with the principle that banking corporations should not double-count liquidity inflows or outflows.

160. Other contractual cash inflows: No other contractual cash inflows should be captured here, except for those listed above. As such, cash inflows related to nonfinancial revenues are not taken into account in the calculation of the net cash outflows for the purposes of this Directive.

III. Application issues for the LCR

161. This section outlines a number of issues related to the application of the LCR. These issues include the frequency at which the LCR is to be calculated and reported, the manner of application of the LCR at the group level, and the aggregation of currencies within the LCR.

A. Frequency of calculation and reporting

162. The LCR should be in ongoing use, on a daily basis, by a banking corporation to help monitor and control liquidity risk. The LCR should be reported to senior management at least monthly, and to the board of directors at least quarterly. In stressed situations the LCR reporting frequency should be increased to weekly and even daily. In addition, in unusual situations it should be reported immediately to senior management and to the board of directors.

163. Repealed.

B. Scope of application

164. Repealed.[56]

165. Investments in banking and financial entities of a banking group that are not consolidated should be considered significant, taking into account the liquidity impact of such investments on the group under the LCR directive. Normally, a non-controlling investment (e.g., a joint-venture or minority-owned entity) can be regarded as significant if the banking group will be the main liquidity provider of such investment in times of stress (for example, when the other shareholders are non-banks or where the banking corporation is operationally involved in the day-to-day management and monitoring of the entity's liquidity risk). Such potential liquidity draws, in particular, those arising from the need to support the investment in times of stress out of reputational concerns, should be quantified for the purpose of calculating the LCR. To the extent that such liquidity draws are not included elsewhere, they should be treated under "Other contingent funding obligations", as described in Section 137.

166. In keeping with Proper Conduct of Banking Business Directive no. 342, a banking corporation should actively monitor and control liquidity risk exposures and funding needs at the level of individual legal entity, foreign branches and subsidiaries, and the group as a whole, taking into account legal, regulatory and operational limitations to the transferability of liquidity.

167. To ensure consistency in applying the consolidated LCR across jurisdictions, further information is provided below on two application issues.

1. Differences in Israel / host liquidity requirements

168. While most of the parameters in the LCR are internationally "harmonized", national differences in liquidity treatment may occur in those items subject to national discretion (e.g., deposit run-off rates, contingent funding obligations,

[56] Repealed.

market valuation changes on derivative transactions, etc.) and where more stringent parameters are adopted by some supervisors.

169. A banking group with cross-border activity should apply the liquidity parameters adopted in Israel to all legal entities being consolidated except for the treatment of retail / small business deposits that should follow the relevant parameters adopted in host jurisdictions in which the entities (branch or subsidiary) operate. This approach will more suitably reflect the stressed liquidity needs of legal entities of the group (including branches of those entities) operating in host jurisdictions, given that deposit run-off rates in host jurisdictions are more influenced by jurisdiction-specific factors such as the type and effectiveness of deposit insurance schemes in place and the behavior of local depositors.

170. The Supervisor's requirements in Israel for retail and small business deposits should apply to the relevant legal entities (including branches of those entities) operating in host jurisdictions if: (i) there are no host requirements for retail and small business deposits in the particular jurisdictions; (ii) those entities operate in host jurisdictions that have not implemented the LCR; or (iii) the Supervisor decides that stricter requirements than the host requirements should be used.

2. Treatment of liquidity transfer restrictions

171. As noted in Section 36, as a general principle, no excess liquidity should be recognized by a cross-border banking group in its consolidated LCR if there is reasonable doubt about the availability of such liquidity. Liquidity transfer restrictions (e.g., ring-fencing measures, non-convertibility of local currency, foreign exchange controls, etc.) in jurisdictions in which a banking group operates will affect the availability of liquidity by inhibiting the transfer of HQLA and fund flows within the group. The consolidated LCR should reflect such restrictions in a manner consistent with Section 36. For example, the eligible HQLA that are held by a legal entity being consolidated to meet its local LCR requirements (where applicable) can be included in the consolidated LCR to the extent that such HQLA are used to cover the total net cash outflows of that entity, notwithstanding that the assets are subject to liquidity transfer restrictions. If the HQLA held in excess of the total net cash outflows are not transferable, such surplus liquidity should be excluded from the ratio.

172. For practical reasons, the liquidity transfer restrictions to be accounted for in the consolidated ratio are confined to existing restrictions imposed under applicable laws, regulations and supervisory requirements.[57] A banking group should have processes in place to capture all liquidity transfer restrictions to the extent practicable, and to monitor the rules and regulations in the jurisdictions in which the group operates and assess their liquidity implications for the group as a whole.

C. Currencies

173. As outlined in Section 42, banking corporations should also be aware of the liquidity needs in each significant currency. The currencies of the stock of HQLA should be similar in composition to the operational needs of the banking corporation. Banking corporations cannot assume that currencies will remain transferable and convertible in a stress period, even for currencies that in normal times are freely transferable and highly convertible.

[57] There are a number of factors that can impede cross-border liquidity flows of a banking group, many of which are beyond the control of the group and some of these restrictions may not be clearly incorporated into law or may become visible only in times of stress.

Annex 1

Calculation of the cap on Level 2 assets with regard to short-term securities financing transactions

1. This annex seeks to clarify the appropriate method for the calculation of the cap on Level 2 (including Level 2B) assets with regard to short-term securities financing transactions.

2. As stated in Section 48, the calculation of the 40% cap on Level 2 assets should take into account the impact on the stock of HQLA of the amounts of Level 1 and Level 2 assets involved in secured funding[58], secured lending[59] and collateral swap transactions maturing within 30 calendar days. The maximum amount of adjusted Level 2 assets in the stock of HQLA is equal to two-thirds of the adjusted amount of Level 1 assets after haircuts have been applied. The calculation of the 40% cap on Level 2 assets will take into account any reduction in eligible Level 2B assets on account of the 15% cap on Level 2B assets.[60]

3. Further, the calculation of the 15% cap on Level 2B assets should take into account the impact on the stock of HQLA of the amounts of HQLA assets involved in secured funding, secured lending and collateral swap transactions maturing within 30 calendar days. The maximum amount of adjusted Level 2B assets in the stock of HQLA is equal to 15/85 of the sum of the adjusted amounts of Level 1 and Level 2 assets, or, in cases where the 40% cap is binding, up to a maximum of 1/4 of the adjusted amount of Level 1 assets, both after haircuts have been applied.

4. The adjusted amount of Level 1 assets is defined as the amount of Level 1 assets that would result after unwinding those short-term secured funding, secured lending and collateral swap transactions involving the exchange of any HQLA for any Level 1 assets (including cash) that meet, or would meet if held unencumbered, the operational requirements for HQLA set out in Sections 28 to 40. The adjusted amount of Level 2A assets is defined as the amount of Level 2A assets that would result after unwinding those short-term secured funding, secured lending and collateral swap transactions involving the exchange of any HQLA for any Level 2A assets that meet, or would meet if held unencumbered, the operational requirements for HQLA set out in Sections 28 to 40. The adjusted amount of Level 2B assets is defined as the amount of Level 2B assets that would result after unwinding those short-term secured funding, secured lending and collateral swap transactions involving the exchange of any HQLA for any Level 2B assets that meet, or would meet if held unencumbered, the operational requirements for HQLA set out in Sections 28 to 40. In this context, short-term transactions are transactions with a maturity date up to and including 30

---

[58] See definition in Section 112.
[59] See definition in Section 145.
[60] When determining the calculation of the 15% and 40% caps, the Supervisor may, as an additional requirement, separately consider the size of the pool of Level 2 and Level 2B assets on an unadjusted basis.

calendar days. Relevant haircuts would be applied prior to calculation of the respective caps.

5. The formula for the calculation of the stock of HQLA is as follows:

Stock of HQLA = Level 1 + Level 2A + Level 2B – Adjustment for 15% cap – Adjustment for 40% cap.

Where:

<u>Adjustment for 15% cap is the maximum of</u>:

a. Adjusted Level 2B – [15/85*(Adjusted Level 1 + Adjusted Level 2A)]
b. Adjusted Level 2B – [15/60*Adjusted Level 1]
c. Zero (0)

<u>Adjustment for 40% cap is the maximum of</u>:

a. Adjusted Level 2A + Adjusted Level 2B – Adjustment for 15% cap – [2/3*Adjusted Level 1 assets]
b. Zero (0)

6. Alternatively, the formula can be expressed as:

Stock of HQLA = Level 1 + Level 2A + Level 2B – Maximum of:

a. Adjusted Level 2A+Adjusted Level 2B – [2/3*Adjusted Level 1]

b. Adjusted Level 2B – [15/85*(Adjusted Level 1 + Adjusted Level 2A)]

c. Zero (0).

Annex 2

Illustrative Summary of Liquidity Coverage Ratio

(Percentages are factors by which to multiply the total amount of each item)

Item	**Factor**
Stock of HQLA	
A. Level 1 assets:	
• Coins and bank notes • Qualifying marketable securities from sovereigns, central banks, PSEs, and multilateral development banks qualifying for 0% risk weighting • Qualifying central bank reserves • Domestic sovereign or central bank debt for non-0% risk-weighted sovereigns (e.g. Israel, see details in directive)	100%
B. Level 2 assets (maximum of 40% of HQLA):	
Level 2A assets • Qualifying marketable securities from sovereign, central bank, multilateral development banks, and PSE qualifying for 20% risk weighting • Qualifying corporate debt securities with an international rating of AA- or higher • Qualifying covered bonds rated AA- or higher	85%
Level 2B assets (maximum of 15% of HQLA) • Qualifying corporate debt securities rated between A+ and A- (as detailed in directive)	50%
Total value of stock of HQLA	
Cash Outflows	
A. Retail deposits:	
Demand deposits and term deposits (less than 30 days maturity)	
• Stable deposits (deposit insurance scheme meets additional criteria)	3%
• Stable deposits (as detailed in directive)	5%
• Less stable retail deposits	10% and above
Term deposits with residual maturity greater than 30 days	3%

B. Unsecured wholesale funding:	
Demand and term deposits (less than 30 days maturity) provided by small business customers: • Stable deposits • Less stable deposits	 5% (3%) 10% and above
Term deposits with residual maturity greater than 30 days	3%
Operational deposits generated by clearing, custody and cash management activities • Portion covered by deposit insurance	25% 5%
Cooperative banks in an institutional network (qualifying deposits with the centralized institution)	25%
Non-financial corporates, sovereigns, central banks, multilateral development banks, and PSEs • If the entire amount fully covered by deposit insurance scheme	40% 20%
Other legal entity customers	100%
C. Secured funding:	
• Secured funding transactions with a central bank counterparty or backed by Level 1 assets with any counterparty • Secured funding transactions backed by Level 2A assets, with any counterparty • Secured funding transactions backed by non-Level 1 or non-Level 2 assets, with domestic sovereigns, multilateral development banks, or domestic PSEs as a counterparty • Backed by Level 2B assets • All other secured funding transactions	0% 15% 25% 50% 100%
D. Additional requirements:	
Liquidity needs (e.g., collateral calls) related to financing transactions, derivatives and other contracts	3 notch downgrade
Market valuation changes on derivatives transactions (largest absolute net 30-day collateral flows realized during the preceding 24 months)	Look back approach
Valuation changes on non-Level 1 posted collateral securing derivatives	20%
Excess collateral held by a banking corporation related to derivative transactions that could contractually be	100%

called at any time by its counterparty	
Liquidity needs related to collateral contractually due from the reporting banking corporation on derivatives transactions	100%
Increased liquidity needs related to derivative transactions that allow collateral substitution to non-HQLA assets	100%
ABCP, SIVs, conduits, SPVs, etc.:	
• Liabilities from maturing ABCP, SIVs, SPVs, etc. (applied to maturing amounts and returnable assets)	100%
• Asset Backed Securities (including covered bonds) applied to maturing amounts.	100%
Currently undrawn credit and liquidity facilities provided to: • retail and small business clients • non-financial corporates, sovereigns and central banks, multilateral development banks, and PSEs • banks subject to prudential supervision • other financial institutions (include securities firms, insurance companies) • other legal entity customers, credit and liquidity facilities	 5% 10% for credit 30% for liquidity 40% 40% for credit 100% for liquidity 100%
Other contingent funding liabilities (such as guarantees, letters of credit, etc.) • Trade finance • Guarantees • Customer short positions covered by other customers' collateral	See details in directive 5% 0–10% 50%
Net derivative cash outflows	100%
Any additional contractual outflows	100%
Total cash outflows	
Cash Inflows	
Maturing secured lending transactions backed by the following collateral:	
Level 1 assets	0%
Level 2A assets	15%
Level 2B assets	50%
Margin lending backed by all other collateral	50%
All other assets	100%
Credit or liquidity facilities provided to the reporting banking corporation	0%
Operational deposits held at other financial institutions (include deposits held at centralized institution of network of co-operative banks)	0%
Other inflows by counterparty:	

• Amounts to be received from retail counterparties • Amounts to be received from non-financial wholesale counterparties, from transactions other than those listed in above inflow categories • Amounts to be received from financial institutions and central banks, from transactions other than those listed in above inflow categories.	50% 50% 100%
Net derivative cash inflows	100%
contractual on-call cash inflows (in accordance with guidelines in the directive)	Up to 20%
Total cash inflows	
Total net cash outflows = Total cash outflows minus min [total cash inflows, 75% of gross outflows]	
LCR = Stock of HQLA / Total net cash outflows	

Annex 3

Liquidity Ratio for a Branch of a Foreign Bank

1. A branch of a foreign bank (hereinafter, foreign branch) with annual average assets that are not greater than NIS 15 billion, shall not be required to maintain or monitor the regulatory liquidity ratios set in Proper Conduct of Banking Business Directive no. 342 nor meet the Liquidity Coverage Ratio set in this Directive, subject to a minimum holding of liquid assets as detailed in Section 2 below and to receipt of a comfort letter from its parent bank as detailed in Section 3 below.

2. Minimum holding of liquid assets—holding unencumbered liquid assets, in the branch's accounts in Israel, at a share not less than 15 percent of total liabilities at any given time.

   For this matter, the following definitions shall apply:

   "Liquid assets"—Level 1 high quality liquid assets as per this Directive, after applying appropriate haircuts.

   "Total liabilities"—Total balance-sheet liabilities plus 20 percent of off-balance sheet liabilities, minus net liabilities to the banking group.

   "Off-balance sheet liabilities"—Off-balance sheet credit instruments as defined in the Reporting to the Public Directives.

   "Net liabilities to the banking group"—Total funding from the banking group minus deposits at the banking group. The amount of net liabilities that is to be subtracted shall be equal to or greater than zero.

3. Comfort letter from the parent bank

   Every foreign branch shall submit to the Banking Supervision Department a comfort letter from its parent company. The comfort letter shall contain the parent bank's commitment to:

   a) Support the liquidity needs of the branch in Israel at all times, including periods of stress.

   b) Inform the Supervisor regarding liquidity problems at the parent bank, shortly after such reporting to the parent bank's home supervisor.

4. If the foreign branch's total assets are greater than NIS 15 billion, the Supervisor may consider expanding the liquidity requirements and to apply the Liquidity Coverage Ratio to said branch.

* * *

Updates

Circular 06 number	**Version**	**Details**	**Date**
2431	1	Original Directive	28/9/2014
2564	2	Revision	04/07/18