



Circular 2015/2

Liquidity risks – banks

Qualitative liquidity risk management requirements and
quantitative liquidity requirements

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Liquidity risks – banks

Qualitative liquidity risk management requirements and quantitative liquidity requirements

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Annex 1:	Application of unwinding/settlement mechanism and treatment of SLB/repo transactions
Annex 2:	Liquidity report: Simplification for small banks
Annex 3:	Unwinding/settlement mechanism and secured financing transactions: Calculatory example for small banks
Annex 4:	Glossary

Addressees

	BA	ISA	SESTA	FMIA		CISA		AMLA	OTHERS
X Banks									
X Financial groups and congl.									
Other intermediaries									
Insurance companies									
Ins. groups and congl.									
Distributors									
Securities dealers									
Trading Venues									
Central Counterparties									
Central depositories									
Trade repositories									
Payment systems									
Participants									
Fund management companies									
SICAV									
Limited partnerships for CIS									
SICAF									
Custodian banks									
Managers domestic CIS									
Distributors									
Representatives of foreign CISs									
Other intermediaries									
SROs									
DSFIs									
SRO Supervised									
Audit firms									
Rating Agencies									

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I. Objective

This circular shall clarify the requirements stipulated in the Liquidity Ordinance on minimum qualitative requirements for liquidity risk management and quantitative requirements for the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR). The reporting requirements regarding other monitoring metrics shall be established at a later point in time. 1*

II Qualitative requirements for liquidity risk management

A. Scope

The qualitative requirements for liquidity risk management must be met at both the group level and the single entity level. The following exemptions shall apply: 2

- a. Group entities in Switzerland, provided it is ensured contractually and/or in their articles of incorporation that the group's holding company always has access to all relevant information and documents required to assess the group's liquidity position at the single entity level; 3
- b. Banks which are part of a central organization as described in Article 17 Banking Ordinance (BO, SR 952.02), provided these have ensured contractually and/or in their articles of incorporation that the central institute always has access to all relevant information and documents required to assess the liquidity position of the member banks at the single entity level; or 4
- c. Foreign branches in Switzerland, if these have been exempted from the LCR requirements by FIN-MA, if the foreign parent company is subject to comparable qualitative requirements for liquidity risk management and provided these have ensured contractually and/or in their articles of incorporation that the foreign parent company always has access to all relevant information and documents required to assess the foreign branch's liquidity position in Switzerland. 5

In all cases it must be ensured that that the free transfer of funds and collateral is not restricted. 6

The board of directors and executive board of a group entity or of a bank which is part of a central organization shall be responsible for ensuring that the parent company and the central organization respectively, fulfills the qualitative requirements for managing liquidity risk for the group entity or the bank which is part of a central organization. As a prerequisite, it must be ensured contractually and/or in the articles of incorporation that the specific service relationships between the ultimate parent company and the group company are defined, such as in a Service Level Agreement, and that the ultimate parent company has access at all times to all relevant information and documents to evaluate the liquidity position of the group company at single entity level. 7*

B. Principles

a) The principle of proportionality

The requirements stipulated in the second chapter of this circular shall depend on the bank's size as well as the type, scope, complexity and riskiness of its business activities. Certain clauses in the second chapter refer to the principle of proportionality, which shall exempt small banks from specific requirements. 8

Small banks as per margin no. 8 shall be defined as banks in FINMA categories 4 and 5¹. FINMA may grant simplifications or set more stringent requirements. 8.1 *

b) Ensuring a bank's continuous solvency

Banks must have a liquidity risk management framework which is effectively integrated into the bank-wide risk management processes. 9

The primary objective of the liquidity risk management framework shall be to ensure that the bank is in a position to address its liquidity obligations on a continuous basis, specifically in a period of bank-specific and/or market-wide liquidity stress where the secured and unsecured funding possibilities are limited. 10

C. Governance, Control and Steering Functions

a) Tasks and responsibilities of the Executive Board

Repealed 11 *

The risk tolerance for liquidity risk corresponds to the liquidity risk tolerance, and shall be regulated by the governing body in the framework concept for its enterprise-wide risk management (FINMA Circular 17/1 "Corporate governance – banks"). The liquidity risk tolerance shall be the basis for the bank-internal liquidity risk management strategy, the liquidity-related directives and the risk steering and control processes. 12 *

Strategies to manage liquidity risk may be formulated and implemented by the executive board or a committee that reports directly to the executive board. 13 *

Where appropriate, the executive board shall issue policies and guidelines on: 14

- a. the degree of centralization of liquidity management; 15
- b. structures and procedures around liquidity risk management, specifically the establishment of risk steering and control processes 16
- c. the composition and the maturity profiles of assets, liabilities and off-balance sheet positions; 17
- d. the allocation of liquidity risk to business activities; 18

¹ Cf. Annex 3 BO

e. intraday liquidity management;	19
f. collateral management;	20
g. limit-setting and escalation procedures;	21
h. the diversification of funding sources and the limitation of funding concentrations ;	22
i. the size and composition of the liquidity reserve which can be sold or used as collateral during a stress period;	23
j. the process around the design, approval, application and review of the stress tests including underlying assumptions;	24
k. the contingency funding plan	25

The adequacy as well as the operational readiness to apply the above-mentioned requirements shall be reviewed regularly, at least on a yearly basis. 26*

b) Allocating liquidity risk to business activities

The bank shall establish a liquidity transfer pricing system which is adequate considering the bank's refinancing structure to allocate liquidity costs, benefits and risks to the relevant business activity. The transfer prices must be used to manage the bank's business activities and to price both on and off-balance sheet transactions. The anticipated holding periods of assets and their market liquidity shall be considered in the calculation of the liquidity transfer prices. Appropriate assumptions shall also be made for contingent cash flows. 27

The liquidity transfer pricing system must be managed and monitored by a unit independent of the trading and market departments. The applicable transfer prices need to be transparent to the relevant employees. Transfer pricing systems must be comparable and consistent across the banking group. The adequacy of the transfer prices must be assessed regularly. 28

Banks shall determine the way in which they implement (or choose not to implement) the allocation of liquidity costs to business activities based on the proportionality principle (margin no. 8). The rationale behind the decision must be substantiated and documented. 29

D. Risk measurement and management systems

a) Processes used to identify, assess, manage and monitor liquidity risks

To identify and measure risks, the bank's risk management and controlling processes shall include comprehensive liquidity risk measurement systems tailored to its needs. These systems must be integrated into the bank's liquidity management strategy and its contingency funding plan and include: 30

a. a liquidity overview for different time horizons which compares the expected cash inflows and outflows. Fluctuations of cash flows due to the normal course of business must be considered. Any underlying assumption for the expected cash inflows and outflows must be documented and	31
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- b. a liquidity reserve which consists of unencumbered, high-quality, highly liquid assets which can be used to mitigate a short-term deterioration in the bank's liquidity situation. The respective requirements are addressed in margin nos. 63-71. 32

The risk management and controlling processes shall include 33

- a. an effective contingency funding plan linked to the stress events defined in margin no. 84; 34
- b. a limit framework and controls in accordance with the defined risk tolerance; 35
- c. provisions to ensure that the incentives for business units to take risks are consistent with the resulting liquidity risks for the bank as a whole. 36
- d. guidelines to manage the access to well-diversified funding sources and tenors; and 37
- e. IT systems and qualified employees to ensure the timely measurement, monitoring and reporting of liquidity positions in comparison to the defined limits. 38

b) Managing liquidity risks within and across significant legal entities, business lines and currencies

Banks with significant business activities and/or legal entities shall 39*

- a. manage and monitor liquidity risks regardless of their organizational structure and degree of centralization of liquidity management; however, a minimum level of central oversight is required; 40
- b. ensure that all legal entities have access to liquidity even in the event of liquidity shortages; 41
- c. if appropriate, establish internal limits applicable between group entities; 42
- d. establish internal agreements regarding the provision of liquidity support between group entities; and 43
- e. assess whether there are any legal, regulatory or operational restrictions which could impair the transferability of liquidity and unencumbered assets within the group. 44

Banks with significant assets or liabilities in foreign currencies and considerable mismatches in both the tenors and currencies of these assets and liabilities must establish adequate tools and measures to manage the liquidity in these material foreign currencies. This shall include a separate liquidity overview, separate stress tests and specific measures in the contingency funding plan for every material currency. Materiality shall be measured in accordance with margin no. 325. 45*

Banks with material liquidity risks in foreign currencies as described in margin no. 45 must be in a position to recognize changes in the liquidity of foreign currency swap markets and in the currency convertibility and take appropriate actions. Sudden changes in foreign currency swap markets which sharply widen currency mismatches as well as unexpected price volatilities must be integrated into the stress test. 46

c) Intraday liquidity requirements

The Bank must be able to demonstrate that it is in a position to reliably estimate and manage an intraday liquidity stress event. Banks must perform adequate stress tests which simulate such events. 47

The tools and resources used to manage and monitor intraday liquidity must be tailored to the bank's risk profile, its business activities and its importance to the financial sector. In this regard, it shall be taken into account whether the bank directly participates in payment transactions or payment processing systems, restricts itself to correspondent or custodian bank representation, or provides correspondent or custodian bank services to other banks, companies or systems. 48

If a small bank can demonstrate and document that it is not exposed to substantial risks regarding intraday payment operations, it does not need to implement an intraday liquidity risk management framework beyond the normal measures. 49

d) Assets held abroad

Banks with significant business activities and/or legal entities abroad must be in the position to assess their access rights to assets held abroad and inform FINMA during stress situations within a reasonable period of time of these rights. 50*

E. Liquidity risk mitigation

a) Limit system

The requirements for the limit system shall be defined in FINMA Circular 17/1 "Corporate governance – banks". 51*

Repealed 52*-58*

b) Funding diversification

Banks must take appropriate measures to limit and monitor the concentration of funding sources and tenors. Funding diversification should occur across short, medium and long term tenors, depositor types, investors, counterparties, instrument types, markets and currencies. Banks shall set limits for the above criteria. 59

Small banks not active in capital markets and trading or those which do not refinance themselves on the money and capital markets or through institutional investors as well as subsidiaries of foreign banks which finance themselves through the group's pool of funds shall be exempted from these requirements. 60

Banks shall regularly assess how quickly liquidity can be generated from the relevant funding source in a stress situation. 61

Banks, which fund themselves in money or capital markets through institutional investors such as other banks, insurers, hedge funds, money market funds, pension funds, or other large companies shall assess the consequences of losing an important funding source and take the appropriate precautionary measures. 62

c) Liquidity reserve to mitigate short-term deterioration of a bank's liquidity situation

Banks shall ensure that their liquidity reserve is sufficiently large and is composed of sustainable assets and that they 63

a. take into consideration the bank's business model, the risks of their balance sheet and off-balance sheet transactions, the liquidity of their assets and liabilities, the extent of existing financing gaps and the funding strategies; 64

b. are aligned with the established risk tolerance and are adequately diversified; 65

c. are aligned it with the bank's liquidity needs resulting from the stress tests, and 66

d. take into consideration the relevant jurisdictions, currencies and corresponding risks as well as the market-specific characteristics. 67*

Banks must prudently value their assets and conservatively estimate haircuts to market values. Specifically, they must consider that asset values may deteriorate in stress situations and/or that selling or borrowing assets may be restricted or impossible. The value of assets and haircuts must be reviewed regularly. 68

The bank must ensure that the assets in the liquidity reserve are not subject to legal, regulatory or operational restrictions. Assumptions with regards to the transferability of assets or collateral must be transparently documented. 69

Banks must assess whether counterparties and central banks will accept the assets as collateral in secured funding transactions during a stress situation. 70

The organizational unit responsible for liquidity management must have access to the assets in the liquidity reserve in case of liquidity shortages. 71

F. Stress tests

The bank must 72

a. regularly perform stress tests at all relevant levels in order to identify, quantify and analyze the impact of possible extreme liquidity stress events on cash inflows, outflows and the bank's liquidity position; 73

b. adequately define stress test parameters regarding the design, methods, scenario types, scenario severity, time horizons, types of shocks and frequency of testing; 74

c. explain and document its choice of stress test. Moreover, the stress tests must be reviewed on a regular basis and after a stress event has occurred to ensure that the test remains appropriate and relevant for the bank. 75

If a small bank can demonstrate and document that the international LCR scenario is appropriate given the bank's liquidity risks, it may use this scenario as a stress test, provided it is calibrated to reflect institution-specific characteristics.	76*
The results of stress tests shall be adequately documented and used for the following:	77
a. alignment of the established liquidity risk tolerance with the liquidity risk situation;	78
b. alignment of the level and composition of the liquidity reserve;	79
c. integration in the limit-setting process;	80
d. integration in the process of allocating liquidity risk to various business activities;	81
whereby small banks as per margin no. 29 shall be exempted from fulfilling margin no. 81.	82
The executive board shall be closely involved in the liquidity stress testing process. The board of directors must be regularly informed, at least on a yearly basis, of the stress test results. The stress test results shall support the executive board in its assessment of the need for risk mitigating actions according to margin nos. 77–82.	83*
Banks must define their stress tests and the underlying assumptions. Banks covered in margin no. 76 shall be exempted from this requirement. Stress tests must also include extreme scenarios which are unlikely but nonetheless plausible.	84
With the exception of the institutions listed under margin no. 76, banks must take into account the following additional aspects:	85
a. The severity of the stress events selected shall be based on historical events, case studies on liquidity crises and/or hypothetical models defined by internal and/or external experts. In doing so, banks shall take into consideration that liquidity shortfalls are often extreme situations with unexpected liquidity outflows and funding consequences. Therefore, the parameters of the stress events must be calibrated to be as conservative as possible.	86
b. The scenarios must cover all significant liquidity risks the bank is exposed to.	87
c. The stress scenarios must specifically consider the link between increased liquidity needs, fewer liquid funding markets and the likelihood of deposit withdrawals.	88
d. The stress scenarios must take both short and long-term liquidity shortfalls into consideration.	89
If the LCR is calculated according to the trade date principle, the bank must be able to explain the significant differences to the LCR calculated according to the settlement date principle at FINMA's request.	89.1*
Banks exposed to risks in intraday payment transactions shall also take into account intraday liquidity risks in their stress tests.	90

G. Contingency funding plan

Banks shall have in place a comprehensive and effective contingency funding plan for acute liquidity shortages that is closely integrated in the ongoing liquidity risk evaluation.	91
The contingency funding plan shall include:	92
a. appropriate early warning indicators which can identify the emergence of increased vulnerabilities in the bank's liquidity position or funding possibilities, allowing the bank to respond accordingly;	93
b. emergency triggers and a structured, multi-tiered escalation procedure depending on the severity of the liquidity crisis;	94
c. liquidity generating and liquidity saving measures and their priority. The measures shall be conservative estimates and depend on the escalation level as well as the type and severity of the stress event;	95
d. operational procedures to transfer liquidity and assets between jurisdictions, group entities, and systems, taking into consideration any transfer restrictions;	96
e. a clear definition of roles and the allocation of competences, rights and duties to all functions involved;	97
f. clear procedures, decision-making processes and reporting duties with the aim of providing a timely and ongoing flow of information to senior management. The issues requiring escalation to senior management must be clearly defined;	98
g. a clearly defined communication plan that ensures a transparent, consistent and regular flow of information to internal and external parties in a stress situation.	99
In the event of serious liquidity problems, FINMA shall be informed immediately.	100
The contingency funding plan must be verified and updated on an annual basis. The verification must encompass all elements of the contingency funding plan. The executive board must be informed of the results of the verification.	101
The contingency funding plan must be integrated into the bank's business continuity plans.	102
Banks must adequately document the components of the contingency funding plan covered in margin nos. 91–99.	103

III. Quantitative requirements (Liquidity Coverage Ratio, LCR)

A. Scope

The LCR must be met at both stand-alone legal entity level and group level. Banks that are part of a central organization as described in Article 17 BO shall be exempt, provided they have ensured contractually and/or in their articles of incorporation that the group's central institute has access to all relevant information and documents anytime, which allows them to assess the liquidity position of the member banks at the stand-alone legal entity level. It must be ensured that no limitations exist as far as the free transfer of liquidity and collateral are concerned. 104

The consolidation for the purpose of the LCR shall be the same as the one applied for the purpose of the capital adequacy regulation (Article 7 Capital Adequacy Ordinance [CAO, SR 952.03]). 105

The consolidation method for the purpose of the LCR shall be the same as the one applied for the purpose of the capital adequacy regulation (Article 8 CAO). 106

The financial statements specified in the FINMA Accounting Ordinance (FINMA-AO; SR 952.024.1) and in FINMA circular 20/1 "Accounting – Banks" shall be relevant for the purpose of the LCR. 107

Banks which calculate the eligible and required capital at stand-alone legal entity level according to an international accounting standard that was approved by FINMA (cf. FINMA circ. 13/1 "Eligible equity capital – banks", margin no. 156), shall use the same accounting standard to calculate the LCR. 108

Non-consolidated companies (such as joint ventures or minority stakes without any other form of control) only need to be included in the scope of consolidation for purposes of the LCR if the group is the most important source of liquidity for the relevant entity during stress periods. 109

If the group has a subsidiary that is a bank and other subsidiaries which are not financial institutions and if the holding company of this group is unsuitable for the purposes of banking supervision, then only the bank as subsidiary (but neither the financial group as a whole nor the holding company at stand-alone legal entity level) must fulfill the LCR. 110

B. LCR calculation

The LCR as per Article 14(2)(a) of the Liquidity Ordinance (LiqO, SR 952.06) shall be calculated by capturing all of the LCR-relevant positions as defined in Articles 15a, 15b, 16 and Annexes 2 and 3 LiqO in all currencies translated into Swiss francs. With the exception of aspects described in Articles 17 and 17a LiqO, HQLA shall be eligible in the LCR as per Article 14(2)(a) LiqO, regardless of their currency composition. 111

Repealed 112*

C. Explanations on Categories 1, 2a and 2b assets

"Coins and banknotes" as per Article 15a(1)(a) LiqO are not equal to "liquid assets" as per FINMA Circular 20/1 "Accounting – Banks", Annex 1, item 1.1.	113
Specifically, current account balances due from banks, postal check account balances or clearing balances with banks which are considered to be "liquid assets" pursuant to FINMA circ. 20/1 "Accounting – Banks", Annex 1, item 1.1 must be recorded as cash inflows for LCR purposes if the relevant criteria are fulfilled, but do not qualify as HQLA.	114
Specifically, current account balances due from banks, postal check account balances or clearing balances with banks which are considered to be "liquid assets" pursuant to FINMA circ. 15/1 "Accounting – Banks", Annex 1, item 1.1 must be recorded as cash inflows for LCR purposes if the relevant criteria are fulfilled, but do not qualify as HQLA.	114
The following shall apply to the calculation of the central bank reserves held at the SNB and the treatment of the SNB minimum reserves pursuant to Article 15a(1)(b) LiqO:	115
a. the SNB minimum reserve must be deducted from the SNB central bank account balance;	116
b. if the central bank reserves held at SNB are negative after the SNB minimum reserves have been deducted, this amount must be deducted from the coins and bank notes balance;	117
c. if the coins and bank notes balance becomes negative after the amount stipulated in margin no. 116 has been deducted, this amount must be recorded as cash outflow.	118
Minimum reserves held at foreign central banks may only be included in the LCR if these reserves are also eligible in the relevant LCR jurisdiction. If these are eligible in the relevant LCR jurisdiction, the bank shall consider the deduction method stipulated by the supervisory authority in question.	118.1 *
Multilateral development banks referred to in Article 15a(1)(c)(8) LiqO shall be those listed in FINMA circular 2008/19 "Credit risks – banks", Annex 1.	119
Bonds of the European Financial Stability Facility (EFSF) and the European Stability Mechanism (ESM) may be eligible as assets of Category 1 if they fulfill the requirements of Article 15d LiqO.	119.1 *
Bonds issued by the Emissionszentrale für gemeinnützige Wohnbauträger (issue center for the construction of housing), which are irrevocably guaranteed by the Swiss Confederation, may be recorded as assets of Category 1 if they fulfill the requirements of Article 15d LiqO.	120 *
According to Articles 15a(1)(c)(3) and 15b(1)(a)(3) LiqO, bonds issued by Swiss cantons are to be considered as the following:	121 *
a. Category 1 assets if they have a rating that equals rating class 1 or 2 according to the FINMA concordance table by a rating agency recognized by the FINMA, and if they fulfill the requirements stipulated in Article 15d LiqO;	122

b. Category 2a assets if they have a rating that equals rating class 3 according to the FINMA concordance table by a rating agency recognized by the FINMA, and if they fulfill the requirements stipulated in Article 15d LiqO; 123

c. not as HQLA if they were given a rating that equals rating class 4 or lower according to the FINMA concordance table by a FINMA-recognized rating agency or are not rated at all. 124

Cantonal banks that have an unlimited or limited cantonal guarantee for liabilities may not consider as HQLA bonds issued by the canton which acts as guarantor for this particular cantonal bank. 125

According to Article 15b(1)(a)(3) LiqO, bonds issued by Swiss cities, municipalities, or the Emissionszentrale der Schweizer Gemeinden (ESG) (issue center for Swiss communities) shall be considered as follows: 126

a. Category 2a assets if they have a rating that equals rating class 1 or 2 according to the FINMA concordance table by a FINMA-recognized rating agency if they fulfill the requirements stipulated in Article 15d LiqO; 127*

b. not as HQLA if they were given a rating that equals rating class 3 or lower according to the FINMA concordance table by a FINMA-recognized rating agency recognized or are not rated at all. 128*

If a non-financial institution issues bonds through a specialized financing subsidiary that also provides financial services for the non-financial institution but this financing subsidiary does not have a banking license in Switzerland or abroad, such bonds may be considered as assets of Category 2a pursuant to Article 15b(3) LiqO if they fulfill the requirements of Article 15d LiqO. 129*

Should these financing subsidiaries hold a banking license in Switzerland or abroad, such bonds may not be considered as HQLA. 130*

Covered bonds shall be Category 2a assets pursuant to Article 15b(1)(c) LiqO if they are under a special law regulation which subjects such bonds to special public supervision for the protection of the unit holders and if they fulfill the requirements of Article 15d LiqO. 131*

Precious metal holdings are not considered as HQLA. 132

Common equity shares may be considered as Category 2b assets as per Article 15b(5) and (6) LiqO, if: 133

a. they are exchange-traded and cleared centrally; and 134

b. the common equity share portfolio is well-diversified across different sectors; and 135

c. the common equity shares are denominated in Swiss francs or in the currency of the jurisdiction where liquidity risk is taken; and 136

d. the common equity shares are constituents of the Swiss Market Index (SMI); or in the case of non-Swiss common equity shares 137

- e. they are constituents of a stock index that the foreign regulator considers to be eligible as Category 2b assets. 138*

D. Characteristics of HQLA

Apart from the criteria for Category 1 and 2 assets described in Articles 15a and 15b LiqO, the bank, when selecting HQLA, shall cumulatively take into consideration the following factors that could influence whether liquidity can be obtained reliably in a market: 139

- a. The assets are traded in broad, deep, and active markets characterized by a low level of concentration; 140
- b. They have to have a proven record as a reliable source of liquidity in repo or spot markets, even during stressed market conditions. In particular: 141
 - in the case of Category 2a assets, the increase in haircut in a repo transaction must not exceed 10 percentage points or the maximum decline of price in spot markets must not exceed 10 percent over a 30-day period of stressed market conditions or since the first issuance date; 142*
 - for common equity shares, the increase in haircut in a repo transaction must not exceed 40 percentage points or the maximum decline of price in spot markets must not exceed 40 percent over a 30-day period of stressed market conditions or since the first issuance date; 143*
- c. The price shall be established by market participants and is easy to determine in the market or can be calculated using a simple formula with inputs that are publicly available and that is not based on complex model-based assumptions; 144
- d. They shall be listed at a Swiss FINMA-regulated stock exchange or at a foreign stock exchange which is regulated by a foreign regulator; 145
- e. They can be converted into cash immediately either through a direct sale or a simple repo transaction; and 146
- f. The value of the HQLA may not be negatively impacted by the occurrence of the stress scenario assumptions (correlation risk, wrong-way risk). 147

The HQLA categories applied and published by the SNB may be used for the HQLA categorization of SNB repo-eligible securities. 148

Banks may assume that the SNB repo-eligible securities fulfill HQLA characteristics stipulated in margin nos. 140-147. 149

If a foreign regulator has a catalog or a register of eligible assets or if it has defined exact criteria which assets are eligible for the LCR, margin nos. 140-147 do not need to be considered for such foreign assets. 150

E. Operational requirements for managing HQLA

Banks must have processes and appropriate systems in place to be able to sell HQLA or to utilize them in a simple repo transaction at all times. A bank must exclude from its portfolio of HQLA any assets where it does not have the operational capability to monetize them under a 30-calendar-day liquidity stress scenario.	151
The HQLA portfolio must fulfill the following operational requirements:	152
a. HQLA must be unencumbered.	153*
b. HQLA must be under the control of the function charged with managing the liquidity of the bank. This function shall have the continuous authority, and legal and operational capability to sell the HQLA within the next 30 calendar days or to utilize them in a simple repo transaction.	154
c. HQLA may not be used for hedging or trading strategies or to enhance creditworthiness in case of structured transactions or to cover operational costs. However, the market risk associated with the HQLA may be hedged. In this case, the cash outflow that would arise if the hedge were to be closed out early needs to be deducted from the market value of these HQLA.	155
d. Banks shall have a regularly updated overview of the subsidiaries or branch offices (hereinafter referred to together as "entities to be consolidated"), the geographical locations, currencies, and custodial accounts or other accounts where HQLA are being held.	156*
e. A bank must assess whether the HQLA held in foreign entities is subject to any transfer restrictions due to regulatory, legal, tax, accounting or other reasons. HQLA held in entities to be consolidated may not be included in eligible assets at consolidated level if:	157*
• they exceed the net cash outflow of this entity to be consolidated, but are not freely available at consolidated level in times of liquidity stress, or	158*
• they are held in an entity to be consolidated without market access, unless the HQLA may be freely transferred to other group companies in times of liquidity stress.	159*
f. A bank shall exclude securities from its HQLA portfolio if there is no broad, deep, and active repo market for these securities, and if the fire-sale prices were to cause a breach of the capital adequacy requirements. The same applies to securities covered by statutory provisions in respect of how they are held, e.g. statutory minimum requirements for market-making.	160*
g. HQLA in entities to be consolidated may be included as HQLA at consolidated level up to the net cash outflow of this entity, provided the net cash outflow of the entity is considered at a consolidated level. HQLA that exceed the net cash outflow of the entity to be consolidated shall only be eligible for inclusion at consolidated level if these are not subject to transfer restrictions.	161*
h. Assets may be considered part of the HQLA portfolio if they have been:	162
• received in reverse repo, securities financing and collateral swap transactions and have not been re-hypothecated, and are legally and contractually freely available to the bank;	163

- pre-positioned, deposited or pledged with central banks, a central clearing house or another public institution for precautionary purposes but have not been used to generate liquidity ("excess collateral"), whereas assets with the highest liquidity must be captured as exceeding first; or 164
- received as collateral for derivative transactions that are not segregated and can be legally re-hypothecated, provided the bank records an appropriate outflow for the associated risks. 165

F. Requirements for an adequate diversification

An HQLA portfolio shall be adequately diversified with respect to asset type, issue type, issuer type and maturity and the adequacy of diversification shall be reviewed on a regular basis. The required degree of diversification must be in proportion to the size and complexity of the bank and the portfolio of liquid assets it holds. 166*

Government bonds, cash deposits at a central bank, debt instruments of central banks, coins and banknotes do not need to be taken into account for diversification purposes. 166.1*

If a bank is exposed significantly to the Swiss mortgage market due to its business model and if a large portion of its Category 2a assets consist of Swiss Pfandbriefe (mortgage bonds), as part of its risk control (FINMA Circular 17/1) it must assess the correlation risk (wrong-way risk) between its exposure to the Swiss mortgage market and its portfolio of HQLA. 167*

Small banks must avoid inappropriate concentrations of specific securities. 168

G. Unwinding/settlement

The unwinding/settlement mechanism shall cause the portfolio of Category 1 and 2a assets to become relevant for the calculation of the LCR once the secured financing transactions have matured. 169*

Moreover, through the unwinding/settlement mechanism, the HQLA portfolio relevant for the ceiling of 40 percent as per Article 15c(1)(c) LiqO, the total of 75 percent as per Article 16(2) LiqO, as well as amounts relevant for the LCR by currencies as per Articles 17 and 17a LiqO shall be impacted in the same way by secured financing transactions as any other secured financing transaction maturing within 30 calendar days. 170

Secured financing transactions which include the swap of HQLA as per Article 15e LiqO and currency swaps with a residual maturity of more than 30 calendar days must be unwound/settled if these transactions are with the SNB and have a termination notice period of less than 30 calendar days. 171*

Collateral which the bank has lent to clients to cover short positions must be treated like secured financing transactions. 172

The application of the unwinding/settlement mechanism and the treatment of collateralized financing transactions shall be covered in Annex 1. 173

For financial transactions where the liquidity inflow or outflow takes place in a foreign currency in which the bank does not possess a central bank account, the unwinding/settlement nonetheless takes place 173.1*

against the central bank credit balance, i.e. rows 002 and 003 in the liquidity report of the relevant currency, regardless of whether the bank holds a central bank account in the corresponding currency or not.

Lombard loans (pledging of custody accounts in the retail business) are not considered to be secured financing transactions pursuant to Article 15e(2) LiqO. 173.2*

H. Cash outflows – explanations on Annex 2 of the LiqO

a) Deposits from retail clients

Retail client deposits pursuant to Annex 2, item 1 LiqO are defined as deposits from natural persons. 174*

For LCR purposes, retail client deposits shall include sight deposits, and term deposits maturing within 30 calendar days. Deposits that are irrevocably pledged for more than 30 calendar days do not need to be taken into account. 175

If a retail client deposit maturing within 30 calendar days has been actively terminated, the outflow shall be captured as “other contractual outflows” as per Annex 2, item 13 LiqO. Terminated deposits may be allocated to the same category as term deposits maturing within 30 calendar days if the institution can prove to the audit firm that in the past, clients have terminated only few deposits and that such termination agreements did not include a payment to another bank. 176*

Liabilities from derivative transactions shall be explicitly excluded from this definition. 177

Financial instruments that consist of an underlying contract and one or more embedded derivatives (“structured product”) may be treated as retail deposits, provided: 177.1*

a. they are offered for sale to retail clients only, and held in the custody accounts of retail clients, and 177.2*

b. the fair value of the structured product is used to calculate the outflow. 177.3*

Stable deposits pursuant to Annex 2, item 1.1.1 LiqO are deposits that are fully insured by a Swiss or a foreign deposit insurance scheme, or by an equivalent guarantee by a central government and which either 178*

a. are a component of an established client relationship that makes deposit withdrawal highly unlikely, or 179

b. are held in a transactional account. 180

An established client relationship is given if the depositor meets at least one of the following criteria: 181

a. the depositor has had an active contractual relationship with the bank for at least 24 months; 182

b. the depositor has entered into a long-term credit relationship with the bank (mortgage loan or other long-term loan); or 183

c. the depositor has at least three other products with the bank other than loans (i.e. EC card, credit card, Pillar 3a account, etc.). 184

Repealed	185*
The Swiss deposit insurance scheme can be taken into account up to the sum of CHF 6 billion per institution.	186
The following priority order is to be applied to the allocation of the deposits insured by the Swiss deposit insurance scheme: stable retail client deposits, including deposits from small business customers, followed by deposits from other corporate and wholesale clients.	187*
If a retail client has deposits maturing in more than 30 calendar days and some that mature in less than 30 calendar days, the allocation of the deposits to the deposit insurance scheme shall be as follows:	187.1*
a. deposits with a maturity of more than 30 days shall be given first priority for the deposit insurance scheme.	187.2*
b. Once deposits with a maturity of more than 30 days (or deposits classified as not due within 30 calendar days as a result of withdrawal restrictions pursuant to margin nos. 194-197) have been fully allocated to the deposit insurance scheme, the remaining deposits with maturities shorter than 30 days may be allocated to the remainder of the threshold insured.	187.3*
If deposits in foreign subsidiaries or foreign branch offices are subject to an especially secure deposit insurance scheme, the LCR outflow rates that the national regulator applies to these deposits may be applied to these deposits. Such deposits must fulfill the requirements stipulated in margin nos.178–184 as well as the following criteria:	188*
a. the deposit insurance scheme is pre-funded by the regular levying of contributions from banks with insured deposits;	189
b. the scheme has adequate means of ensuring ready access to additional funding in the event of a large call on its reserves, e.g. by an explicit and legally binding guarantee from the government, or a standing authorization to borrow from the government; and	190
c. access to insured deposits is granted to depositors shortly after the deposit insurance is triggered.	191
If deposits with a subsidiary or branch abroad are subject to a deposit insurance scheme, the respective provisions of the foreign regulator must be taken into consideration when calculating the insured portion.	192
Less stable deposits pursuant to Annex 2, item 1.1.2 LiqO shall be deposits which do not meet stable deposit criteria.	193*
Deposits with a contractual residual maturity of more than 30 calendar days (including those with undefined maturity periods), but which may be withdrawn within 30 calendar days (explicit and implicit special termination/withdrawal rights, termination options, etc.), may not be considered as deposits due within 30 calendar days, if:	194*
a. the client would have to make a penalty payment to the bank of a kind that would make such a withdrawal unlikely, and	194.1*

b. the interest on the deposit payable to the client is calculated exclusively up to the date of payment. 194.2*

The penalty payment as per margin no. 194.1 shall be composed of: 194.3*

Repealed 195*

a. compensation for the lower interest rate since the time the deposit was made. For fixed-term deposits, this shall be calculated by taking the difference between the refinancing costs as at the time of the withdrawal for the residual maturity of the deposits on the money and capital markets and the refinancing costs of a corresponding financing as at the time of the conclusion for the entire maturity period of the deposit, and 196*

c. for all deposits: at least 200 basis points on the deposit. 197*

If a portion of the deposit can be withdrawn without incurring a penalty as per margin nos. 194-197, only that portion is to be treated as a deposit maturing within 30 days. 198

If a bank allows a depositor to withdraw such deposits despite a clause forbidding a withdrawal, the entire category of these funds (stable and less stable deposits) shall then be treated as demand deposits. 199

If a bank grants this extraordinary withdrawal only in hardship cases, then it does not need to view the entire category of these deposits as demand deposits.

A hardship case shall exist if the client were subject to serious financial difficulties not justified by the circumstances. For retail clients, an example would be if the client requires the deposit to be able to subsist. For a corporate client, an example would be if the client requires the term deposit to maintain business operations. 199.1*

The following are also not subject to the penalty payment pursuant to margin nos. 194-197: 199.2*

a. deductions for fees and interest payments at the same bank as where the deposit is; 199.3*

b. deductions for scheduled and non-scheduled amortizations at the same bank where the deposit is booked; 199.4*

c. deductions for repaying liabilities at the same bank as the deposit; 199.5*

d. deductions for the transfer to a passive product at the same bank as the deposit with comparable withdrawal restriction and a maturity period that are binding, such as a bond or medium-term note issued by the bank itself. 199.6*

Precious metal accounts shall be treated as normal savings or demand deposits, unless: 200*

a. settlements are made in physical form, or 200.1*

b. by contract, the client receives a cash payment or credit to a clearing account after placing an order for the sale of a certain quantity of the precious metal in question only after the sale of the precious 200.2*

metal position or the hedging transaction has been undertaken by the Bank (such as a precious metal fund or precious metal account with another bank) at the price obtained in this case, provided that the liquidation proceeds can cover the outflow.. The client is not entitled contractually to a cash payment of the precious metal price fixed, so that the liquidity risk is fully transferred to the client. In this case, the hedging transaction may not be recorded as cash in-flow.

For deposits greater than CHF 1.5 million pursuant to Annex 2, item 1.2 LiqO, the following treatment shall apply: 201*

- a. deposits of up to CHF 100,000 may be recorded as stable deposits insured by the deposit insurance scheme as long as the overall ceiling of CHF 6 billion (cf. margin no.186) is not exceeded; 202*
- b. a further CHF 1.4 million may be recorded as less stable deposits from retail clients; and 203
- c. any deposit in excess of CHF 1.5 million and foreign deposits subject to a deposit insurance scheme in excess of CHF 1.5 million must be recorded under high-value deposits pursuant to Annex 2, item 1.2 LiqO in the liquidity report. 204*

Medium-term notes and other debt instruments with a residual maturity of up to 30 calendar days may be recorded as retail client deposits pursuant to Annex 2, item 1.1.2 or Annex 2, item 1.2 LiqO if these were sold only to retail clients and held in retail custody accounts. It must be ensured that these cannot be bought and held by parties other than retail clients. 205*

If medium-term notes and other debt instruments are designed as bearer securities, it must be ensured that they were sold only to retail clients at issuance. 206

b) Unsecured funding provided by corporate or wholesale clients

Funds provided by corporate and wholesale clients pursuant to Annex 2, item 2 LiqO shall count as the deposits of legal entities, including independent assets, such as trusts and foundations. 207*

Unsecured shall mean that the funds are not collateralized by legal rights to specifically designated assets owned by the bank in case of bankruptcy, insolvency, liquidation or resolution. 208

Repealed 209*

Unsecured wholesale funding provided by corporate and wholesale clients shall be any funding that is callable within 30 calendar days or that has its earliest possible contractual maturity date within this time horizon (such as maturing term deposits and unsecured debt securities) as well as funding with an undetermined maturity and funds that the client can call without any penalty as per margin nos. 194-197 and which causes a repayment of the funds within the 30 calendar day time horizon. 210

For funding where the bank has a termination/withdrawal option, this right shall be deemed a shortening of the maturity. Cases where a prolongation does not have any negative impact on the bank's reputation (i.e. they do not affect the bank's capacity to obtain funding in the capital markets) shall be excluded. In particular if the market expects an early repayment of the financial resources, the termination option must be taken into account. 210.1*

Small business customers pursuant to Annex 2, item 2.1 LiqO shall be non-financial legal entities, sole proprietorships or partnerships under Swiss or foreign law with a credit volume (on a consolidated level where applicable) and a total amount of deposits (on a consolidated level where applicable) of less than CHF 1.5 million. The credit volume and the total amount of deposits shall be considered separately; netting is not allowed. Consolidated level shall mean that all companies under common control ("group of small companies") have to be considered as a single creditor or debtor. The bank may treat such deposits like deposits from retail clients if they have similar characteristics as deposits from retail clients.	211*
The deposits of associations or charitable foundations according to Articles 80 et seq. of the Swiss Civil Code or partnerships according to Articles 530, 552, 594 of the Swiss Code of Obligations, or legal entities or partnerships under foreign law that correspond to the associations, foundations, and partnerships under Swiss law may be treated like deposits of retail clients if the association, charitable foundation or partnership fulfills the requirements of small business customers as per margin no. 211.	212*
Margin nos. 176-200 shall apply also to corporate and wholesale clients.	212.1*
Deposits shall only be separated into "operational" and "non-operational" pursuant to Annex 2, item 2.2 LiqO after the type of counterparty has been determined.	213*
"Operational deposits" pursuant to Annex 2, item 2.2 LiqO shall be the deposits of corporate or wholesale clients that are generated from clearing, custody and cash-management services, where	214*
Repealed	215*- 218*
a. the services are provided in the course of an established relationship and the depositor is reliant on the bank to perform these services;	219
b. the services do not consist of prime brokerage or correspondent banking services;	220
c. the customer cannot withdraw deposits which are legally due within the 30-day time horizon without impacting its normal banking activities;	221
d. the services are provided under a legally binding service agreement; and	222
e. the deposits are held in specifically designated accounts (such as current cash management or securities settlement accounts) and are priced without giving an economic incentive to the customer to leave any excess funds on these accounts.	223
Any funds that could be withdrawn and would still leave enough funds to fulfill these clearing, custody bank and cash management activities do not qualify as operational deposits.	224

For banks in Categories 1, 2, and 3 ² the following shall apply:	224.1*
a. For the part used as operational deposits for clearing, custodian bank, and cash management purposes, the bank shall use an internal model that comprehensibly substantiates and quantifies the minimum amount that the client must hold to preserve its operating activity.	225*
b. The internal model as per margin no. 225 must take into account the complexity as well as the type and scope of the bank's business activities.	226
c. If the bank chooses a model based on account turnover, the parameterization of the model should consider the different payment behavior of the counterparties.	226.1*
d. For banks in accordance with Annex 1, item 2 LiqO, margin no. 293 shall also be taken into account when determining the operational deposits. In other words, the demand deposits of other domestic banks, or of foreign banks from countries that have introduced the LCR in accordance with the guidelines of the Basel Committee, shall be recorded as non-operational.	226.2*
e. The internal model referred to in margin no. 225 must be submitted to FINMA for approval.	227*
f. If FINMA does not approve the internal model, banks in Categories 1, 2, or 3 shall consider all relevant deposits as non-operational deposits. For banks in Categories 4 or 5, margin nos. 228 to 231 shall apply.	227.1*
Small banks in Categories 4 or 5 ³ shall record the following portions of deposits as non-operational, depending on the counterparty:	228*
a. for non-financial corporates, central governments, central banks, subordinated local authorities and other public sector entities and multilateral development banks: 80 percent of their deposits are not operational;	229
b. for financial institutions which are not banks and for all other legal entities and corporate clients: 90 percent of their deposits are not operational;	230
c. for banks: 100 percent of their deposits are not operational.	231
Deviating from margin nos. 228-231, banks in categories 4 or 5 ⁴ may determine the portion of operational deposits using an internal model if they can prove that they are in a position to manage such a model. In this case, margin nos. 226-227 shall apply accordingly.	231.1*

² Cf. Annex 3 BO

³ Cf. Annex 3 BO

⁴ Cf. Annex 3 BO

An institutional network of cooperative banks pursuant to Annex 2, item 2.3 LiqO shall be a group of legally autonomous banks with a statutory framework of cooperation with common strategic focus and brand where specific functions are performed by central institutions or specialized service providers. An outflow rate of 25 percent shall be given to the amount of deposits of member institutions with the central institution that:	232*
a. are placed due to statutory minimum deposit requirements that are registered at regulators;	233
b. serve the protection scheme against insolvency or illiquidity of the financial cooperative network, as defined in the articles of incorporation; or	234
c. fulfill the requirements for operational deposits as per margin nos. 214, 218–223.	235*
No other deposits of member institutions with the central institution as well as all deposits from correspondent banking activities with the central institution qualify for the 25 percent outflow rate; instead, they shall be considered deposits from financial institutions with an outflow rate of 100 percent.	236
Medium-term notes and other debt securities with a residual maturity of up to 30 calendar days may be recorded as non-operational deposits of a non-financial entity pursuant to Annex 2, item 2.4.2 LiqO, if it is ensured that these cannot be purchased and held by financial institutions pursuant to Annex 1 LiqO, including affiliated entities or other legal entities associated with these as per margin no. 242.	236.1*
An outflow rate that normally applies to less stable deposits of retail clients (Annex 2 Item 1.1.2) may be selected for deposits in vested benefit and Pillar 3a accounts, if:	237*
a. Repealed	238*
b. such funds can only be withdrawn by natural persons (and not by the vested benefits, bank, or investment foundation) within 30 calendar days; and	239*
c. the deposits can be explicitly assigned to a natural person.	240
The limit of CHF 1.5 million stipulated in Annex 2, item 1.2 LiqO does not apply to deposits in vested benefit and Pillar 3a accounts as per margin nos. 237–240. Moreover, there is no need to aggregate these with other deposits in order to determine whether a depositor exceeds the ceiling.	240.1*
Pledged Pillar 3a deposits and other pledged deposits may not be recorded as an outflow if they are pledged for more than 30 calendar days due to the underlying transaction.	241
Annex 2, item 2.5 LiqO (“all other legal entities”) shall include fiduciaries, beneficiaries, conduits and special purpose entities and other legal entities.	242*
Repealed	243*
Repealed	244*

The treatment of deposits of all other legal entities pursuant to Annex 2 Item 2.5 LiqO shall depend on the beneficial owner. These may be treated as deposits of non-financial institutions pursuant to Annex 2, items 2.4.2 and 2.4.3 LiqO, provided the following conditions are met:	245*
a. the beneficial owner is a natural person or several natural persons who are closely related to each other and can be individualized;	245.1*
b. the beneficial owner is the ultimate owner of the deposit;	245.2*
c. the structure in question does not serve the purpose of collective capital investment;	245.3*
d. it is not a conduit or a special purpose vehicle of a bank; and	245.4*
e. it is not an affiliated company of the bank.	245.5*
If unit-linked products are segregated from other assets, the corresponding assets and liabilities may be netted with each another. Any asset surplus shall be recorded as an outflow from "deposits of all other legal entities".	245.6*
An "affiliated company" as per Annex 2, item 2.5 LiqO shall be a company that is not part of the group created by the bank, but which is under common control by a company situated above the bank in the group structure.	245.7*
Outflows from deposits provided by affiliated entities of the bank pursuant to Annex 2, item 2.5 LiqO must be recorded as "other legal entities", except if the funds are provided as part of an operational relationship as per margin nos. 214, 218-223, represent a deposit in an institutional network as per margin nos. 232-235 or the funds are provided by affiliated entities that are non-financial corporates.	246*
Repealed	247*
Unsecured debt instruments pursuant to Annex 2, item 2.6 LiqO include all debt securities issued by the bank maturing within 30 calendar days except for medium-term notes and those debt instruments which have been sold exclusively to retail clients and which fulfill the criteria of margin no. 205.	248*
In the case of unsecured debt securities, products that do not give rise to a liquidity outflow at the bank and can therefore be reduced so that the level of HQLA remains unchanged, do not need to be considered in the calculations.	248.1*
Call accounts arising from prime brokerage services, including the balances resulting from activities that meet the requirements for operational deposits as per margin nos. 214 et seq., shall be treated separately from segregated holdings required for national deposit insurance schemes. No netting with other client exposures is possible when calculating the LCR. The segregated holdings that cannot be netted will be considered as inflows under margin no. 298.2 and must be excluded from HQLA.	248.2*

c) Derivatives and other transactions

The net cash outflow from derivatives pursuant to Annex 2, item 5.1 LiqO shall be based on the expected contractual cash inflows and cash outflows. The following shall apply: 249*

- a. cash inflows and outflows may be calculated on a net basis by counterparty, only where a valid master netting agreement exists. An exception shall be made for payments from foreign currency derivatives that involve an exchange of the principal amounts on a simultaneous basis; Such payments may also be netted without a master netting agreement. If a derivative with one counterparty is a hedging position for another derivative with a client, foreign currency derivatives may be netted in the respective currencies. For this, the residual maturity of both derivatives must be identical and the exchange of the nominal value must happen simultaneously. 250*
- b. options shall be assumed to be exercised if they are "in the money" for the option buyer if this is possible from a contractual point of view; 251
- c. the calculation must exclude outflows due to market valuation changes of the derivative (margin no. 262) and outflows due to valuation changes of collateral (margin no. 267); and 252
- d. where derivatives are collateralized with HQLA, the cash outflows must 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 bank. In doing so, the bank must be legally entitled and operationally capable to re-use the collateral in new cash-raising transactions once the collateral is received. It shall be ensured that inflows and assets are not recorded twice. 253

"Other transactions" as per Annex 2, items 5.2 - 5.7 LiqO shall be defined as derivative-like structures such as structured products. Secured refinancing transactions including securities lending and borrowing shall be excluded. 254

If the bank is contractually obliged to post additional collateral in derivatives, financing transactions and other contracts in case of a downgrade of its long-term credit rating up to 3 rating categories (Annex 2, item 5.2 LiqO), the bank shall record this additional collateral as cash outflow (outflow rate of 100 percent). 255

Margin no. 255 (outflow rate of 100 percent) shall also apply if the counterparty is entitled to demand early repayment of existing liabilities or the drawdown of contingent facilities instead of additional collateral upon the bank's downgrade of up to 3 rating categories. 256

If the posting of additional collateral, the early repayment of existing liabilities or the drawdown of contingent facilities is connected to a downgrade of the bank's short-term rating, it shall be assumed that this will also trigger a downgrade in the long-term rating as per the concordance table "Swiss and International Standardized Approach" published with FINMA circ. 17/7 "Credit Risks - Banks". 257

The impact of a downgrade shall consider all types of margin collateral and contractual triggers which change rehypothecation rights for non-segregated collateral. 258

Should the bank hold excess non-segregated collateral that the counterparty could contractually call at any time (Annex 2, item 5.3 LiqO), the bank shall record the total amount of this collateral as a cash outflow (outflow rate of 100 percent). 259

If the bank contractually owes collateral to the counterparty on transactions for which the counterparty has not yet demanded the posting of such collateral (Annex 2, item 5.4 LiqO), the bank shall record the total amount of this collateral as a cash outflow (outflow rate of 100 percent).	260
If the bank holds non-segregated HQLA collateral which the counterparty can substitute for non-HQLA assets without the bank's consent (Annex 2, item 5.5 LiqO), the bank shall record the total amount of this collateral as a cash outflow (outflow rate of 100 percent).	261
Repealed	262*
Banks in Categories 1 or 2 ⁵ may use an internal model approach to quantify the net cash outflows from derivatives or other transactions due to market price developments instead of the historical look-back approach in accordance with Annex 2, item 5.6 LiqO in conjunction with Article 16(9)(b) LiqO. When applying such a model, the following criteria shall be taken into account:	263*
a. If using a scenario-based approach, the stress assumptions made must cover at least the extent of the LCR scenario;	264
b. If using a VaR model-based approach, a confidence level of at least 98 percent and a minimum holding period of 30 calendar days must be taken as a basis. For the historical look-back approach, a data history of at least 24 months shall be considered. If no data history is available or if an alternative approach is used, the bank shall make conservative estimates that align with the extent of the LCR scenario.	265
c. The internal model approach shall be submitted to FINMA in advance for approval.	265.1*
d. If FINMA does not approve the internal model approach, the historical look-back approach shall be applied.	265.2*
Repealed	266*
If a bank provides and receives non Category 1 collateral for derivatives and other transactions to/from the same counterparty (Annex 2, item 5.7 LiqO), it must record 20 percent of the value of all such posted collateral net of collateral received on a counterparty basis as cash outflow in order to secure any market valuation changes.	267
When calculating the outflow for potential market valuation changes as per margin no. 267, the following shall apply:	268
a. The collateral received may only be deducted if it is not subject to any restrictions on re-use or rehypothecation;	269
b. the 20 percent outflow rate is calculated based on the nominal value of the collateral to be provided, after applying any relevant haircuts that apply to the collateral category in question and;	270

⁵ Cf. Annex 3 BO

- c. any collateral held 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. 271

d) Credit and liquidity facilities

For the purpose of LCR, credit and liquidity facilities pursuant to Annex 2, item. 8.1 LiqO shall be defined as explicit contractual agreements or obligations to extend funds at a future date to retail, corporate or wholesale customers. These facilities only include contractually irrevocable, committed, conditionally revocable or unilaterally cancellable agreements to extend funds. 272*

The undrawn portion of the credit and liquidity facilities shall be calculated net of any HQLA which has already been posted as collateral by the counterparty to secure the facilities or that the counterparty is contractually obliged to post when the counterparty will draw down the facility after application of the respective haircuts. The bank must be legally entitled and operationally capable to re-use the collateral in new cash-raising transactions once the facility is drawn, and there must be no significant correlation between the probability of drawing the facility and the market value of the collateral. 273

General facilities for financing business operations and the working capital of corporate clients shall be considered as credit facilities. 274*

The obligation to make additional payments to covered bond institutions (Pfandbriefzentralen) must be recorded as a credit facility (Annex 2, item 8.1.3 LiqO), if it has not already been designed as a credit facility and recorded as such. 275*

Repealed 276*

For the purpose of LCR, liquidity facilities shall be committed, undrawn back-up facilities, which: 277*

- a. can be used for the financing of maturing debt securities issued on the capital market (re-financing facility), 277.1*
- b. can be used for the financing of planned capital market transactions in connection with corporate acquisitions (acquisition loans) that are planned to be financed on the market, or 277.2*
- c. can be used to finance new issuances that are planned to be placed on the market (new financing facility). 277.3*

In the case of a re-financing facility, the amount that corresponds to the client's total of currently outstanding debt securities due within the next 30 calendar days and covered by the facility shall be classified as a liquidity facility. 278*

The portion of the re-financing facility that covers debt securities not due within 30 calendar days shall be recorded as a credit facility. 278.1*

For acquisition loans, no outflow needs to be taken into account for purposes of the LCR until the relevant authorities have approved the takeover or merger. If the capital market transaction for acquisition loans or new financing facilities requires the approval of shareholders, no outflow needs to be recorded until the 278.2*

shareholders have approved the capital market transaction.

In case of a contractually agreed syndication with other lenders, the total amount of the syndication shall be recorded, unless an irrevocable underwriting commitment exists from the other lenders, which would lead to a non-recognition of the portion committed by the other lenders in line with the applicable accounting standards. In this case, only the bank's contractually agreed portion shall be recorded as a facility. At the same time, for a syndicated re-financing facility, only the pro-rata amount of the maturing debt instrument shall be used for the calculation as per margin nos. 277.1 and 278.1 that corresponds proportionately to the syndicated portion of the facility. 278.3*

In the case of a new financing facility, the nominal value of the planned issue shall be considered. 278.4*

General facilities for working capital (margin no. 274) that may also be used to finance capital market transactions in connection with corporate acquisitions that are to be financed on the capital market shall be recorded as liquidity facilities pursuant to Article 16(4) LiqO as soon as the bank becomes aware of a planned corporate acquisition by the client, which will be financed on the capital market (i.e. has supported this or provided an explicit liquidity facility beyond the general facility) and if the conditions under margin no. 278.2 are met. 278.5*

Repealed 279*

Repealed 280*

Notwithstanding the provisions in margin nos. 274, 277-278.5, any facility granted to hedge funds, money market funds, special purpose funding vehicles such as Conduits or other vehicles used to finance bank assets shall be captured in their entirety as liquidity facility. 281*

A credit or liquidity facility to all other legal entities that fulfill the conditions of margin nos. 245.1–245.5, may be recorded under Annex 2 item 8.1.2.1 (credit facility) or Annex 2 item 8.1.2.2 (liquidity facility). 281.1*

A facility granted to a special purpose financing company that is guaranteed by a non-financial company or is a majority interest of a non-financial company, that is controlled by this non-financial company, and was founded with the sole purpose of financing the activities of this non-financial company, may be recorded as a credit facility as long as this facility is not used to replace financing obtained on the financial markets (i.e. issuance or extension of bonds). 281.2*

e) Other contingent liabilities for the provision of funds such as guarantees, letters of credits, revocable credit and liquidity facilities

Cash outflows from managed money market funds that are managed with the aim of retaining a stable value (Annex 2, item 9.3.5 LiqO) do not need to be recorded if the fund legislation in the country in which the fund is established and managed is designed in such a way that support from the bank in excess of legally prescribed minimum reserves is excluded if the asset is valued with the constant net asset value method. 281.3*

f) Customer short positions covered by other customers' collateral

Non-contractual obligations where a client's short positions are covered by other customers' collateral (Annex 2, item 11 LiqO), shall represent contingent liabilities for which 282*

- a. the bank internally matches the customer assets against other customers' short positions; 283
- b. the collateral does not qualify as Category 1 or 2 assets; and 284
- c. the bank may be obligated to find additional funding resources for these positions in the event of customer withdrawals. 285

g) Other contractual cash outflows within 30 days

All other contractual cash outflows over the next 30 days, such as outflows to cover unsecured securities lending, unsecured short positions as well as short positions that are covered by unsecured securities lending, dividend payments and contractual interest payments, shall be recorded as "other contractual cash outflows" (Annex 2, item 13 LiqO). Relevant outflows, making up more than 1 percent of net cash outflows, shall be reported to the FINMA, stating which positions were recorded as an "other contractual cash outflow". Only relevant changes in the positions compared to the prior month shall be reported. 285.1*

Committed, irrevocable outflows in the next 30 calendar days arising from forward starting transactions shall be viewed as outstanding liabilities to be recorded under "other contractual cash outflows" (Annex 2, item 13 LiqO). 286*

I. Cash inflows – explanations on Annex 3 LiqO

a) General requirements

Only contractual cash inflows expected in the next 30 days from outstanding receivables, including interest payments, may be considered as cash inflows, provided that 287

- a. there is neither a default nor an impairment; 288
- b. the bank does not expect a default nor an impairment due to default risks for these receivables in the next 30 calendar days in line with Article 24 FINMA-AO; and 289
- c. the cash inflows are not conditional. 290

Committed, irrevocable inflows in the next 30 calendar days arising from forward-starting transactions shall also be considered as outstanding receivables as per margin no. 287. 291

If there is a specific or a collective allowance for credit losses of X percent on the credit portfolio, only 100-X percent of the cash inflows from this particular credit portfolio which is contractually due in the next 30 calendar days may be considered as cash inflow. 292*

Sight deposits with other domestic banks or with banks in other countries which introduced the LCR 293

according to the rules issued by the Basel Committee may be recorded as cash inflows if no default or impairment is expected for these receivables within the next 30 calendar days.

Cash inflows shall only be considered at the latest possible date, taking into account the contractual rights of the contracting parties. No assumption may be made regarding maturities (maturity scenarios). 294*

Cash inflows from loans due within 30 calendar days that were granted as part of a contractual agreement or liability as per margin no. 272, and which explicitly set out the loan conditions such as interest rate (or the margin for products that depend on a reference interest rate), amount, and term, and where the extension by the bank is standard business practice as long as the underlying contractual agreement or liability does not become due, may not be considered. 294.1*

Overdrafts on granted current account facilities are exempted from this requirement and may be recorded as a cash inflow. 294.2*

Cash inflows from loans that have no specific maturity may not be included in the calculation. Contractually agreed upon minimum repayment of principal, interest or fee payments may be included if these mature in the following 30 calendar days, taking into consideration the relevant cash inflow rates stated in Annex 3, items 5.1-5.3 LiqO. 294.3*

Interest payment and repayment of principal on all non-impaired loans, and full loan repayments of loans not covered by margin no. 294.1, may be considered as a cash inflow. 294.4*

b) Secured financing transactions

A margin loan pursuant to Annex 3, item 2 LiqO shall be a collateralized loan extended to customers for the purpose of taking leveraged trading positions. The ownership of the collateral received shall be transferred to the bank and the bank may re use the securities received. If the collateral received has already been pledged and the bank has no right to reuse it, this loan is not considered a margin loan for LCR purposes. 295*

c) Operational deposits placed with other financial institutions and deposits placed to the centralized institution of an institutional network of cooperative banks

The definition of operational deposits pursuant to Annex 3, item 2 LiqO, which the bank holds at other financial institutions for clearing, custody, and cash-management purpose, shall be the one set out in margin nos. 214-219 and 221-224. Correspondence bank balances that the bank holds with other banks must be treated as operational deposits. 296*

Margin nos. 224.1–227 shall apply to banks in Categories 1, 2, and 3⁶ accordingly. 296.1*

For banks in Categories 4 or 5⁷, all deposits with other financial institutions shall be held as non-operational deposits, subject to margin nos. 297.2 and 297.3. Excluded from this are correspondence bank credit 297*

⁶ Cf. Annex 3 BO

⁷ Cf. Annex 3 BO

balances and deposits where it has been contractually agreed that these are deemed to be operational.

By way of derogation from margin no. 297, banks in Categories 4 or 5⁸ may determine the portion of operational deposits using an internal model if they can prove that they are in a position to manage such a model. In this case, the provisions of margin nos. 226-227 shall apply accordingly. 297.1*

Regardless of whether a bank uses an internal model to evaluate the breakdown between operational and non-operational deposits or not, deposits with SIX SIS shall be broken down into operational and non-operational as follows (rows 200/559 vs. 202/561 in the liquidity report): 297.2*

- Credit balances in collateral accounts shall be recorded as operational in their entirety; 297.3*
- All further credit balances may be recorded entirely as non-operational as long as they are contractually due within 30 calendar days or may be withdrawn without a penalty payment that would qualify for margin nos. 194–197 and are not recorded as SNB balances. 297.4*

d) Derivatives

Margin nos. 249–251 shall also apply when calculating the net cash inflow from derivatives (Annex 3, item 6.1 LiqO). 298*

If derivatives and other transactions are collateralized by HQLA, cash inflows shall be calculated net of any corresponding cash or contractual collateral outflows that would result, all other things being equal, from the bank's contractual obligations to post cash or collateral. 298.1*

e) Non-HQLA securities becoming due within 30 calendar days

Cash inflows from the release of deposits or securities portfolios that are held in segregated accounts in keeping with regulatory guidelines on the protection of trading portfolios of clients shall also be subject to Annex 3, item 6.2 LiqO, provided these segregated holdings meet the requirements for HQLA. The inflow should be calculated in keeping with the treatment of similar outflows and inflows. 298.2*

Assets of Categories 1 and 2 that are due within 30 days shall be included in HQLA if they fulfill all operational requirements for the management of HQLA pursuant to margin nos. 151–165. 298.3*

J. Fulfillment of the LCR in Swiss francs

Margin nos. 303-320.1 shall only apply to the coverage of the net cash outflows in Swiss francs as per Article 14(2)(b) LiqO without considering net cash outflows in foreign currencies. 299

In general, net cash outflows in Swiss francs shall be covered by HQLA in Swiss francs. 300

Banks may not simultaneously use additional foreign currency HQLA (margin nos. 303-314.3) and additional Category 2 HQLA in Swiss francs (margin nos. 315-320.1) to cover net cash outflows in Swiss francs. 301

⁸ Cf. Annex 3 BO

The use of additional Category 2 HQLA in Swiss francs (margin nos. 315-320.1) shall be limited to those banks which, due to their business model, hold less than 5 percent of their total liabilities in foreign currency liabilities and, in case of commercial banks, where domestic loans make up more than 50 percent of their total assets ("domestic bank") or which do not have adequate organizational structures and processes to measure, manage and monitor their foreign currency risks. 302

a) Consideration of additional foreign currency HQLA

Foreign currency HQLA to cover net cash outflows in Swiss francs shall be limited to securities denominated in the four primary foreign currencies (British pound, euro, Japanese yen, US dollar), as well as those denominated in other important secondary foreign currencies (Danish krone, Norwegian krone, Swedish krona, Singapore dollar). 303*

The conditions for being able to use the exception-to-policy rule for the use of additional foreign currency HQLA pursuant to margin no. 303 shall be the following: 304*

- a. the bank must have an adequate organizational structure and processes to measure, manage and monitor its foreign currency risks; and 305
- b. the bank takes into consideration that the ability to convert foreign currencies and the access to the relevant currency markets may not exist under stress conditions and that abrupt exchange rate changes could significantly increase existing currency mismatches. The bank must therefore estimate the convertibility of the foreign currencies into Swiss francs in times of liquidity stress. In doing so, the depth of the foreign exchange swap markets used to convert assets into the required liquidity in Swiss francs during times of liquidity stress needs to be assessed. 306

Additional requirements the banks must fulfill when considering additional foreign currency HQLA shall be the following: 307

- a. For foreign currency HQLA used to cover the net cash outflow in Swiss francs, and these HQLA exceed the threshold of 25 percent of the net cash outflow in Swiss francs, a haircut shall be applied to account for foreign currency risks in addition to the haircut that applies to the asset category in question. Category 1 assets denominated in primary foreign currencies must be considered first, followed by the ones denominated in secondary foreign currencies, followed by Category 2a assets in the same order. The additional haircuts shall be defined as follows: 308*
 - HQLA denominated in primary foreign currencies (margin no. 303) receive an additional haircut of 8 percent, and 309*
 - HQLA denominated in all of the acceptable secondary foreign currencies (margin no. 303) receive an additional haircut of 10 percent; 310*
- b. Foreign currency HQLA which are used to cover the net cash outflow in Swiss francs may be recognized up to a ceiling of 40 percent of net cash outflows in Swiss francs. This ceiling shall apply after the consideration of the haircuts and after the unwinding/settlement of secured financing transactions which mature within 30 calendar days and which involve the exchange of Category 1 and 2a HQLA; 311

c. Acceptable foreign currency HQLA shall be limited to Category 1 and Category 2a HQLA;	312
d. Foreign currency HQLA which is used to cover net cash outflow in Swiss francs must be considered in the relevant asset category in Swiss francs when determining the ceiling for Category 2a and 2b assets according to Article 15c(2)(c) LiqO; and	313
e. The portfolio of foreign currency HQLA must be disclosed separately in the liquidity report.	314
If the LCR in a significant foreign currency pursuant to margin nos. 324 and 325 is negative, the assets may not be considered for the calculation of the LCR in Swiss francs.	314.1*
Positive HQLA holdings of Category 1 or Category 2a may be included in the liquidity statement for the LCR in Swiss francs in rows 056–058 , 511–514 and 611–618 only if, following the transfer, no weighted negative sum of Category 1 and 2a HQLA remains in the relevant currency after recognition of haircuts.	314.2*
Negative Category 1 and Category 2a HQLA portfolios in foreign currencies do not need to be transferred to the LCR in Swiss francs; margin no. 314.1 shall apply in this situation.	314.3*
b) Considering additional Category 2a HQLA in Swiss francs beyond the 40 percent ceiling	
The prerequisite for applying the exception-to-policy rule to consider additional assets of Category 2a in Swiss francs shall be that the associated risks are mitigated effectively. The bank must be in a position to adequately measure, monitor, and mitigate any concentration risks, price risks, and monetization risks related to holding these additional Category 2a assets.	315
Additional requirements the banks must fulfill when considering additional Category 2a HQLA in Swiss francs are the following:	316
a. Category 2a assets which exceed the ceiling of 40 percent, as determined in Article 15c(2)(c) LiqO, are subject to an additional haircut of 5 percent, leading to a total discount of 20 percent;	317
b. Category 2a assets (including the additional assets) are eligible up to a ceiling of 60 percent of total portfolio of HQLA;	318
c. the additional Category 2a assets above the 40 percent ceiling must be rated at least AA and must be eligible as collateral for regular money market transactions with the SNB; and	319
d. Category 2b assets continue to be limited to 15 percent of the total portfolio of HQLA prior to adding the additional Category 2a HQLA in Swiss francs.	320
In accordance with margin no. 319, additional Category 2a HQLA shall be permitted in the calculation of the LCR_TOT.	320.1*

K. LCR by significant foreign currencies

The bank must monitor the LCR in all significant currencies in order to react to any currency mismatches between the HQLA and the net cash outflows in times of stress. The monitoring using the LCR by significant foreign currencies shall include at least: 321

- a. regular internal reporting to the executive board or a committee reporting directly to the executive board; and 322
- b. the clear presentation of the differences between results from internal (stress) models used to manage foreign currencies and results from the LCR by significant foreign currency. 323

The duty to calculate the LCR by significant currencies applies to the highest consolidation level. Banks without a group structure must calculate the LCR by significant currencies at the stand-alone legal entity level. 324

A currency shall be considered significant if significant liquidity risks exist in this currency. Significant liquidity risks in a currency shall exist if the liabilities in all maturity bands for the relevant currency make up more than 5 percent of the total balance sheet liabilities. 325

L. Temporary Breaches of the LCR under Extraordinary Circumstances

“Extraordinary circumstances” shall refer to a severe idiosyncratic event, an event caused by a crisis in an international or the Swiss financial market or a combined event. 326

“Temporary” shall mean that the breach of the minimum requirements is restricted to the duration of the extraordinary circumstances. 327

Should a bank breach the LCR minimum requirements, it must immediately: 328

- a. inform FINMA of the breach; 329
- b. provide FINMA with an assessment of the liquidity situation, including the factors which caused the breach in the LCR; 330
- c. provide FINMA with measures which will be taken in order to meet the minimum requirements again quickly; and 331
- d. explain to FINMA by when the LCR requirements will again be met . 332

Should the bank’s plan that shows which measures will be taken in order to meet the minimum requirements again be insufficient, FINMA may demand that the bank lower its liquidity risks, increase its HQLA and strengthen the overall management of its liquidity risks. 333

Depending on its risk assessment, FINMA may require intra-month reporting of the LCR statements. Daily or weekly LCR statements shall enable FINMA to adequately and thoroughly assess the bank’s liquidity situation. Usually, intra-month reports shall be due on the day after the cut-off date. 334

If a breach of the LCR minimum requirement is expected, margin nos. 328-334 shall apply accordingly 335

M. Liquidity report

For the recognition of traded spot transactions not yet settled, the option shall exist to choose between the trade date principle and the settlement date principle (in accordance with FINMA circ. 15/1 "Accounting – banks", margin no. 17). From a liquidity perspective, however, the settlement date accounting shall be applied. In the event of exceptions, margin no. 89.1 must be considered. 336*

All positions necessary to calculate the LCR shall be measured according to FINMA-AO. 337

HQLA that are to be valued at market values shall be the exception (Articles 15a(3) and 15b(4) and (6) LiqO). The valuation at market value shall contain any accrued interest. 338

Instead of measuring HQLA at market values, the principle of the lower of cost or market values may be applied. 339

The calculation of net cash outflows and inflows from derivatives shall be done according to margin nos. 249-253 and 298. 340

Exposures in foreign currencies shall be converted using the spot rate at the reference date of the liquidity report. 341

A foreign bank pursuant to Article 1 of the FINMA Foreign Banks Ordinance (FBO-FINMA); SR 952.111) shall complete the liquidity report "LCR_P". 341.1*

N. Definition of specific, lower cash outflow and/or higher cash inflow rates for intra-group cash flows

The consideration of cash outflows and inflows between the parent company and any directly and indirectly held subsidiaries within the same group shall be limited to the calculation of the LCR of the parent company on stand-alone legal entity basis and the calculation of the LCR for foreign banks affected by margin no. 341.1. 342*

For cash outflows and inflows between the parent company and the subsidiaries and according to margin no. 341.1 between subsidiaries within the same group, the following outflow and inflow rate shall apply: 343*

a. An outflow rate of 100 percent shall apply to all intra-group cash outflows (Annex 2, item 15 LiqO) and an inflow rate of 100 percent shall apply to all intra-group cash inflows (Annex 3, item 7 LiqO); 344

b. In exceptional cases, a look-through approach may be applied to outflow and inflow rates in accordance with Annexes 2 and 3 LiqO for back-to-back transactions between the parent company and subsidiaries. This approach may be applied if the cash flow due to the guarantee, liquidity facility, or credit facility provided by the parent company to its subsidiaries is triggered only if a specific underlying transaction of the subsidiary with a third party causes such outflow. 345*

The look-through approach as per margin no. 345 must be approved by FINMA. 346

Repealed 347*

Secured financing transactions between a parent company and directly or indirectly held subsidiaries within the same group shall be unwound/settled if they involve the exchange of HQLA and mature within 30 calendar days. 348

Should a foreign regulator restrict cash outflows for a subsidiary or a branch of a Swiss bank (ring-fencing) or for a Swiss subsidiary or branch of a foreign bank, or if there is such a threat, FINMA shall be entitled to reduce the intra-group cash inflows up to 0 percent. 349

O. Simplifications in the completion of the liquidity report for small banks

Banks in Categories 4 and 5⁹ may make use of the simplifications for the areas listed in this section, thus reducing the complexity of filling out the liquidity report (Articles 14(3)(c) and 17(1) LiqO). For individual cases, FINMA may grant a relaxation of the requirements or may order a tightening thereof. 350*

[Simplification for Article 14(2) LiqO / margin no. 104] For financial groups, the statutory audit firm may confirm the following as part of the FINMA regulatory audit: 351*

- a. that there are no substantial interdependencies between the financial group and the stand-alone institution with respect to liquidity, and 352*
- b. that the stand-alone institution, in the event of a liquidity crisis, has a contractual obligation, or feels it is obliged for reputational reasons, to provide full liquidity to the other subsidiaries in the financial group and has documented this accordingly. 353*

If such a confirmation exists, the liquidity report only needs to be submitted at financial group level. The confirmation of the audit firm shall be valid in each case for one year at the most. 354*

[Simplification for Article 14(2) LiqO / margin no. 104] Insignificant subsidiaries do not need to be included in the scope of consolidation when calculating the LCR at financial group level. For the purpose of the LCR, subsidiaries shall be insignificant if: 355*

- a. the HQLA of all subsidiaries is less than 5 percent in total in proportion to the HQLA of the financial group, and 356*
- b. the net outflows of all subsidiaries is less than 5 percent in total in proportion to the net cash outflows of the financial group. 357*

[Simplification for Article 14(2)(b) LiqO] In case of insignificant foreign currency positions, the LCR shall be calculated only pursuant to Article 14(2)(a) LiqO, and not pursuant to Article 14(2)(b) LiqO. Foreign currency exposures shall be deemed insignificant if the liabilities in all maturity bands across all currencies make up less than 5 percent of the total balance sheet liabilities. 358*

⁹ Cf. Annex 3 BO

[Simplifications for Article 15e LiqO / margin nos. 169 et seq.] Small banks which exclusively undertake secured financing transactions that are netted can benefit from simplifications when completing the liquidity report pursuant to Annex 2, item 11 FINMA circ. 15/2. 359*

[Simplification for margin no. 178* et seq.] If a small bank cannot distinguish between stable (margin nos. 178–184) and less stable deposits (margin no. 193), it may record the stable deposits as less stable deposits. 360*

[Simplifications when the recording of derivatives] A small bank does not need to take into consideration rows 139–144 in the liquidity report (additional requirements for derivative outflows), if it can transparently demonstrate based on relevant criteria that it does not expect any cash outflows in that area. This analysis shall be performed annually and be confirmed to FINMA by the statutory audit firm during its regulatory audit in the frequency which results from the audit strategy in accordance with FINMA circ. 13/3 “Auditing”. Small banks that cannot prove this shall adequately estimate the net cash outflow from derivatives or other transactions based on market valuation changes (margin nos. 262–265). 361*

[Simplifications when differentiating credit from liquidity facilities] Small banks may record all facilities as credit facilities pursuant to Annex 2, item 8 LiqO. 362*

[Simplifications when completing the liquidity report] Simplifications when completing the liquidity report shall apply in accordance with Annex 2 of this circular. 363*

Annex 1

Unwinding / settlement mechanism and secured financing transactions

A. Treatment of repos and secured securities financing transactions¹⁰, maturing within 30 calendar days:¹¹

Borrower / lender	Cash outflow rate
Transactions conducted with the <u>SNB or another central bank</u> , of which:	
- backed by Category 1 assets	unwound/settled
- backed by assets of Category 2 - excluding equity shares ¹²	unwound/settled
- backed by Category 2 assets – including equity shares ³	0% (Article 15e(4))
- backed by non-HQLA	0%
Transactions <u>not conducted with a central bank</u> , of which	
- backed by Category 1 assets	unwound/settled
- backed by Category 2 assets – excluding equity shares ³	unwound/settled
- backed by Category 2 assets - shares ³ included, of which are:	
– conducted with the domestic sovereign, multilateral development banks, or domestic public sector entities with a <u>risk weighting of 0% or 20%</u> as counterparty	25%
– not conducted with the domestic sovereign, multilateral development banks, or domestic public sector entities with a <u>risk weighting of 0% or 20%</u> as counterparty	50%

¹⁰ Includes secured SLB transactions, i.e. the lender has unrestricted access rights to the securities received. According to margin no. 163, secured SLB transactions with unrestricted access rights are not eligible as HQLA.

¹¹ For transactions with the SNB that include a contractual termination option, the notice period shall be relevant for determining the residual maturity.

¹² according to Article 15b(5) LiqO

Borrower / lender	Cash outflow rate
Transactions <u>not conducted with a central bank</u> that are backed with non-HQLA assets, of which:	
– conducted with the domestic sovereign, multilateral development banks, or domestic public sector entities with a <u>risk weighting of 0% or 20%</u> as counterparty	25%
– not conducted with the domestic sovereign, multilateral development banks, or domestic public sector entities with a <u>risk weighting of 0% or 20%</u> as counterparty	100%

B. Treatment of reverse repos and secured securities financing¹³, maturing within 30 calendar days:¹⁴

Lender / borrower	Cash inflow rate
Transactions in which the collateral was not reused to cover short positions, of which:	
Transactions conducted with the SNB, of which:	
- backed by Category 1 assets	unwound/settled
- backed by assets of Category 2 - excluding equity shares ¹⁵	unwound/settled
- backed by Category 2 assets – including equity shares ⁶	unwound/settled
Margin lending backed by non-HQLA	unwound/settled
- backed by non-HQLA	unwound/settled

¹³ Includes secured SLB transactions, i.e. the lender has unrestricted access rights to the securities received. According to margin no. 163, secured SLB transactions with unrestricted access rights are not eligible as HQLA.

¹⁴ For transactions with the SNB that include a contractual termination option, the notice period shall be relevant for determining the residual maturity.

¹⁵ according to Article 15b(5) LiqO

Lender / borrower	Cash inflow rate
Transactions conducted with counterparties other than the SNB, of which:	
- backed by Category 1 assets	unwound/settled
- backed by Category 2 assets – excluding equity shares ⁶	unwound/settled
- backed by Category 2 assets – including equity shares ⁶	50%
Margin lending backed by non-HQLA	50%
- backed by non-HQLA	100%
Transactions where the collateral is re-used to cover short positions, of which:	
- backed by Category 1 assets	0%
- backed by Category 2 assets – excluding equity shares ⁶	0%
- backed by Category 2 assets – including equity shares ⁸	0%
Margin lending backed by non-HQLA	0%
- backed by non-HQLA	0%

C. Treatment of collateral swaps maturing within 30 calendar days:¹⁶

Lender / borrower	LiqO reference	Cash outflow rate	Cash inflow rate
Borrowed securities not reused to cover short positions, of which:			
- Category 1 assets are lent and Category 1 assets are borrowed	15e	unwound/ settled	unwound/ settled
- Category 1 assets are lent and Category 2 assets (excluding equity shares ¹⁷) borrowed	15e		unwound/ settled
- Category 1 assets are lent and Category 2 assets including equity shares ⁸ are borrowed	Annex 3, 1.3		50%
- Category 1 assets are lent and non-HQLA are borrowed	Annex 3, 1.6		100%
- Category 2 assets excluding equity shares ⁸ are lent and Category 1 assets are borrowed	15e	unwound/settled	
- Category 2 assets excluding equity shares ⁸ are lent and Category 2 assets excluding equity shares ⁸ are borrowed	15e	unwound/settled	unwound/settled
- Category 2 assets excluding equity shares ⁸ are lent and Category 2 assets including equity shares ⁸ are borrowed	Annex 3, 1.2		35%
- Category 2 assets excluding equity shares ⁸ are lent and non-HQLA is borrowed	Annex 3, 1.5		85%
- Category 2 assets including equity shares ⁸ are lent and Category 1 assets are borrowed	Annex 2, 3.5	50%	
- Category 2 assets including equity shares ⁸ are lent and Category 2 assets excluding equity shares ⁸ are borrowed	Annex 2, 3.3	35%	
- Category 2 assets including equity shares ⁸ are lent and Category 2 assets including equity shares ⁸ are borrowed	Annex 2/3, 3.1/1.1	0%	0%

¹⁶ For transactions with the SNB that include a contractual termination option, the notice period shall be relevant for determining the residual maturity.

¹⁷ according to Article 15b(5) LiqO

Lender / borrower	LiqO reference	Cash outflow rate	Cash inflow rate
- Category 2 assets including equity shares ⁸ are lent and non-HQLA are borrowed	Annexes 3, 1.3		50%
- Non-HQLA are lent and Category 1 assets are borrowed	Annex 3, 3.7	100%	
- Non-HQLA are lent and Category 2 assets excluding equity shares ⁸ are borrowed	Annex 3, 3.6	85%	
- Non-HQLA are lent and Category 2 assets including equity shares ⁸ are borrowed	Annex 2, 3.5	50%	
- Non-HQLA are lent and non-HQLA are borrowed	Annex 2/3, 3.1/1.1	0%	
Borrowed securities reused to cover short positions, of which:			
- Category 1 assets are lent and Category 1 assets are borrowed	Annex 2/3, 4.1/1.1	0%	0%
- Category 1 assets are lent and Category 2 assets excluding equity shares ⁸ are borrowed	Annexes 3, 2		0%
- Category 1 assets are lent and Category 2 assets including equity shares ⁸ are borrowed	Annexes 3, 2		0%
- Category 1 assets are lent and non-HQLA are borrowed	Annexes 3, 2		0%
- Category 2 assets excluding equity shares ⁸ are lent and Category 1 assets are borrowed	Annexes 2, 4.2		
- Category 2 assets excluding equity shares ⁸ are lent and Category 2 assets excluding equity shares ⁸ are borrowed	Annex 2/3, 4.1/1.1	0%	
- Category 2 assets excluding equity shares ⁸ are lent and Category 2 assets including equity shares ⁸ are borrowed	Annexes 3, 2		0%
- Category 2 assets excluding equity shares ⁸ are lent and non-HQLA is borrowed	Annexes 3, 2		0%
- Category 2 assets including equity shares ⁸ are lent and Category 1 assets are borrowed	Annexes 2, 4.4		
- Category 2 assets including equity shares ⁸ are lent and Category 2 assets excluding equity shares ⁸ are borrowed	Annexes 2, 4.3	35%	
- Category 2 assets including equity shares ⁸ are lent and Category 2 assets including equity shares ⁸ are borrowed	Annex 2/3, 4.1/1.1	0%	
- Category 2 assets including equity shares ⁸ are lent and non-HQLA are borrowed	Annex 3, 2		0%
- Non-HQLA are lent and Category 1 assets are borrowed	Annex 2, 4.6		

Lender / borrower	LiqO reference	Cash outflow rate	Cash inflow rate
- Non-HQLA are lent and Category 2 assets excluding equity shares ⁸ are borrowed	Annex 2, 4.5	85%	
- Non-HQLA are lent and Category 2 assets including equity shares ⁸ are borrowed	Annex 2, 4.4	50%	
- Non-HQLA are lent and non-HQLA are borrowed	Annex 2/3, 4.1/1.1	0%	

Annex 2

Liquidity report simplification for small banks

No.	Cells in the form of the liquidity report	Area in the form	Permitted simplification
1.	004-008 016-020	"of which" positions for "Securities with a 0%/20% risk weight"	It is permitted to make a general allocation of securities holdings in Category 1 and Category 2 HQLA by issuer type without undertaking a precise issuer type differentiation (volume of HQLA of Category 1 in line 004 and volume of HQLA of Category 2a in line 016, in each case in column 40).
2.	009	"Positions in lines 4 to 6 which are issued or guaranteed by the Swiss government or the SNB"	There is no reporting obligation
3.	021, 503	"Non-financial corporate bonds, rated AA or better/rated AA"	There is an option to sum up the relevant securities holdings of line 503 in column 40
4.	504-506 022-024	"Swiss covered bonds, SNB eligible/not SNB eligible/other covered bonds"	There is an option to sum up the relevant securities holdings of line 506 in column 40
5.	044-045	"of which" positions for "Assets excluded from the HQLA portfolio due to operational restrictions"	There is no reporting obligation
6.	047	"Assets held at the entity level, but excluded from the consolidated HQLA portfolio due to margin numbers 104, 157-159"	There is no reporting obligation
7.	050, 051, 508	"of which" positions for "SNB repo-eligible assets according to the consultative document about SNB repo eligible securities and the inventory of the SNB eligible securities"	There is no obligation to report these separately (all SNB repo-eligible holdings are recorded in line 049 and do not need to be broken down further)

No.	Cells in the form of the liquidity report	Area in the form	Permitted simplification
8.	070, 071 074, 075 084, 085, 088, 089, 519, 520, 522, 523, 525, 526, 528, 529,	“of which” positions for “Total retail deposits”/“Total wholesale deposits” „in Switzerland” “not in Switzerland”	There is an option to sum up the relevant deposits with stable and less stable deposits in column 40
9.	516, 517, 532	Further breakdown of the “of which” positions: “whereof vested benefit funds/pillar 3a deposits”	There is no obligation to file separate reports (all corresponding deposits should be recorded under 077, 078, or 531).
10.	122-124	“Of the non-operational deposits, amounts that could be considered operational ...”	There is no reporting obligation
11.	501, 502, 507, 125, 126, 130, 131, 548-552, 183, 184, 213, 214, 218, 219	Unwinding / settlement	There is no reporting obligations for banks that fulfill margin no. 359 (for a calculation example, see Annex 3)

Annex 3

Unwinding/settlement mechanism and secured financing transactions: calculation example for small banks

Calculation example to illustrate the cancelation mechanism for small banks that fulfill margin no. 359 Background:

A bank (individual institution) reports the following balance sheet data as per the reporting date. "C1" designates HQLA of Category 1 and "C2a" designates HQLA of Category 2a. In addition, the bank has a repo transaction with a term of 25 days and a nominal of EUR 20 and a reverse repo transaction with a term of 10 days and a nominal of CHF 10 in its books as per the reporting date.

Balance sheet values (CHF)

C1 CHF (central bank reserves) _____ 100
 C1 CHF (own bonds) _____ 30
 C2a CHF (own bonds) _____ 10
 Receivables from securities transactions CHF: _____ 10
 Liabilities from securities transactions EUR: _____ 20

From an LCR perspective, these transactions shall be unwound/settled. The simplification pursuant to margin no. 359 permits the following simplification in the completion of the liquidity report:

LCR Total (in CHF)		
Row	Comment	Holding
002	Unwinding / settlement: C1 CHF (central bank reserves) - liabilities from securities financing transactions + receivables from securities transactions: $100 - 20 + 10$	90
004 – 012	C1 CHF (own bonds)	30
016 – 025	C2a CHF (own bonds)	10

LCR CHF (in CHF)		
Row	Comment	Holding
002	Unwinding / settlement: C1 CHF (central bank reserves) + receivables from securities transactions: 100 + 10	110
004 – 012	C1 CHF (own bonds)	30
016 – 025	C2a CHF (own bonds)	10
LCR EUR (in CHF)		
Row	Comment	Holding
002	Unwinding / settlement: - liabilities from securities financing transactions: -20	-20

Annex 4

Glossary

For the purposes of this circular, the following abbreviations and term definitions apply:

Back-to-back transactions	Back-to-back transactions are defined as transactions where the parent company assumes the liquidity risks of directly or indirectly held subsidiaries of the same financial group as part of central treasury management.
Beneficiary	A beneficiary shall be a legal entity (including independent assets) that receives, or may become eligible to receive, contributions from a will, an insurance policy, retirement plan, annuity, trust, family foundation or other contract such as a personal investment company (PIC) (see also Basel Committee for Banking Supervision (2013), “Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools,” footnote 44). Small charitable foundations pursuant to margin no. 212 and vested benefits foundations, bank pension plan foundations, or investment foundations pursuant to margin nos. 237-240 shall be excluded from this definition of the term for the purposes of the LCR calculation.
Cash management services	Cash management services shall encompass the provision of products and services to a customer in order to help the customer manage its cash flows, assets and liabilities, and conduct financial transactions necessary to the customer’s ongoing operations (see also Basel Committee for Banking Supervision (2013); “Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools,” paragraph 103).
Clearing relationship	A clearing relationship shall be a service arrangement that enables customers to transfer funds (or securities) indirectly through direct participants in domestic settlement systems to final recipients (see also Basel Committee for Banking Supervision (2013); “Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools,” paragraph 101).
Conduit	A conduit shall be a vehicle financing structure to which the bank transfers assets and receives financing resources in return.
Custody banking service	Custody banking services shall encompass the provision of safekeeping, the management and reporting of securities, and support in the operational and administrative elements of related activities on behalf of customers (see also Basel Committee for Banking Supervision (2013); “Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools,” paragraph 102).

Hedge Funds	A hedge fund shall be an investment fund that invests using non-traditional strategies and is largely free of conventional investment restrictions. Hedge funds shall differ from traditional investment funds above all in their multi-faceted strategies and investment techniques, which are used to improve the risk/return structure of the portfolio. The hedge funds' strategy shall be to use a broad spectrum of financial instruments and techniques, including derivatives and short sales. Hedge funds shall make use of a combination of long and short positions, as well as leveraging. While hedge funds also invest in traditional asset classes (equity and bond markets), they shall employ alternative investment strategies and techniques to do so. The management of hedge funds typically involves the manager(s) having a personal financial stake in the fund.
HQLA	High-quality liquid assets
Correspondent banking services	Correspondent banking shall refer to arrangements under which one bank (correspondent) holds deposits owned by other banks and provides payment and other services (e.g. so-called nostro and vostro accounts used for the clearing and settlement of foreign currency transactions) Cf. Basel Committee on Banking Supervision (2013), "Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools; footnote 42.
Unencumbered	Unencumbered shall mean free of legal, regulatory, contractual or other restrictions regarding the bank's ability to transfer or sell HQLA or dispose of HQLA in the context of simple repo transactions at any point within the next 30 calendar days (see also Basel Committee for Banking Supervision (2013); "Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools," paragraph 31).
Prime brokerage services	Prime brokerage services shall refer to a package of services offered to large, active investors, particularly institutional investors or hedge funds. These services shall usually include: clearing, settlement and custody, consolidated reporting, financing (margin payments, repo transactions, synthetic instruments), securities lending, capital introduction, and risk analyses. See also footnote 42, BCBS 238.
Short position	A short position shall denote a transaction where a bank's customer or the bank itself sells a security it does not own, and the bank subsequently obtains the same security from internal or external sources to pass on to the customer for the above-mentioned sale, thereby meeting its own delivery obligations. Internal sources shall include the bank's own portfolio of collateral as well as re-hypothecatable collateral held in other customer margin accounts. External sources shall include collateral obtained through a securities borrowing, reverse repo transactions, or similar transactions. See also Basel Committee for Banking Supervision (2013), "Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools," footnote 47.

Transaction account	A transaction account shall be a salary account, private account and/or another account offered in connection with the majority of the following services: payment orders, use of ATMs, checks, debit and credit cards, home/on-line banking, and overdraft facilities. Pure securities accounts are not transaction accounts.
Fiduciaries	Fiduciaries shall be legal entities authorized to manage assets for a third party (see also Basel Committee for Banking Supervision (2013), "Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools," footnote 43). Asset management companies, hedge funds, and other collective investment vehicles are also deemed to be fiduciaries.
Trust	Management of asset rights on behalf of third parties, whereby both the trustee and the beneficiaries are owners.
VaR model	Value-at-risk model
Special purpose entity	In keeping with the definition given in Basel II (Basel Committee for Banking Supervision (2006), "International Convergence of Capital Measurement and Capital Standards – A Revised Framework Comprehensive Version," paragraph 552), a special purpose entity (SPE) shall be a company, fiduciary, or other entity organized for a specific purpose and whose activities are limited to those appropriate to accomplish this purpose; the intention of the structure shall be to isolate the SPE from the credit risk of an originator or seller of exposures. SPEs are commonly used as financing vehicles where exposures are sold to a trust or similar entity in exchange for cash or other assets funded by debt issued by the trust (see also Basel Committee for Banking Supervision (2013), "Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools," footnote 50).

List of amendments

The circular has been amended as follows:

This amendment has been resolved on 7 December 2017 and will enter into force on 1 January 2018.

Newly inserted margin nos.	8.1, 89.1, 118.1, 119.1, 121, 166.1, 173.1, 173.2, 177.1, 177.2, 177.3, 187.1, 187.2, 187.3, 194.1, 194.2, 194.3, 199.1-199.6, 200.1, 200.2, 210.1, 212.1, 224.1, 226.1, 226.2, 227.1, 231.1, 236.1, 240.1, 245.1-245.7, 248.1, 248.2, 265.1, 265.2, 277.1-277.3, 278.1-278.5, 281.1-281.3, 285.1, 294.1-294.4, 296.1, 297.1-297.4, 298.1-298.3, 314.1-314.3, 320.1, 341.1, 350-363
Amended margin nos.	1, 7, 12, 13, 26, 39, 45, 50, 51, 67, 83, 120, 127, 128, 129, 130, 131, 138, 153, 156, 157, 158, 159, 160, 161, 166, 167, 169, 171, 174, 176, 178, 187, 188, 193, 194, 196, 197, 199, 200, 201, 202, 204, 205, 207, 211, 212, 213, 214, 225, 227, 232, 235, 237, 239, 242, 245, 246, 248, 249, 250, 263, 272, 274, 277, 278, 281, 282, 286, 292, 294, 295, 296, 297, 298, 303, 304, 308, 309, 310, 336, 342, 343, 345
Repealed margin nos.	11, 52, 53, 54, 55, 56, 57, 58, 112, 185, 195, 209, 215-218, 238, 243, 244, 247, 262, 266, 276, 279, 280, 347
Other amendments	Annexes 2-4 (new) Amended titles before margin nos, 11, 39, 104, 166

This amendment was passed on 31 October 2019 and shall enter into force on 1 January 2020.

Amended margin no.	76
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As at 1 January 2020, references to FINMA circular 2015/1 "Accounting — banks" were amended to FINMA circular 2020/1 "Accounting — banks" and/or the FINMA Accounting Ordinance, FINMA-AO of 31 October 2019.

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