



**MONETARY BOARD
CENTRAL BANK OF SRI LANKA**

31 March 2015

BANKING ACT DIRECTIONS

No. 01 of 2015

**LIQUIDITY COVERAGE RATIO UNDER BASEL III LIQUIDITY STANDARDS FOR
LICENSED COMMERCIAL BANKS AND LICENSED SPECIALISED BANKS**

Issued under Sections 46(1) and 76(J)(1) of the Banking Act, No. 30 of 1988, last amended by
the Banking Act, No. 46 of 2006.

The Monetary Board issues these Directions for the implementation of Liquidity Coverage Ratio for Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs) in accordance with “Basel III: International Framework for Liquidity Risk Measurement, Standards and Monitoring” and “Basel III: The Liquidity Coverage Ratio and Liquidity Risk Monitoring Tools” issued by the Basel Committee on Banking Supervision in December 2010 and January 2013, respectively.

1. Empowerment under the Banking Act In terms of Sections 46(1) and 76(J)(1) of the Banking Act, in order to ensure the soundness of the banking system, the Monetary Board is empowered to issue Directions to all or any LCB and LSB, respectively, regarding the manner in which any aspect of the business of such banks are to be conducted.
2. Minimum LCR Requirement Commencing from 1 April 2015, every LCB and LSB shall maintain Liquidity Coverage Ratios (LCR) as prescribed in Annex I hereto in respect of Rupee Liquidity Minimum Requirement for local currency operations and All Currency Liquidity Minimum Requirement for the overall operations effective from the dates indicated below.

Effective Date	1 April 2015	1 January 2016	1 January 2017	1 January 2018	1 January 2019 onwards
Minimum Requirement (per cent)	60	70	80	90	100



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3. Implement appropriate systems Every LCB and LSB shall develop and implement appropriate systems and provide all resources necessary to implement LCR as per the Direction 2 above.
4. Regulatory Reporting Every LCB and LSB shall submit two separate returns on a monthly basis on or before the fifteenth day of the following month as per the formats and guidelines given in Appendices I to III to the Annex I hereto, via the Web-based Off-site Surveillance System.
5. Monitoring Tools Every LCB and LSB shall also monitor its liquidity position using the monitoring tools stated below as recommended in “Basel III: The Liquidity Coverage Ratio and Liquidity Risk Monitoring Tools” issued on January 2013 and document processes for application of such tools. However, this monitoring shall be only an additional minimum requirement and every LCB and LSB shall also monitor the liquidity position further relative to its size and nature of the business operations.
- (i) **Contractual Maturity Mismatch:** Develop a metric to identify contractual maturity mismatch profile, i.e., the gaps between the contractual inflows and outflows of liquidity for defined time bands to assess the potential liquidity needs.
- (ii) **Concentration of Funding:** Develop a metric to mitigate the funding concentration risk that may arise from significant counterparties, products/instruments, currencies, etc.



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- (iii) **LCR by Significant Foreign Currency:** Develop a metric to monitor LCR in each significant currency on an ongoing basis in order to capture potential currency mismatches. For the purpose of this Direction, significant currencies shall be determined internally based on the bank's volume of transactions in such currencies and its ability to raise funds in foreign currency markets.
- (iv) **Available Unencumbered Assets:** Develop a metric to provide data on the volume and key characteristics of all available unencumbered assets which have the potential to be used as collateral for raising additional funding from the secondary market and/or central banks.

P Samarasiri
*Senior Deputy Governor
Central Bank of Sri Lanka*



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BASEL III LIQUIDITY STANDARDS
ON LIQUIDITY COVERAGE RATIO

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1. INTRODUCTION

- 1.1. The recent global financial crisis that began in 2007 revealed that certain banks even with adequate capital levels experienced severe stress due to lack of prudent liquidity risk management practices and due to sudden evaporation of liquidity from the market resulting from withdrawals of credit lines by market participants.
- 1.2. The Basel Committee on Banking Supervision (BCBS) issued the Basel III rules on liquidity risk measurement, standards and monitoring on 16.12.2010. Two minimum standards, viz., the Liquidity Coverage Ratio and the Net Stable Funding Ratio, were prescribed by BCBS. In January 2013, the Basel Committee's oversight body, the Group of Central Bank Governors and Heads of Supervision (GHOS) endorsed the Basel III Liquidity Rule on LCR as the global minimum standard for liquidity risk.
- 1.3. LCR is expected to improve the banking sector's ability to absorb shocks arising from financial and economic stress, thus, reducing the risk of spillover from the financial sector to the real economy. LCR is one of the Basel Committee's key reforms to strengthen global liquidity regulations with the goal of promoting a more resilient banking sector.
- 1.4. Basel III Liquidity Standards mainly focus on internationally active banks. However, regulators have adopted these standards for other banks too with the view to further strengthen liquidity risk management, better comparison with international best practices, facilitate entity rating, Sovereign rating and international fund raising activities.

2. THE REGULATORY FRAMEWORK

2.1. Objective of LCR:

LCR intends to:

- a) promote short-term resilience of the liquidity risk profile of banks ensuring that banks have an adequate stock of unencumbered high-quality liquid assets that can be converted easily and immediately into cash in secondary market to meet their liquidity needs for a period of 30 calendar days under a liquidity stress scenario; and
- b) improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source, thus reducing the risk of spillover from the financial sector to the real economy.



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2.2. Scope of application

Initially, LCR framework shall be applicable to banks on a standalone (“Solo”) level including overseas operations through branches. Subsequently, for the banks incorporated in Sri Lanka, the scope will be extended to the consolidated (“Group”) level.

2.3. LCR computation

The computation of LCR shall be based on the following formula.

$\text{LCR} = \frac{\text{Stock of high quality liquid assets}}{\text{Total net cash outflows over the next 30 calendar days}} * 100$

2.4. Definition of High Quality Liquid Assets (HQLA)

2.4.1. HQLA are assets that satisfy all the following conditions:

- a) can be easily and immediately converted into cash at little or no loss of value,
- b) can be readily sold or used as collateral to obtain funds in a range of stress scenarios, and
- c) are unencumbered, i.e., without legal, regulatory or operational impediments.

2.4.2. Characteristics of HQLA

In determining HQLA, banks shall consider the fundamental characteristics and market related characteristics of such assets.

a) Fundamental characteristics

- i) **Low credit and market risk:** Assets that are less risky tend to have high liquidity. High credit standing of the issuer and a low degree of subordination increases an asset’s liquidity. Low duration, low volatility, low inflation risk and denomination in a convertible currency with low foreign exchange risk enhance an asset’s liquidity.
- ii) **Ease and certainty of valuation:** An asset’s liquidity increases if market participants are more likely to agree on its valuation. The pricing formula of a HQLA must be easy to calculate and should not depend on strong assumptions. The inputs into the pricing formula must also be publicly available. In practice, this should rule out the inclusion of most structured or exotic products.



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- iii) **Low correlation with risky assets:** The stock of HQLA should not be subject to highly correlated risk. For example, assets issued by financial institutions are more likely to be illiquid in times of liquidity stress in the banking sector.
- iv) **Listed on a developed and recognised exchange market:** Being listed increases an asset's transparency.

b) Market related characteristics

- i) **Active and sizable market:** The asset should have active outright sale or repurchase agreement (repo) market at all times, i.e., a large number of market participants and a high trading volume. There should be historical evidence of market breadth such as price impact per unit of liquidity and market depth such as units of the asset that can be traded for a given price impact.
- ii) **Presence of committed market makers:** Quotes should be available for buying and/or selling a high-quality liquid asset.
- iii) **Low market concentration:** A diverse group of buyers and sellers in an asset's market increases the reliability of its liquidity.
- iv) **Capital flight towards quality assets:** Historically, the market should have shown tendencies to move into these types of assets in a systemic crisis.

2.5. Categories of HQLA

HQLA are categorised into two broad categories. Assets to be included in each category are those that the bank is holding on the first day of the stress period, irrespective of their residual maturity.

- a) **Level 1 assets:** Include cash in hand, qualifying Central Bank reserves and qualifying marketable securities that attract a 0% risk weight under the Basel II Capital Adequacy Framework.
- b) **Level 2 assets:** Include Level 2A assets and Level 2B assets up to a maximum of 40% of total HQLA.
 - (i) **Level 2A assets:** Include qualifying marketable securities and qualifying non-financial corporate debt securities that attract a 20% risk weight under the Basel II Capital Adequacy Framework and qualifying investments in gilt unit trusts, subject to a 15% haircut.



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(ii) **Level 2B assets:** Include qualifying non-financial corporate debt securities with an External Credit Rating between A+ to BBB- and qualifying non-financial common equity shares, subject to a 50% haircut. Level 2B assets are limited to a maximum of 15% of total HQLA.

Assets to be included in each category with the applicable factors and limitations are indicated below.

Item	Factor
Stock of HQLA	
A. Level 1 assets	
<ul style="list-style-type: none"> • Cash in hand • Qualifying Central Bank balances and reserves in excess of the Statutory Reserves Ratio (SRR) • Qualifying marketable securities with a 0% risk weight 	100%
B. Level 2 assets (maximum of 40% of HQLA)	
Level 2A assets	
<ul style="list-style-type: none"> • Qualifying marketable securities with a 20% risk weight • Qualifying non-financial corporate debt securities (including commercial paper and promissory notes) • Qualifying investments in gilt unit trust backed by government of Sri Lanka securities 	85%
Level 2B assets (maximum of 15% of HQLA)	
<ul style="list-style-type: none"> • Qualifying non-financial corporate debt securities (including commercial paper and promissory notes) with an External Credit Rating between A+ to BBB- • Qualifying non-financial common equity shares 	50%
Total value of stock of HQLA	

2.6. Total net cash outflows

2.6.1 Total net cash outflows are defined as the total expected cash outflows minus total expected cash inflows for the subsequent 30 calendar days. Total expected cash outflows are calculated by multiplying the outstanding balances of various categories or types of liabilities and off-balance sheet commitments by the rates at which they are expected to run off or be drawn down. Total expected cash inflows are calculated by multiplying the outstanding balances of various categories of contractual receivables by the rates at which they are expected to flow in up to an aggregate cap of 75% of the total expected cash outflows.



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2.6.2 Banks shall not double count items, i.e., if an asset is included as part of the “stock of HQLA” (i.e. numerator), the associated cash inflows cannot be counted as “cash inflows” (i.e. part of the denominator).

2.7. Appendices

The Reporting formats for Rupee Liquidity Requirement (BSD-MF-19-RR) and All Currency Liquidity Requirement (BSD-MF-19-AR) along with the Guidelines for calculation of LCR and Mapping of notations of the Credit Rating Agencies for classification of assets for LCR are attached as follows.

2.7.1 Appendix I - Reporting formats for both Rupee Liquidity Requirement and All Currency Liquidity Requirement.

2.7.2 Appendix II - Guidelines for calculation of Liquidity Coverage ratio.

2.7.3 Appendix III - Mapping of notations of the Credit Rating Agencies for classification of assets for LCR.



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Reporting Formats for Rupee Liquidity Requirement (BSD-MF-19-RR)

Reporting Formats for All-Currency Liquidity Requirement (BSD-MF-19-AR)

Monthly Financial Return (LKR'000)

Name of the Bank:

As at:

Part I - Calculation of LCR

Web-based Return Code	Item	Amount
19.1.1.0.0.0	Total Stock of HQLA = 19.2.0.0.0.0 of Part II	
19.1.2.0.0.0	Total Cash Outflows = 19.3.0.0.0.0 of Part III	
19.1.3.0.0.0	Total Cash Inflows = 19.4.0.0.0.0 of Part IV	
19.1.4.0.0.0	Net Cash Outflows = 19.1.2.0.0.0 - MIN(19.1.3.0.0.0, 75%*19.1.2.0.0.0)	
19.1.5.0.0.0	Liquidity Coverage Ratio,% = (19.1.1.0.0.0/19.1.4.0.0.0)*100	

Part II - Calculation of High Quality Liquid Assets (HQLA)

Web-based Return Code	Asset	Amount	Factor	Weighted Amount
19.2.0.0.0.0	Total stock of HQLA			
19.2.1.0.0.0	Total Adjusted Level 1 Assets			
19.2.1.1.0.0	Level 1 Assets			
19.2.1.1.1.0	Cash in hand		100%	
19.2.1.1.2.0	Qualifying central bank balances and reserves in excess of Statutory Reserve Ratio		100%	
19.2.1.1.3.0	Qualifying marketable securities with a 0% risk weight			
19.2.1.1.3.1	Issued by sovereigns		100%	
19.2.1.1.3.2	Guaranteed by sovereigns		100%	
19.2.1.1.3.3	Issued or guaranteed by central banks		100%	
19.2.1.1.3.4	Issued or guaranteed by BIS, IMF, ECB and European Community or MDBs		100%	
19.2.1.2.0.0	Adjustments			
19.2.1.2.1.0	Add: Market value of level 1 securities pledged for secured funding		100%	
19.2.1.2.2.0	Add: Amounts extended through secured lending		100%	
19.2.1.2.3.0	Less: Market value of level 1 securities received for secured lending		100%	
19.2.1.2.4.0	Less: Amounts raised through secured funding		100%	
19.2.2.0.0.0	Total Adjusted Level 2A Assets			
19.2.2.1.0.0	Level 2A Assets			
19.2.2.1.1.0	Qualifying marketable securities with a 20% risk weight:			
19.2.2.1.1.1	Issued or guaranteed by sovereigns		85%	
19.2.2.1.1.2	Issued or guaranteed by central banks		85%	
19.2.2.1.1.3	Issued or guaranteed by Public Sector Enterprises		85%	
19.2.2.1.1.4	Issued or guaranteed by MDBs		85%	
19.2.2.1.2.0	Qualifying non-financial Corporate debt securities (including commercial paper and promissory notes)		85%	



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19.2.2.1.3.0	Qualifying investments in gilt unit trust backed by Government of Sri Lanka (GOSL) securities		85%	
19.2.2.2.0.0	Adjustments			
19.2.2.2.1.0	Add: Market value of level 2A securities pledged for secured funding		85%	
19.2.2.2.2.0	Add: Amounts extended through secured lending		85%	
19.2.2.2.3.0	Less: Market value of level 2A securities received for secured lending		85%	
19.2.2.2.4.0	Less: Amounts raised through secured funding		85%	
19.2.3.0.0.0	Total Adjusted Level 2B Assets			
19.2.3.1.0.0	Level 2B Assets			
19.2.3.1.1.0	Qualifying non-financial corporate debt securities (including commercial paper and promissory notes) with an External Credit Rating between A+ to BBB-		50%	
19.2.3.1.2.0	Qualifying non-financial common equity shares		50%	
19.2.3.2.0.0	Adjustments			
19.2.3.2.1.0	Add: Market value of level 2B securities pledged for secured funding		50%	
19.2.3.2.2.0	Add: Amounts extended through secured lending		50%	
19.2.3.2.3.0	Less: Market value of level 2B securities received for secured lending		50%	
19.2.3.2.4.0	Less: Amounts raised through secured funding		50%	

Part III - Calculation of Total Cash Outflows

Web-based Return Code	Item	Amount	Factor	Weighted Amount
19.3.0.0.0.0	Total cash outflows			
19.3.1.0.0.0	Deposits			
19.3.1.1.0.0	Demand, savings and term deposits (less than 30 days maturity)			
19.3.1.1.1.0	Retail customers		10%	
19.3.1.1.2.0	Small business customers		10%	
19.3.1.2.0.0	Term deposits with residual maturity greater than 30 days		0%	
19.3.2.0.0.0	Unsecured wholesale funding			
19.3.2.1.0.0	Operational deposits generated by clearing, custody and cash management activities		25%	
19.3.2.2.0.0	Cooperative banks in an institutional network (qualifying deposits with the centralised institution)		25%	
19.3.2.3.0.0	Non-financial corporates, sovereigns, central banks, MDBs and Public Sector Enterprises		40%	
19.3.2.4.0.0	Other legal entity customers		100%	
19.3.3.0.0.0	Secured funding transactions			
19.3.3.1.0.0	Backed by Level 1 assets		0%	
19.3.3.2.0.0	Backed by Level 2A assets		15%	
19.3.3.3.0.0	Backed by Level 2B assets		50%	
19.3.3.4.0.0	Backed by all other assets		100%	
19.3.4.0.0.0	Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations			
19.3.4.1.0.0	Committed (irrevocable) credit & liquidity facilities			



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19.3.4.1.1.0	Undrawn committed credit & liquidity facilities to retail and small business customers		5%	
19.3.4.1.2.0	Undrawn committed credit facilities to non-financial corporates, sovereigns, CBs, PSEs and MDBs		10%	
19.3.4.1.3.0	Undrawn committed liquidity facilities to non-financial corporates, sovereigns, CBs, PSEs and MDBs		30%	
19.3.4.1.4.0	Undrawn committed liquidity facilities to banks subject to prudential supervision		40%	
19.3.4.1.5.0	Undrawn committed credit facilities to other financial institutions		40%	
19.3.4.1.6.0	Undrawn committed liquidity facilities to other financial institutions		100%	
19.3.4.1.7.0	Undrawn committed credit & liquidity facilities to other legal entities		100%	
19.3.4.2.0.0	Other contingent funding obligations			
19.3.4.2.1.0	Unconditionally revocable "uncommitted" credit and liquidity facilities		0%	
19.3.4.2.2.0	Trade Finance related obligations (including guarantees and letters of credit)		5%	
19.3.4.2.3.0	Guarantees unrelated to trade finance obligations		0%	
19.3.4.2.4.0	Other contractual cash outflows		100%	
19.3.5.0.0.0	Additional requirements			
19.3.5.1.0.0	Net derivative cash outflows		100%	
19.3.5.2.0.0	Any other contractual cash outflows		100%	

Part IV - Calculation of Total Cash Inflows

Web-based Return Code	Item	Amount	Factor	Weighted Amount
19.4.0.0.0.0	Total cash inflows			
19.4.1.0.0.0	Maturing secured lending transactions backed by the following collateral			
19.4.1.1.0.0	Backed by Level 1 assets		0%	
19.4.1.2.0.0	Backed by Level 2A assets		15%	
19.4.1.3.0.0	Backed by Level 2B assets		50%	
19.4.1.4.0.0	Margin lending backed by non-Level 1 or non-Level 2 collateral		50%	
19.4.1.5.0.0	Backed by all other assets		100%	
19.4.2.0.0.0	Committed facilities			
19.4.2.1.0.0	Credit facilities		0%	
19.4.2.2.0.0	Liquidity facilities		0%	
19.4.2.3.0.0	Other contingent funding facilities		0%	
19.4.3.0.0.0	Other inflows by counterparty which are maturing within 30 days			
19.4.3.1.0.0	Retail and small business customers		50%	
19.4.3.2.0.0	Non-financial wholesale counterparties		50%	
19.4.3.3.0.0	Central Banks, Banks and Financial Institutions		100%	
19.4.4.0.0.0	Operational deposits		0%	
19.4.5.0.0.0	Other cash inflows			
19.4.5.1.0.0	Net derivative cash inflows		100%	
19.4.5.2.0.0	Other contractual cash inflows		50%	



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Guidelines for Calculation of Liquidity Coverage Ratio

Web-based Return Code	Item
19.2.0.0.0.0	Total stock of HQLA
19.2.1.0.0.0	Total Adjusted Level 1 Assets
19.2.1.1.0.0	Level 1 Assets
19.2.1.1.1.0	Cash in hand All cash (coins and bank notes) held by the bank that is immediately available to meet obligations.
19.2.1.1.2.0	Qualifying central bank balances and reserves in excess of Statutory Reserve Ratio (SRR) Central Bank balances and reserves in excess of SRR maintained which can be drawn down in times of stress. The balance held at CBSL which represents part of the capital held in foreign currency should not be included, since it is part of capital.
19.2.1.1.3.0	Qualifying marketable securities with a 0% risk weight and shall satisfy all of the following:
(i)	Traded in large, deep and active repo or cash markets characterized by a low level of concentration;
(ii)	Have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions;
(iii)	Not an obligation of a financial institution or any of its affiliated entities;
(iv)	At the mark to market value;
(v)	Excluding securities pledged for secured funding/ repo irrespective of the maturity;
(vi)	Including securities received for secured lending/ reverse repo maturing over 30 days.
19.2.1.1.3.1	Issued by sovereigns Government of Sri Lanka - all claims. Foreign Sovereigns - where the sovereign attracts an External Credit Rating between AAA to AA-.
19.2.1.1.3.2	Guaranteed by sovereigns Government of Sri Lanka - all claims. Foreign Sovereigns - where the sovereign attracts an External Credit Rating between AAA to AA-.
19.2.1.1.3.3	Issued or guaranteed by central banks (CBs) Central Bank of Sri Lanka - all claims. Foreign Central Banks - where the sovereign attracts an External Credit Rating between AAA to AA-.
19.2.1.1.3.4	Issued or guaranteed by BIS, IMF, ECB and European Community or MDBs Issued or guaranteed by Bank for International Settlements (BIS), the International Monetary Fund (IMF), the European Central Bank (ECB), European Community (EC) and the following eligible Multilateral Development Banks (MDBs)
*	The World Bank Group comprising of the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC)
*	The Asian Development Bank (ADB)
*	The African Development Bank (AFDB)
*	The European Bank for Reconstruction and Development (EBRD)
*	The Inter-American Development Bank (IADB)
*	The European Investment Bank (EIB)
*	The European Investment Fund (EIF)
*	The Nordic Investment Bank (NIB)
*	The Caribbean Development Bank (CDB)
*	The Islamic Development Bank (IDB)
*	The Council of Europe Development Bank (CEDB)
*	The International Finance Facility for Immunization (IFFIm)



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19.2.1.2.0.0	Adjustments
19.2.1.2.1.0	Add: Market value of level 1 securities pledged for secured funding Market value of the Level 1 asset collateral extended on secured funding or repo transactions that mature within 30 days.
19.2.1.2.2.0	Add: Amounts extended through secured lending Amounts extended through secured lending or reverse repo transactions maturing within 30 days, in which the bank has extended cash and obtained collateral in the form of Level 1 (where collateral obtained not re-used).
19.2.1.2.3.0	Less: Market value of level 1 securities received for secured lending Market value of the Level 1 asset collateral (where collateral obtained not re-used) received on secured lending or reverse repo transactions maturing within 30 days, in which the bank has extended cash and obtained collateral in the form of Level 1.
19.2.1.2.4.0	Less: Amounts raised through secured funding Amounts raised through secured funding or repo transactions conducted that mature within 30 days and are backed by Level 1 assets.
19.2.2.0.0.0	Total Adjusted Level 2A Assets
19.2.2.1.0.0	Level 2A Assets
19.2.2.1.1.0	Qualifying marketable securities with a 20% risk weight and shall satisfy all of the following conditions:
(i)	Traded in large, deep and active repo or cash markets characterised by a low level of concentration;
(ii)	Have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions (i.e. A maximum decline of price or increase in haircut not exceeding 10% over a 30-day period of significant liquidity stress);
(iii)	Not an obligation of a financial institution or any of its affiliated entities;
(iv)	At the mark to market value;
(v)	Excluding securities pledged for secured funding/ repo irrespective of the maturity;
(vi)	Including securities received for secured lending/ reverse repo maturing over 30 days.
19.2.2.1.1.1	Issued or guaranteed by sovereigns Foreign Sovereigns - where the sovereign attracts an External Credit Rating between A+ to A-.
19.2.2.1.1.2	Issued or guaranteed by CBs Foreign Central Banks - where the sovereign attracts an External Credit Rating between A+ to A-.
19.2.2.1.1.3	Issued or guaranteed by Public Sector Enterprises (PSEs) Domestic and foreign PSEs - where PSE attracts an External Credit Rating between AAA to AA-.
19.2.2.1.1.4	Issued or guaranteed by MDBs MDBs other than MDBs listed above in 19.2.1.1.3.4 where MDB attracts an External Credit Rating between AAA to AA-.
19.2.2.1.2.0	Qualifying non-financial corporate debt securities (including commercial paper and promissory notes) that satisfy all of the following conditions:
(i)	Not issued by a financial institution or any of its affiliated entities;
(ii)	With an External Credit Rating of at least AA-;
(iii)	Traded in large, deep and active repo or cash markets characterised by a low level of concentration;
(iv)	Have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions. (i.e. A maximum decline of price or increase in haircut not exceeding 10% over a 30-day period of significant liquidity stress);
(v)	At the mark to market value;
(vi)	Excluding securities pledged for secured funding/ repo irrespective of the maturity;
(vii)	Including securities received for secured lending/ reverse repo maturing over 30 days.



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	In case of commercial paper and promissory notes
(i)	The issuer should be a non-financial institution
(ii)	All existing facilities obtained by the issuer from the investee bank should be "performing" in terms of the Banking Act Direction on Classification of Loans and Advances, Income Recognition and Provisioning.
(iii)	Commercial Paper/Promissory Notes should be backed by an approved standby credit line supporting the issue to the full redemption value from another licensed bank.
19.2.2.1.3.0	Qualifying investments in Gilt Unit Trust (GUT) backed by GOSL securities, subject to:
(i)	GUTs should be open ended mutual funds;
(ii)	Underlying investment portfolio of GUTs should always be Sri Lanka Government Securities;
19.2.2.2.0.0	Adjustments
19.2.2.2.1.0	Add: Market value of level 2A securities pledged for secured funding Market value of the Level 2A asset collateral extended on secured funding or repo transactions that mature within 30 days.
19.2.2.2.2.0	Add: Amounts extended through secured lending Amounts extended through secured lending or reverse repo transactions maturing within 30 days, in which the bank has extended cash and obtained collateral in the form of Level 2A (where collateral obtained not re-used).
19.2.2.2.3.0	Less: Market value of level 2A securities received for secured lending Market value of the Level 2A asset collateral (where collateral obtained not re-used) received on secured lending or reverse repo transactions maturing within 30 days, in which the bank has extended cash and obtained collateral in the form of Level 2A.
19.2.2.2.4.0	Less: Amounts raised through secured funding Amounts raised through secured funding or repo transactions that mature within 30 days and are backed by Level 2A assets.
19.2.3.0.0.0	Total Adjusted Level 2B Assets
19.2.3.1.0.0	Level 2B Assets
19.2.3.1.1.0	Qualifying non-financial corporate debt securities (including commercial paper and promissory notes) that satisfy all of the following conditions:
(i)	Not issued by a financial institution or any of its affiliated entities;
(ii)	With an External Credit Rating between A+ and BBB-;
(iii)	Traded in large, deep and active repo or cash markets characterised by a low level of concentration;
(iv)	Have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions (i.e. A maximum decline of price or increase in haircut not exceeding 20% over a 30-day period of significant liquidity stress);
(v)	At the mark to market value;
(vi)	Excluding securities pledged for secured funding/ repo irrespective of the maturity;
(vii)	Including securities received for secured lending/ reverse repo maturing over 30 days.
	In case of commercial paper and promissory notes
(i)	The issuer should be a non-financial institution
(ii)	All existing facilities obtained by the issuer from the investee bank should be "performing" in terms of the Banking Act Direction on Classification of Loans and Advances, Income Recognition and Provisioning
(iii)	Commercial Paper/Promissory Notes should be backed by an approved standby credit line, supporting the issue to the full redemption value from another licensed bank.
19.2.3.1.2.0	Qualifying non-financial common equity shares that satisfy all of the following conditions:
(i)	Not issued by a financial institution or any of its affiliated entities;
(ii)	Traded at recognized stock exchange and centrally cleared;
(iii)	Traded in large, deep and active repo or cash markets characterised by a low level of concentration;



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(iv)	Have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions (i.e., maximum decline of share price or increase in haircut not exceeding 40% over a 30 day period of significant liquidity stress);
(v)	Excluding securities pledged for secured funding/ repo irrespective of the maturity;
(vi)	Including securities received for secured lending/ reverse repo maturing over 30 days.
19.2.3.2.0.0	Adjustments
19.2.3.2.1.0	Add: Market value of level 2B securities pledged for secured funding Market value of the Level 2B asset collateral extended on secured funding or repo transactions that mature within 30 days.
19.2.3.2.2.0	Add: Amounts extended through secured lending Amounts extended through secured lending or reverse repo transactions maturing within 30 days, in which the bank has extended cash and obtained collateral in the form of Level 2B (where collateral obtained not re-used).
19.2.3.2.3.0	Less: Market value of level 2B securities received for secured lending Market value of the Level 2B asset collateral (where collateral obtained not re-used) received on secured lending or reverse repo transactions maturing within 30 days, in which the bank has extended cash and obtained collateral in the form of Level 2B.
19.2.3.2.4.0	Less: Amounts raised through secured funding Amount raised through secured funding or repo transactions that mature within 30 days and are backed by Level 2B assets.
19.3.0.0.0.0	Total cash outflows (Capital and accrued interest if any)
19.3.1.0.0.0	Deposits (including dormant deposits, collateralised customer deposits against lending, margin deposits and insured deposits under the Sri Lanka Deposit Insurance Scheme)
19.3.1.1.0.0	Demand, savings and term deposits (less than 30 days maturity)
19.3.1.1.1.0	Retail customers Deposits placed with a bank by a natural person.
19.3.1.1.2.0	Small business customers Deposits placed with a bank by non-natural person (i.e., legal entities of sole proprietorships, partnerships and clubs and societies).
19.3.1.2.0.0	Term deposits with residual maturity greater than 30 days Cash outflows related to retail term deposits with a residual maturity or withdrawal notice period of greater than 30 days will be excluded from total expected cash outflows if the depositor has no legal right to withdraw deposits within 30 days or if early withdrawal results in a significant penalty that is materially greater than the loss of interest. If a bank allows a depositor to withdraw such deposit without applying the corresponding penalty, or despite a clause that says depositor has no legal right to withdraw, the entire category should be treated as demand deposits regardless of the remaining maturity.
19.3.2.0.0.0	Unsecured wholesale funding Wholesale deposits and other general obligations that are raised from legal entities (incorporated companies). Wholesale deposits also include dormant deposits, collateralised customer deposits against lending, margin deposits and insured deposits under the Sri Lanka Deposit Insurance and Liquidity Support Scheme. In case of other general obligations, they shall not be collateralised by legal rights to specifically designated assets owned by the borrowing institution in the case of bankruptcy, insolvency, liquidation or resolution. Obligations related to derivative contracts are explicitly excluded from this definition.
19.3.2.1.0.0	Operational deposits generated by clearing, custody and cash management activities Financial and non-financial customer deposits placed with a bank, in order to facilitate their access and ability to use payment and settlement systems or make payments. These services must be provided under a legally binding agreement in addition to the account mandate to institutional customers (e.g. Vostro Accounts and collection accounts).



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19.3.2.2.0.0	<p>Cooperative banks in an institutional network (qualifying deposits with the centralized institution)</p> <p>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. (e.g., Samurdhi banks, rural banks, sanasa saving societies, cooperative societies).</p>
19.3.2.3.0.0	<p>Non-financial Corporates, Sovereigns, CBs, MDBs and PSEs</p> <p>All deposits and other extensions of unsecured funding from non-financial corporate customers, sovereigns, CBs, MDBs and PSEs not held specifically for operational purposes.</p>
19.3.2.4.0.0	<p>Other legal entity customers</p> <p>Deposits and other funding from other institutions (including banks, security firms, insurance companies, etc.), fiduciaries, beneficiaries, conduits and special purpose vehicles, affiliated entities of the bank and other entities that are not specifically held for operational purposes and not included in the prior categories.</p>
19.3.3.0.0.0	<p>Secured Funding Transactions</p>
19.3.3.1.0.0	<p>Backed by Level 1 assets</p> <p>Amounts raised through secured funding or repo transactions not conducted with the bank's domestic central bank and that mature within 30 days and are backed by Level 1 assets.</p>
19.3.3.2.0.0	<p>Backed by Level 2A assets</p> <p>Amounts raised through secured funding or repo transactions not conducted with the bank's domestic central bank and that mature within 30 days and are backed by Level 2A assets.</p>
19.3.3.3.0.0	<p>Backed by Level 2B assets</p> <p>Amounts raised through secured funding or repo transactions not conducted with the bank's domestic central bank and that mature within 30 days and are backed by Level 2B assets.</p>
19.3.3.4.0.0	<p>Backed by all other assets</p> <p>Amounts raised through secured funding or repo transactions not conducted with the bank's domestic central bank and that mature within 30 days and are backed by other assets (non-HQLA).</p>
19.3.4.0.0.0	<p>Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations</p>
19.3.4.1.0.0	<p>Committed (irrevocable) credit & liquidity facilities</p>
19.3.4.1.1.0	Undrawn committed credit & liquidity facilities to retail and small business customers
19.3.4.1.2.0	Undrawn committed credit facilities to non-financial corporates, sovereigns, CBs, PSEs and MDBs
19.3.4.1.3.0	Undrawn committed liquidity facilities to non-financial corporates, sovereigns, CBs, PSEs and MDBs
19.3.4.1.4.0	Undrawn committed credit & liquidity facilities to banks subject to prudential supervision
19.3.4.1.5.0	Undrawn committed credit facilities to other financial institutions
19.3.4.1.6.0	Undrawn committed liquidity facilities to financial institutions
19.3.4.1.7.0	Undrawn committed credit & liquidity facilities to other legal entities
19.3.4.2.0.0	<p>Other contingent funding obligations</p> <p>Other contingent funding liabilities such as guarantees, Letter of Credit (LC), recoverable credit and liquidity facility.</p>
19.3.4.2.1.0	<p>Unconditionally revocable "uncommitted" credit and liquidity facilities</p> <p>Balances of undrawn credit and liquidity facilities where the bank has the right to unconditionally revoke the undrawn portion of these facilities (e.g., Overdraft and credit card undrawn portion).</p>
19.3.4.2.2.0	<p>Trade Finance related obligations (including guarantees and letters of credit)</p> <p>Trade finance instruments consist of trade-related (import - export related) obligations directly underpinned by the movement of goods or the provision of services.</p>
19.3.4.2.3.0	<p>Guarantees unrelated to trade finance obligations</p> <p>The outstanding amount of guarantees unrelated to trade finance obligations.</p>



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19.3.4.2.4.0	<p>Other contractual cash outflows</p> <p>Any other contractual cash outflows within the next 30 calendar days should be captured in this standard, such as outflows to cover unsecured collateral borrowings, uncovered short positions, dividends or contractual interest payments as to what comprises the amounts included in this line.</p>
19.3.5.0.0.0	<p>Additional requirements</p>
19.3.5.1.0.0	<p>Net derivative cash outflows</p> <p>Banks should calculate, in accordance with their existing valuation methodologies, expected contractual derivative cash inflows and outflows. Cash flows may be calculated on a net basis (i.e., inflows can offset outflows) by counterparty. The sum of all net cash outflows should be reported here. The sum of all net cash inflows should be reported in net derivative cash inflows. Where derivative payments are collateralised by HQLA, cash outflows should be calculated net of any corresponding cash or collateral inflows that would result, all other things being equal, from contractual obligations for cash or collateral to be provided to the bank, if the bank is legally entitled and operationally capable to re-use the collateral in new cash raising transactions once the collateral is received. This is in line with the principle that banks should not double count liquidity inflows and outflows.</p>
19.3.5.2.0.0	<p>Any other contractual cash outflows</p> <p>Including any amount required to be installed in the central bank reserves within 30 days, any other contractual cash outflows.</p>
19.4.0.0.0.0	<p>Total cash inflows</p>
19.4.1.0.0.0	<p>Maturing secured lending transactions backed by the following collateral</p>
19.4.1.1.0.0	<p>Backed by Level 1 assets</p> <p>Amounts extended through secured lending or reverse repo transactions maturing within 30 days, in which the bank has extended cash and obtained collateral in the form of Level 1 (where collateral obtained not re-used).</p>
19.4.1.2.0.0	<p>Backed by Level 2A Assets</p> <p>Amounts extended through secured lending or reverse repo transactions maturing within 30 days, in which the bank has extended cash and obtained collateral in the form of Level 2A (where collateral obtained not re-used).</p>
19.4.1.3.0.0	<p>Backed by Level 2B Assets</p> <p>Amounts extended through secured lending or reverse repo transactions maturing within 30 days, in which the bank has extended cash and obtained collateral in the form of Level 2B (where collateral obtained not re-used).</p>
19.4.1.4.0.0	<p>Margin lending backed by non-Level 1 or non-Level 2 collateral</p> <p>Amounts extended through collateralised loans extended to customers for the purpose of taking leveraged trading positions (“margin loans”) made against non-HQLA collateral.</p>
19.4.1.5.0.0	<p>Backed by all other assets</p> <p>Amounts extended through such transactions (other than those reported in 19.4.1.4.0.0) in which the bank has obtained collateral in another form than Level 1 or Level 2 assets.</p>
19.4.2.0.0.0	<p>Committed facilities</p> <p>Committed credit, liquidity or other contingent funding facilities that the bank holds in other institutions for its own purpose.</p>
19.4.2.1.0.0	Credit facilities
19.4.2.2.0.0	Liquidity facilities
19.4.2.3.0.0	Other contingent funding facilities
19.4.3.0.0.0	<p>Other inflows by counterparty which are maturing within 30 days</p>
19.4.3.1.0.0	<p>Retail and small business customers</p> <p>All payments (including interest payments and installments) from retail customers on performing facilities that is contractually due within the 30-day horizon.</p>
19.4.3.2.0.0	<p>Non-financial wholesale counterparties</p> <p>All payments (including interest payments and installments) from non-financial wholesale counterparties on performing facilities that is contractually due within the 30-day horizon.</p>



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19.4.3.3.0.0	Central Banks, Banks and Financial Institutions All payments (including interest payments and installments) from central banks, banks and financial institutions on performing facilities that is contractually due within the 30-day horizon.
19.4.4.0.0.0	Operational deposits Deposits held at other financial institutions for operational purposes such as clearing, custody and cash management purposes. Also includes deposits held at centralised institution of network of co-operative banks. These services must be provided under a legally binding agreement to institutional customers (e.g., Nostro Accounts, collection accounts, cash items in process of collection).
19.4.5.0.0.0 19.4.5.1.0.0	Other cash inflows Net derivative cash inflows Banks should calculate, in accordance with their existing valuation methodologies, expected contractual derivative cash inflows and outflows. Cash flows may be calculated on a net basis (i.e., inflows can offset outflows) by counterparty. The sum of all net cash inflows should be reported here. The sum of all net cash outflows should be reported in net derivative cash outflows. Where derivatives are collateralised by HQLA, cash inflows should be calculated net of any corresponding cash or contractual collateral outflows that would result, all other things being equal, from contractual obligations for cash or collateral to be posted by the bank, given these contractual obligations would reduce the stock of HQLA. This is in line with the principle that banks should not double count liquidity inflows and outflows.
19.4.5.2.0.0	Other contractual cash inflows Any other contractual cash inflows to be captured.



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Mapping of Notations of the Credit Rating Agencies for classification of assets for LCR

Fitch Rating Lanka	RAM Ratings (Lanka) Limited	ICRA Lanka Limited	Standard and Poor's	Moody's	Fitch Ratings	Rating Scale for LCR
AAA (lka)	AAA	(SL) AAA	AAA	Aaa	AAA	AAA
AA+ (lka)	AA+	(SL) AA+	AA+	Aa1	AA+	AA+
AA (lka)	AA	(SL) AA	AA	Aa2	AA	AA
AA- (lka)	AA-	(SL) AA-	AA-	Aa3	AA-	AA-
A+ (lka)	A+	(SL) A+	A+	A1	A+	A+
A (lka)	A	(SL) A	A	A2	A	A
A- (lka)	A-	(SL) A-	A-	A3	A-	A-
BBB+ (lka)	BBB+	(SL) BBB+	BBB+	Baa1	BBB+	BBB+
BBB (lka)	BBB	(SL) BBB	BBB	Baa2	BBB	BBB
BBB- (lka)	BBB-	(SL) BBB-	BBB-	Baa3	BBB-	BBB-
BB+ (lka)	BB+	(SL) BB+	BB+	Ba1	BB+	BB+
BB (lka)	BB	(SL) BB	BB	Ba2	BB	BB
BB- (lka)	BB-	(SL) BB-	BB-	Ba3	BB-	BB-
B+ (lka)	B+	(SL) B+	B+	B1	B+	B+
B (lka)	B	(SL) B	B	B2	B	B
B- (lka) & Lower	B- & Lower	(SL) B- & Lower	B- & Lower	B3 & Lower	B- & Lower	B- & Lower