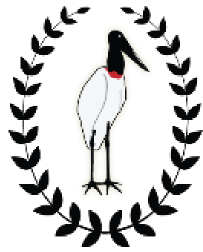

CENTRAL BANK of BELIZE

Basel II/III Implementation

Liquidity Coverage Ratio Guideline

July 2024

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LIST OF ABBREVIATIONS

ABCP	Asset-Backed Commercial Paper
ECAI	External Credit Assessment Institution
HQLA	High Quality Liquid Assets
LCR	Liquidity Coverage Ratio
LTV	Loan To Value Ratio
MSME	Micro Small and Medium Enterprises
PD	Probability Of Default
PSE	Public Sector Entity
RMBS	Residential Mortgage-Backed Securities
SIV	Structured Investment Vehicle
SPE	Special Purpose Entity

GLOSSARY

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

"Cash management services" means products and services provided to a customer to manage its cash flows, assets and liabilities and conduct financial transactions necessary to the customer's ongoing operations. Such services are limited to payment remittance, collection and aggregation of funds, payroll administration and control over the disbursement of funds.

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

"Corporate debt securities" (including commercial paper) means only plain-vanilla assets whose valuation is readily available based on standard methods and does not depend on private knowledge.

"Correspondent banking" means arrangements under which one bank (correspondent) holds deposits owned by other banks (respondents) and provides payment and other services in order to settle foreign currency transactions.

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

“Fiduciary” means a legal entity that is authorized to manage assets on behalf of a third party. Fiduciaries include asset management entities such as pension funds and other collective investment vehicles.

“Outflow rate” is expected rate at which a bank’s liabilities are expected to be redeemed over a given stressed period.

"Public sector entity (PSE)" means a public organization that is a part of the government and delivers public programmes, goods, or services, but exists as a separate organization in its own right, possibly as a

legal entity and operates with a partial degree of operational independence. The categorization of PSEs in this guideline is consistent with the categorization in the capital framework for credit risk.

"Re-hypothecation" means the practice by financial institutions of using, for their own purposes, assets that have been posted to them as collateral.

"Retail deposits" means deposits placed by a natural person.

“Run-off rate” refers to the expected rate at which liabilities (e.g., deposits or debt securities) are expected to be called or withdrawn.

"Secured funding" means those liabilities and general obligations that are collateralized by legal rights to specifically designated assets owned by the borrowing institution in the case of bankruptcy, insolvency, liquidation, or resolution.

“Special purpose entity” means a corporation, trust, or other entity organized for a specific purpose, the activities of which are limited to those appropriate to accomplish the purpose of the SPE, and the structure of which is intended to isolate the SPE from the credit risk of an originator or seller of exposures. SPEs are commonly used as financing vehicles in which exposures are sold to a trust or similar entity in exchange for cash or other assets funded by debt issued by the trust.

"Total net cash outflows" means the total expected cash outflows minus total expected cash inflows in the LCR stress scenario for the subsequent 30 calendar days. Where applicable, cash inflows and outflows should include interest that is expected to be received and paid during the 30-day time horizon.

"Unencumbered" means free of legal, regulatory, contractual, or other restrictions on the ability of the relevant financial institution to liquidate, sell, transfer, or assign the asset. These assets should not be pledged (either explicitly or implicitly) to secure, collateralize or credit-enhance any transaction, nor be designated to cover operational costs (such as rents and salaries).

"Wholesale funding" means any liability or general obligation raised from non-natural persons (i.e., legal entities, including sole proprietorships and partnerships).

1. INTRODUCTION

This Liquidity Coverage Ratio (LCR) Guideline[1] presents one of the Basel Committee's key reforms to develop a more resilient banking sector. In strengthening the liquidity risk profiles of banks in Belize, the Central Bank of Belize (Central Bank) has adopted the LCR as a minimum standard for funding liquidity. The objective of the LCR is to promote the short-term resilience of the liquidity risk profile of banks. It does this by ensuring that banks have adequate stock of unencumbered high-quality liquid assets (HQLA) that can be converted easily and immediately into cash to meet their liquidity needs for a 30-calendar day liquidity stress scenario.

The LCR will 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. The LCR is comprised of specific parameters which are internationally "harmonized" with prescribed values. Certain parameters, however, contain elements of national discretion which has been adopted by the Central Bank of Belize to reflect jurisdiction-specific conditions.

2. OBJECTIVE OF THE LCR AND USE OF HQLA

2.1 This Guideline aims to ensure that a bank has an adequate stock of unencumbered HQLA that consists of cash or assets that can be converted into cash at little or no loss of value, to meet its liquidity needs for a 30-calendar day liquidity stress scenario. At a minimum, the stock of unencumbered HQLA should enable the bank to survive until day 30 of the stress scenario, by which time it is assumed that appropriate corrective actions can be taken by the bank's management and the Central Bank, or that the bank can be resolved in an orderly way. Banks are also expected to be aware of any potential mismatches within the 30-day period and ensure that sufficient HQLA are available to meet any cash flow gaps throughout the period.

2.2 The LCR builds on traditional liquidity methodologies used internally by banks to assess exposure to contingent liquidity events. The total net cash outflows for the scenario are to be calculated for 30 calendar days into the future. The Guideline requires that, absent a situation of financial stress, the value of the ratio should be no lower than 100% (stock of HQLA should at least equal total net cash outflows) on an ongoing basis because the stock of unencumbered HQLA is intended to serve as a defense against the potential onset of liquidity stress.

3. DEFINITION OF THE LCR

3.1 The LCR has two components and is expressed as follows:

$$\frac{\textit{Stock of HQLA}}{\textit{Total net cash outflows over the next 30 calendar days}} \geq 100\%$$

A. STOCK OF HQLA

[1] Reference document: BCBS "Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools", January 2013

3.2 The numerator of the LCR is the "stock of HQLA". Banks must hold a stock of unencumbered HQLA to cover the total net cash outflows (as defined below) over a 30-day period under the prescribed stress scenario. In order to qualify as "HQLA", assets should be liquid during a time of stress. The following sets out the characteristics that such assets should generally possess and the operational requirements that they should satisfy.

I. Characteristics of HQLA

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

(i) Fundamental Characteristics

- Low risk.
- Ease and certainty of valuation.
- Low correlation with risky assets.
- Local sovereign bonds or international assets listed on a developed and recognized exchange.

(ii) Market-related characteristics (other than local sovereign bonds)

- Active and sizable market.
- Low volatility of asset prices.
- Tendencies to move into these types of assets in a systemic crisis.

3.4 As outlined by these characteristics, the test of whether liquid assets are of "high-quality" is that, by way of sale or repo, their liquidity-generating capacity is assumed to remain intact even in periods of severe idiosyncratic and market stress.

II. Operational Requirements

3.5 All assets in the stock of HQLA are subject to the following operational requirements. These operational requirements are designed to ensure that the stock of HQLA is managed in such a way that the bank can, and is able to demonstrate that it can, immediately use the stock of assets as a source of contingent funds that is available for the bank to convert into cash through the interbank market by means of collateralized loans, outright sale or repo, to fill funding gaps between cash inflows and outflows at any time during the 30-day stress period, with no restriction on the use of the liquidity generated.

3.6 All assets in the stock should be unencumbered. Assets which qualify for the stock of HQLA that

have been pre-positioned or deposited with, or pledged to, the Central Bank but have not been used to generate liquidity may be included in the stock.

3.7 A bank should exclude from stock those assets that, although meeting the definition of "unencumbered", the bank would not have the operational capability to monetize to meet outflows during the stress period.

3.8 The stock should be under the control of the function charged with managing the liquidity of the bank, meaning the function has the continuous authority, and legal and operational capability, to monetize any asset in the stock.

3.9 A bank should monitor the legal entity and physical location where collateral is held and how it may be mobilized in a timely manner. Specifically, it should have a policy in place that identifies legal entities, geographical locations, currencies and specific custodial or bank accounts where HQLA are held.

3.10 Qualifying HQLA that are held to meet statutory liquidity requirements at the legal entity or sub-consolidated level, where applicable, may only be included in the stock at the consolidated level to the extent that the related risks (as measured by the legal entity's or sub-consolidated group's net cash outflows in the LCR) are also reflected in the consolidated LCR.

3.11 In assessing whether assets are freely transferable for regulatory purposes, banks should be aware that assets may not be freely available to the consolidated entity due to regulatory, legal, tax, accounting, or other impediments.

3.12 A bank should exclude from the stock of HQLA those assets where there are impediments to sale or use as collateral for a loan through the interbank market.

3.13 While the LCR is expected to be met and reported in a single currency, banks are expected to be able to meet their liquidity needs in each currency and maintain HQLA consistent with the distribution of their liquidity needs by currency.

III. Diversification of the Stock of HQLA

3.14 The stock of HQLA should be well diversified within the asset classes themselves (except for Government of Belize securities, balances held at the Central Bank, securities issued by the Central bank; and cash). Banks should have policies and limits in place in order to avoid concentration with respect to asset types, issue and issuer types, and currency (consistent with the distribution of net cash outflows by currency) within asset classes.

IV. Definition of HQLA

3.15 The stock of HQLA should comprise assets with the characteristics outlined in paragraphs 3.3 to 3.4 – Characteristics of HQLA. This section describes the type of assets that meet these

characteristics and can therefore be included in the stock.

3.16 There are two categories of assets (Level 1 and Level 2) that can be included in the stock. 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. Level 1 assets can be included without limit, while Level 2 assets can only comprise a maximum of 40% of the total stock of HQLA.

3.17 Level 2 comprises an additional class of assets, Level 2B assets, these assets should comprise no more than 15% of the total stock of HQLA. They must also be included within the overall 40% cap on Level 2 assets.

3.18 The 40% cap on Level 2 assets and the 15% cap on Level 2B assets should be determined after the application of required haircuts, and after taking into account the unwind of short-term securities financing transactions maturing within 30 calendar days that involve the exchange of HQLA. In this context, short-term transactions are transactions with a maturity date up to and including 30 calendar days.

(i) Level 1 Assets

3.19 Level 1 assets can comprise an unlimited share of the pool and are not subject to a haircut under the LCR. For the purpose of calculating the LCR, Level 1 assets in the stock of HQLA should be measured at an amount no greater than their current market value.

3.20 Level 1 assets are limited to:

(a) coins and banknotes;

(b) balances with the Central Bank (including required reserves);

(c) marketable securities representing claims on or guaranteed by sovereigns, central banks, PSEs, the International Monetary Fund, the European Central Bank and European Community, or multilateral development banks, and satisfying all of the following conditions:

- assigned a 0% risk-weight under the Pillar I Guideline for credit risk;
- have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions; and
- not an obligation of a financial institution or any of its affiliated entities.

(d) where the sovereign has a non 0% risk weight, sovereign or central bank debt securities issued in domestic currencies by the sovereign or central bank in the country in which the liquidity risk is being taken or in the bank's home country; and

(e) where the sovereign has a non-0% risk weight, domestic sovereign or central bank debt security issued in foreign currencies are eligible up to the amount of the bank's stressed net cash

outflows in that specific foreign currency stemming from the bank's operations in the jurisdiction where the bank's liquidity risk is being taken.

(ii) Level 2 Assets

3.21 Level 2 assets (comprising Level 2A assets and any Level 2B assets permitted by the Central Bank) can be included in the stock of HQLA, subject to the requirement that they comprise no more than 40% of the overall stock after haircuts have been applied. The method for calculating the cap on Level 2 assets and the cap on Level 2B assets is set out in paragraph 3.18.

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

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

- assigned a 20% risk weight under the Pillar I Guideline;
- have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions; and
- not an obligation of a financial institution or any of its affiliated entities.

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

- in the case of corporate debt securities: not issued by a financial institution or any of its affiliated entities;
- in the case of covered bonds: not issued by the bank itself or any of its affiliated entities;
- either (i) have a long-term credit rating from a recognized external credit assessment institution (ECAI) of at least AA- or in the absence of a long-term rating, a short-term rating equivalent in quality to the long-term rating; or (ii) do not have a credit assessment by a recognized ECAI but are internally rated as having a probability of default (PD) corresponding to a credit rating of at least AA-;
- traded in large, deep, and active repo or cash markets characterized by a low level of concentration; and
- have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions: i.e., maximum decline of price or increase in haircut over a 30-day period during a relevant period of significant liquidity stress not exceeding 10%.

(iii) Level 2B Assets

3.23 Level 2B assets are limited to the following:

(a) Residential mortgage-backed securities (RMBS), with the prior approval of the Central Bank, which satisfy all of the following conditions may be included in Level 2B, subject to a 25% haircut:

- not issued by, and the underlying assets have not been originated by, the bank itself or any of its affiliated entities;
- have a long-term credit rating from a recognized ECAI of AA or higher, or in the absence of a long-term rating, a short-term rating equivalent in quality to the long-term rating;
- traded in large, deep, and active repo or cash markets characterized by a low level of concentration;
- have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions;
- the underlying asset pool is restricted to residential mortgages and cannot contain structured products;
- the underlying mortgages are "full recourse" loans (i.e., in the case of foreclosure the mortgage owner remains liable for any shortfall in sales proceeds from the property) and have a maximum loan-to-value ratio (LTV) of 80% on average at issuance.

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

- not issued by a financial institution or any of its affiliated entities;
- either (i) have a long-term credit rating from a recognized ECAI between A+ and BBB- or in the absence of a long-term rating, a short-term rating equivalent in quality to the long-term rating; or (ii) do not have a credit assessment by a recognized ECAI and are internally rated as having a PD corresponding to a credit rating of between A+ and BBB; and
- have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions, i.e., a maximum decline of price not exceeding 20% or increase in haircut over a 30-day period not exceeding 20 percentage points during a relevant period of significant liquidity stress.

(c) Common equity shares that satisfy all of the following conditions may be included in Level 2B, subject to a 50% haircut:

- not issued by a financial institution or any of its affiliated entities;
- exchange traded and centrally cleared;
- is listed on a major stock index in the home jurisdiction or where the liquidity risk is taken;
- denominated in BZD or USD, or in the currency of the jurisdiction where a bank's liquidity risk is taken; and

- have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions.

B. Total Net Cash Outflows

3.24 The term total net cash outflows[2] is defined as the total expected cash outflows minus total expected cash inflows in the specified stress scenario for the subsequent 30 calendar days. Total expected cash outflows are calculated by multiplying the outstanding balances of various categories or types of liabilities and off-balance sheet commitments by the rates at which they are expected to run off or be drawn down. Total expected cash inflows are calculated by multiplying the outstanding balances of various categories of contractual receivables by the rates at which they are expected to flow in under the scenario up to an aggregate cap of 75% of total expected cash outflows.

Total net cash outflows over the next 30 calendar days =
Total expected cash outflows – (the lesser of: (i) Total expected cash inflows and 75% of total expected cash outflow)

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

I. Cash Outflows

(i) Retail Deposits (Run-off = 12%)

3.26 Retail deposits are defined as deposits placed with a bank by a natural person. Deposits from legal entities, sole proprietorships (including “trading as” accounts) or partnerships are captured in wholesale deposit categories. Retail deposits subject to the LCR include demand, savings, and term deposits. Retail deposits will receive a run-off factor of 12%. 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.

(ii) Unsecured wholesale funding run-off

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

3.28 The wholesale funding included in the LCR is defined as all funding that is callable within the

[2] Where applicable, cash inflows and outflows should include interest that is expected to be received and paid.

LCR's horizon of 30 days or that has its earliest possible contractual maturity date situated within this horizon (such as maturing term deposits and unsecured debt securities) as well as funding with an undetermined maturity. This should include all funding with options that are exercisable at the investor's discretion within the 30-calendar day horizon.

3.29 Wholesale funding that is callable[3] by the fund's provider subject to a contractually defined and binding notice period surpassing the 30-day horizon is not included.

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

(a) Unsecured Wholesale Funding Provided by Micro Small and Medium Enterprises (Run-off = 12%)

3.31 Unsecured wholesale funding provided by Micro Small and Medium Enterprises (MSME) is treated the same way as retail deposits for the purposes of this Guideline, effectively distinguishing between a "stable" portion of funding provided by MSME and different buckets of less stable funding. The same bucket definitions and associated run-off factors apply as for retail deposits.

3.32 This category consists of deposits and other extensions of funds made by non-financial MSME customers. MSME are defined in line with the definition of loans extended to small businesses in Section 4.3.6 (b) (iii) of the Pillar 1 Guideline. Specifically, MSME must meet the following criteria:

a. No more than 51 employees; and
b. Less than BZD4.5 million (or its equivalent in a foreign currency) in annual sales

3.33 MSME are managed as retail exposures and are generally considered as having similar liquidity risk characteristics to retail accounts provided the total aggregated funding raised from one MSME customer is less than BZD4.50 million or its equivalent in a foreign currency (on a consolidated basis, where applicable).

3.34 Cash outflows related to term deposits from MSME with a residual maturity or withdrawal notice period of greater than 30 days will be excluded from total expected cash outflow.

(b) Operational deposits generated by Clearing, Custody and Cash Management Activities: (Run-off = 25%)

3.35 Certain activities lead to financial and non-financial customers needing to place or leave, deposits with a bank in order to facilitate their access and ability to use payment and settlement systems and

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

otherwise make payments. These funds will receive a 25% run-off factor only if the customer has a substantive dependency on the bank and the deposit is required for such activities. The Central Bank's approval would have to be given to banks that choose to utilize this treatment.

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

3.37 Operational deposits would receive a 0% inflow assumption for the depositing bank given that these deposits are required for operational reasons and are therefore not available to the depositing bank to repay other outflows.

3.38 Notwithstanding these operational categories, if the deposit under consideration arises out of correspondent banking or from the provision of prime brokerage services, it will be treated as if there were no operational activity for the purpose of determining run-off factors.

(c) Unsecured Wholesale Funding Provided by Non-Financial Corporates and Sovereigns, Central Banks, Multilateral Development Banks, and PSEs (Run-off = 40%)

3.39 This category comprises all deposits and other extensions of unsecured funding from non-financial corporate customers (that are not categorized as MSME) and (both domestic and foreign) sovereign, central bank, multilateral development bank, and PSE customers that are not specifically held for operational purposes (as defined above). The run-off factor for these funds is 40%.

(d) Unsecured Wholesale Funding Provided by Other Legal Entity Customers: (Run-off = 100%)

3.40 This category consists of all deposits and other funding from other institutions (including banks, securities firms, insurance companies, etc.), fiduciaries, beneficiaries, conduits and special purpose vehicles, affiliated entities of the bank[4] and other entities that are not specifically held for operational purposes and not included in the prior three categories. The run-off factor for these funds is 100%.

3.41 All notes, bonds and other debt securities issued by the bank are included in this category regardless of the holder.

(iii) ***Secured funding run-off***

[4] Outflows on unsecured wholesale funding from affiliated entities of the bank are included in this category unless the funding is part of an operational relationship, a deposit in an institutional network of cooperative banks or the affiliated entity of a non-financial corporate.

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

3.43 In this case, the ability to continue to transact repurchase, reverse repurchase, and other securities financing transactions is limited to transactions backed by HQLA or with the bank's domestic, sovereign, PSE, or central bank.[5] The amount of outflow is calculated based on the amount of funds raised through the transaction, and not the value of the underlying collateral.

3.44 Due to the high-quality of Level 1 assets, no reduction in funding availability against these assets is assumed to occur. Moreover, no reduction in funding availability is expected for any maturing secured funding transactions with the bank's domestic central bank. A reduction in funding availability will be assigned to maturing transactions backed by Level 2 assets equivalent to the required haircuts. A 25% factor is applied for maturing secured funding transactions with the Government of Belize, multilateral development banks, or domestic PSEs that have a 20% or lower risk weight, when the transactions are backed by assets other than Level 1 or Level 2A assets, in recognition that these entities are unlikely to withdraw secured funding from banks in a time of market-wide stress. This, however, gives credit only for outstanding secured funding transactions, and not for unused collateral or merely the capacity to borrow.

3.45 For all other maturing transactions, the run-off factor is 100%. The table below summarizes the applicable standards:

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

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

(iv) Additional requirements

3.46 **Derivatives cash outflows:** the sum of all net cash outflows should receive a 100% factor.

3.47 **Additional Requirements related to increase liquidity needs and asset backed securities**, see Annex I.

3.48 **Drawdowns on committed credit and liquidity facilities:** For the purpose of the Guideline, credit and liquidity facilities are defined as explicit contractual agreements or obligations to extend funds at a future date to retail or wholesale counterparties. For the purpose of the Guideline, these facilities only include contractually irrevocable ("committed") or conditionally revocable agreements to extend funds in the future. Unconditionally revocable facilities that are unconditionally cancellable by the bank (in particular, those without a precondition of a material change in the credit condition of the borrower) are excluded from this section and included in "Other Contingent Funding Liabilities". These off-balance sheet facilities or funding commitments can have long or short-term maturities, with short-term facilities frequently renewing or automatically rolling-over. In a stressed environment, it will likely be difficult for customers drawing on facilities of any maturity, even short-term maturities, to be able to quickly pay back the borrowings. Therefore, for purposes of this Guideline, all facilities that are assumed to be drawn (as outlined in the paragraphs below) will remain outstanding at the amounts assigned throughout the duration of the test, regardless of maturity.

3.49 For the purposes of this Guideline, the currently undrawn portion of these facilities is calculated net of any HQLA eligible for the stock of HQLA, if:

- the HQLA have already been posted as collateral by the counterparty to secure the facilities or that are contractually obliged to be posted when the counterparty will draw down the facility (e.g., a liquidity facility structured as a repo facility),
- the bank is legally entitled and operationally capable to re-use the collateral in new cash raising transactions once the facility is drawn, and
- there is no undue correlation between the probability of drawing the facility and the market value of the collateral.

The collateral can be netted against the outstanding amount of the facility to the extent that this collateral is not already counted in the stock of HQLA, in line with the principle in paragraph 3.25 that items cannot be double counted in the Guideline.

3.50 A liquidity facility is defined as any committed, undrawn back-up facility that would be utilized to refinance the debt obligations of a customer in situations where such a customer is unable to rollover that debt in financial markets (e.g., pursuant to a commercial paper program, secured financing transactions, obligations to redeem units, etc.). For the purpose of this Guideline, the amount of the commitment to be treated as a liquidity facility is the amount of the currently outstanding debt issued by the customer (or proportionate share, if a syndicated facility) maturing within a 30-day period that is backstopped by the facility. The portion of a liquidity facility that is backing debt that does not mature within the 30-day window is excluded from the scope of the

definition of a facility. Any additional capacity of the facility (i.e., the remaining commitment) would be treated as a committed credit facility with its associated drawdown rate as specified in paragraph 3.51. General working capital facilities for corporate entities (e.g., revolving credit facilities in place for general corporate or working capital purposes) will not be classified as liquidity facilities, but as credit facilities.

3.51 For that portion of financing programs that are captured in requirements 7 and 8 of Annex II (i.e., are maturing or have liquidity that may be exercised in the 30-day horizon), banks that are providers of associated liquidity facilities do not need to double count the maturing financing instrument and the liquidity facility for consolidated programs.

3.52 Any contractual loan drawdowns from committed facilities[6] and estimated drawdowns from revocable facilities within the 30-day period should be fully reflected as outflows.

(a) *Committed credit and liquidity facilities to retail customers and MSME:* Banks should assume a 5% drawdown of the undrawn portion of these facilities.

(b) *Committed credit facilities to non-financial corporates, sovereigns and central banks, PSEs, and multilateral development banks:* Banks should assume a 10% drawdown of the undrawn portion of these credit facilities.

(c) *Committed liquidity facilities to non-financial corporates, sovereigns and central banks, PSEs, and multilateral development banks:* Banks should assume a 30% drawdown of the undrawn portion of these liquidity facilities.

(d) *Committed credit and liquidity facilities extended to banks subject to prudential supervision:* Banks should assume a 40% drawdown of the undrawn portion of these facilities.

(e) *Committed credit facilities to other financial institutions including securities firms, insurance companies, fiduciaries, and beneficiaries:* Banks should assume a 40% drawdown of the undrawn portion of these credit facilities.

(f) *Committed liquidity facilities to other financial institutions including securities firms, insurance companies, fiduciaries, and beneficiaries:* Banks should assume a 100% drawdown of the undrawn portion of these liquidity facilities.

(g) C*ommitted credit and liquidity facilities to other legal entities, conduits and special purpose vehicles, and other entities not included in the prior categories:* Banks should assume a 100% drawdown of the undrawn portion of these facilities.

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

3.54 If the total of all contractual obligations to extend funds to retail, MSME, and non-financial corporate clients within the next 30 calendar days (not captured in the prior categories) exceeds 50% of the total contractual inflows due in the next 30 calendar days from these clients, the

[6] Committed facilities refer to those which are irrevocable.

difference should be reported as a 100% outflow.

(v) Other contingent funding obligations:

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

3.56 Some of these contingent funding obligations are explicitly contingent upon a credit or other event that is not always related to the liquidity events simulated in the stress scenario but may nevertheless have the potential to cause significant liquidity drains in times of stress. For this Guideline, the bank should consider which of these "other contingent funding obligations" may materialize under the assumed stress events. The potential liquidity exposures to these contingent funding obligations are to be treated as a behavioral assumption. All identified contractual and non-contractual contingent liabilities and their assumptions should be reported, along with their related triggers. Banks should, at a minimum, use historical behavior in determining appropriate outflows.

3.57 Non contractual contingent funding obligations related to potential liquidity draws from joint ventures or minority investments in entities, which are not consolidated per paragraph 4.3 should be captured where there is the expectation that the bank will be the main liquidity provider when the entity is in need of liquidity.

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

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

3.59 Lending commitments, such as direct import or export financing for non-financial corporate firms, are excluded from this treatment and banks will apply the draw-down rates specified in paragraph 3.52.

3.60 Other contingent funding obligations include products and instruments such as:

- unconditionally revocable "uncommitted" credit and liquidity facilities (2% run-off rate);

- guarantees and letters of credit unrelated to trade finance obligations (as described in paragraph 3.58) (10% run-off rate);

3.61 **Other contractual cash outflows:** (100%). Any other contractual cash outflows within the next 30 calendar days should be captured, such as outflows to cover unsecured collateral borrowings, uncovered short positions, dividends or contractual interest payments, with explanation given as to what comprises this bucket. Outflows related to operating costs, however, are not included.

II. Cash Inflows

3.62 When considering its available cash inflows, the bank should only include contractual inflows (including interest payments) from outstanding exposures that are fully performing and for which the bank has no reason to expect a default within the 30-day time horizon. Contingent inflows are not included in total net cash inflows.

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

3.64 *Cap on total inflows:* In order to prevent banks from relying solely on anticipated inflows to meet their liquidity requirement, and also to ensure a minimum level of HQLA holdings, the amount of inflows that can offset outflows is capped at 75% of total expected cash outflows as calculated in the Guideline. This requires that a bank must maintain a minimum amount of stock of HQLA equal to 25% of the total cash outflows.

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

3.65 The table shows the inflow rates to be applied:

Maturing secured lending transactions backed by the following asset category:	Inflow rate (if collateral is not used to cover short positions):	Inflow rate (if collateral is used to cover short positions):
Level 1 assets	0%	0%
Level 2A assets	15%	0%
Level 2B assets		
Eligible RMBS	25%	0%
Other Level 2B assets	50%	0%
Margin lending backed by all other collateral	50%	0%
Other collateral	100%	0%

(ii) Committed facilities

3.66 No credit facilities, liquidity facilities or other contingent funding facilities that the bank holds at other institutions for its own purposes are assumed to be able to be drawn. Such facilities receive a 0% inflow rate, meaning that this scenario does not consider inflows from committed credit or liquidity facilities. This is to reduce the contagion risk of liquidity shortages at one bank causing shortages at other banks and to reflect the risk that other banks may not be in a position to honor credit facilities or may decide to incur the legal and reputational risk involved in not honoring the commitment, in order to conserve their own liquidity or reduce their exposure to that bank.

(iii) Other inflows by counterparty

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

3.68 When considering loan payments, the bank should only include inflows from fully performing loans. Furthermore, inflows should only be taken at the latest possible date, based on the contractual rights available to counterparties. For revolving credit facilities, this assumes that the existing loan is rolled over and that any remaining balances are treated in the same way as a committed facility according to paragraph 3.52.

3.69 Inflows from loans that have no specific maturity (i.e., have non-defined or open maturity) should not be included; therefore, no assumptions should be applied as to when maturity of such loans would occur. An exception to this would be minimum payments of principal, fee or interest associated with an open maturity loan, provided that such payments are contractually due within 30 days. These minimum payment amounts should be captured as inflows at the rates prescribed in paragraphs 3.70 and 3.71.

(iv) Retail customers and MSME inflows

3.70 This scenario assumes that banks will receive all payments (including interest payments and instalments) from retail and MSME customers that are fully performing and contractually due within a 30-day horizon. At the same time, however, banks are assumed to continue to extend loans to retail and MSME customers, at a rate of 50% of contractual inflows. This results in a net inflow number of 50% of the contractual amount.

(v) Other wholesale inflows

3.71 This scenario assumes that banks will receive all payments (including interest payments and instalments) from wholesale customers that are fully performing and contractually due within the 30-day horizon. In addition, banks are assumed to continue to extend loans to wholesale clients, at a rate of 0% of inflows for financial institutions and central banks, and 50% for all others, including

non-financial corporates, sovereigns, multilateral development banks, and PSEs. This will result in an inflow percentage of:

- 100% for financial institution and central bank counterparties; and
- 50% for non-financial wholesale counterparties.

3.72 Inflows from securities maturing within 30 days not included in the stock of HQLA should be treated in the same category as inflows from financial institutions (i.e., 100% inflow). This inflow should be calculated in line with the treatment of other related outflows and inflows covered in this Guideline. Level 1 and Level 2 securities maturing within 30 days should be included in the stock of liquid assets, provided that they meet all operational and definitional requirements, as laid out in paragraphs 3.5 to 3.23.

3.73 Operational deposits: Deposits held at other financial institutions for operational purposes, as outlined in paragraphs 3.34 to 3.37, such as for clearing, custody, and cash management purposes, are assumed to stay at those institutions, and no inflows can be counted for these funds - i.e., they will receive a 0% inflow rate.

(vi) Other cash inflows

3.74 *Derivatives cash inflows*: the sum of all net cash inflows should receive a 100% inflow factor.

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

3.76 *Other contractual cash inflows:* Other contractual cash inflows should be captured here, with explanation given to what comprises this bucket. Cash inflows related to non-financial revenues are not taken into account in the calculation of the net cash outflows for the purposes of this Guideline.

4. APPLICATION ISSUES FOR THE LCR

i. Frequency of Calculation and Reporting

4.1 The LCR should be used on an ongoing basis to help monitor and control liquidity risk. The LCR should be reported to the Central Bank on a monthly basis within 14 calendar days, with the operational capacity to increase the frequency to weekly or even daily in stressed situations at the discretion of the Central Bank.

4.2 Banks are expected to inform the Central Bank of their LCR and their liquidity profile on an ongoing basis. Banks should also notify the Central Bank immediately if their LCR has fallen, or

is expected to fall, below 100%.

ii. Scope of Application

4.3 The application of the requirements in this document follows the existing scope of application of the Pillar I Guideline. The LCR Guideline should be applied to banks on an individual and consolidated basis.

4.4 A bank should actively monitor and control liquidity risk exposures and funding needs at the level of individual legal entities, foreign branches and subsidiaries, and the group as a whole, taking into account legal, regulatory, and operational limitations to the transferability of liquidity.

iii. Treatment of Liquidity Transfer Restrictions

4.5 As noted in paragraph 3.10, as a general principle, no excess liquidity should be recognized by a cross-border banking group in its consolidated LCR if there is reasonable doubt about the availability of such liquidity. Liquidity transfer restrictions (e.g. ring-fencing measures, non-convertibility of local currency, foreign exchange controls, etc.) in jurisdictions in which a banking group operates will affect the availability of liquidity by inhibiting the transfer of HQLA and fund flows within the group. The consolidated LCR should reflect such restrictions in a manner consistent with paragraph 3.10. For example, the eligible HQLA that are held by a legal entity being consolidated to meet its local LCR requirements (where applicable) can be included in the consolidated LCR to the extent that such HQLA are used to cover the total net cash outflows of that entity, notwithstanding that the assets are subject to liquidity transfer restrictions. If the HQLA held in excess of the total net cash outflows are not transferable, such surplus liquidity should be excluded from the Guideline.

iv. Currencies

4.6 As outlined in paragraph 3.13, while the LCR is expected to be met on a consolidated basis and reported in a common currency, banks should also be aware of the liquidity needs in each significant currency. As indicated in the LCR, the currencies of the stock of HQLA should be similar in composition to the operational needs of the bank. Banks cannot assume that currencies will remain transferable and convertible in a stress period, even for currencies that in normal times are freely transferable and highly convertible.

ANNEX I

Operational deposits generated by Clearing, Custody and Cash Management Activities

1. Clearing, custody or cash management activities that meet the following criteria qualify as operational deposits for the purposes of this Guideline:

   - The customer is reliant on the bank to perform these services as an independent third-party intermediary in order to fulfil its normal banking activities over the next 30 days. For example, this condition would not be met if the bank is aware that the customer has adequate back-up arrangements;

   - It must be provided under a legally binding agreement to institutional customers; and

   - The termination of such agreements shall be subject either to a notice period of at least 30 days or significant switching costs (such as those related to transaction, information technology, early termination, or legal costs) to be borne by the customer if the operational deposits are moved before 30 days.

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

   - The deposits are by-products of the underlying services provided by the banking organization and not sought out in the wholesale market in the sole interest of offering interest income.

   - The deposits are held in specifically designated accounts and priced without giving an economic incentive to the customer (not limited to paying market interest rates) to leave any excess funds on these accounts.

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

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

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

   - A **cash management relationship** refers to the provision of cash management and related

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

ANNEX II

Cash Outflows:
Additional Requirements related to increase liquidity needs and asset backed securities.

1. **Increased liquidity needs related to downgrade triggers embedded in financing transactions, derivatives, and other contracts:** (100% of the amount of collateral that would be posted for, or contractual cash outflows associated with, any downgrade up to and including a 3-notch downgrade).
2. **Increased liquidity needs related to the potential for valuation changes on posted collateral securing derivative and other transactions**: (20% of the value of non- Level 1 posted collateral).
3. **Increased liquidity needs related to excess non-segregated collateral held by the bank that could contractually be called at any time by the counterparty:** 100% of the non-segregated collateral that could contractually be recalled by the counterparty because the collateral is in excess of the counterparty's current collateral requirements.
4. **Increased liquidity needs related to contractually required collateral on transactions for which the counterparty has not yet demanded the collateral be posted:** 100% of the collateral that is contractually due but where the counterparty has not yet demanded the posting of such collateral.
5. **Increased liquidity needs related to contracts that allow collateral substitution to non-HQLA assets:** 100% of the amount of HQLA collateral that can be substituted for non-HQLA assets without the bank's consent that have been received to secure transactions that have not been segregated.
6. **Increased liquidity needs related to market valuation changes on derivative or other transactions:** As market practice requires collateralization of mark-to-market exposures on derivative and other transactions, banks face potentially substantial liquidity risk exposures to these valuation changes. Inflows and outflows of transactions executed under the same master netting agreement can be treated on a net basis. Any outflow generated by increased needs related to market valuation changes should be included in the LCR calculated by identifying the largest absolute net 30-day collateral flow realized during the preceding 24 months. The absolute net collateral flow is based on both realized outflows and inflows.
7. **Loss of funding on asset-backed securities,[7] covered bonds and other structured financing instruments:** The scenario assumes the outflow of 100% of the funding transaction maturing within the 30-day period, when these instruments are issued by the bank itself (as this assumes that the re-financing market will not exist).
8. **Loss of funding on asset-backed commercial paper, conduits, securities investment vehicles and other such financing facilities:** (100% of maturing amount and 100% of returnable assets).

[7] To the extent that sponsored conduits/SPVs are required to be consolidated under liquidity requirements, their assets and liabilities will be taken into account.

ANNEX III

Illustrative Summary of the LCR

(Percentages are factors to be multiplied by the total amount of each item)

Item	Factor
Stock of HQLA	
A. Level 1 assets:	
• Coins and bank notes • Qualifying marketable securities from sovereigns, central banks, PSEs, and multilateral development banks • Balances with the Central Bank of Belize • Government of Belize and Central Bank securities	100%
B. Level 2 assets (maximum of 40% of HQLA):	
Level 2A assets • Sovereign, central bank, multilateral development banks, and PSE assets qualifying for 20% risk weighting • Qualifying corporate debt securities rated AA- or higher • Qualifying covered bonds rated AA- or higher	85%
Level 2B assets (maximum of 15% of HQLA	
• Qualifying RMBS	75%
• Qualifying corporate debt securities rated between A+ and BBB-	50%
• Qualifying common equity shares	50%
Total value of stock of HQLA	

Cash Outflows	
A. Retail deposits:	
Demand deposits and term deposits (less than 30 days maturity)	12%
Term deposits with residual maturity greater than 30 days	0%
B. Unsecured wholesale funding:	
Demand and term deposits (less than 30 days maturity) provided by MSME	12%
Operational deposits generated by clearing, custody and cash management activities	25%
Non-financial corporates, sovereigns, central banks, multilateral development banks, and PSEs	40%
Other legal entity customers	100%
C. Secured funding:	
• Secured funding transactions with a central bank counterparty or backed by Level 1 assets with any counterparty.	0%
• Secured funding transactions backed by Level 2A assets, with any counterparty	15%
• Secured funding transactions backed by non-Level 1 or non-Level 2A assets, with the Government of Belize, multilateral development banks, or domestic PSEs as a counterparty	25%
• Backed by RMBS eligible for inclusion in Level 2B	25%
• Backed by other Level 2B assets	50%
• All other secured funding transactions	100%
D. Additional requirements:	
Liquidity needs (e.g., collateral calls) related to financing transactions, derivatives, and other contracts	3-notch downgrade
Market valuation changes on derivatives transactions (largest absolute net 30-day collateral flows realized during the preceding 24 months)	Look back approach
Valuation changes on non-Level 1 posted collateral securing derivatives	20%
Excess collateral held by a bank related to derivative transactions that could contractually be called at any time by its counterparty	100%
Liquidity needs related to collateral contractually due from the reporting bank on derivatives transactions	100%

Increased liquidity needs related to derivative transactions that allow collateral substitution to non-HQLA assets	100%
ABCP, SIVs, conduits, SPVs, etc.: • Liabilities from maturing ABCP, SIVs, SPVs, etc. (applied to maturing amounts and returnable assets) • Asset Backed Securities (including covered bonds) applied to maturing amounts	 100% 100%
Currently undrawn committed credit and liquidity facilities provided to: • retail and MSME clients • non-financial corporates, sovereigns, and central banks, multilateral development banks, and PSEs • banks subject to prudential supervision • other financial institutions (include securities firms, insurance companies) • other legal entity customers, credit, and liquidity facilities	 5% 10% for credit 30% for liquidity 40% 40% for credit 100% for liquidity 100%
Other contingent funding liabilities (such as guarantees, letters of credit, revocable credit, and liquidity facilities, etc.) • Trade finance • Customer short positions covered by other customers' collateral	 5% 50%
Any additional contractual outflows	100%
Net derivative cash outflows	100%
Any other contractual cash outflows	100%
Total cash outflows	

Cash Inflows	
Maturing secured lending transactions backed by the following collateral:	
Level 1 assets	0%
Level 2A assets	15%
Level 2B assets • Eligible RMBS • Other assets	 25% 50%
Margin lending backed by all other collateral	50%
All other assets	100%
Credit or liquidity facilities provided to the reporting bank	0%
Operational deposits held at other financial institutions (include deposits held at centralized institution of network of co-operative banks)	0%
Other inflows by counterparty: • Amounts to be received from retail counterparties • Amounts to be received from non-financial wholesale counterparties, from transactions other than those listed in above inflow categories • Amounts to be received from financial institutions and central banks, from transactions other than those listed in above inflow categories.	 50% 50% 100%
Net derivative cash inflows	100%
Other contractual cash inflows	50%
Total cash inflows	
Total net cash outflows = Total cash outflows minus min [total cash inflows, 75% of gross outflows]	
LCR = Stock of HQLA / Total net cash outflows	