Requirements for the Management of Liquidity Risk

28 June 2006

Regulatory Document for Credit Institutions
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1. **Legal Basis**

1.1 **Establishment of the Regulatory Powers of the Irish Financial Services Regulatory Authority**

The Irish Financial Services Regulatory Authority (Financial Regulator) was established under Section 33B of the Central Bank and Financial Services Authority of Ireland Act, 2003. Section 33C of the Central Bank Act, 1942 designates the Financial Regulator as the body responsible for carrying out the functions of the Central Bank and Financial Services Authority of Ireland under, inter alia, certain sections of the Central Bank Acts, 1971 and 1989, the Building Societies Act, 1989, the Trustee Savings Banks Act, 1989 and the Asset Covered Securities Act, 2001 and various provisions implementing the EU Banking Directives. It is these acts and provisions which statutorily charge the Financial Regulator with the licensing and supervision of banks and building societies in Ireland, as well as designated credit institutions within the meaning of the Asset Covered Securities Act, 2001, which are collectively termed credit institutions.

1.2 **Current Liquidity Requirements**

The *Licensing and Supervision Requirements and Standards for Credit Institutions* (the standards), which were issued in 1995, set out the liquidity requirements for credit institutions. In particular, sections 6.1 and 6.2 outline both the current qualitative and quantitative requirements. With reference to the qualitative requirements the standards state that:

“Credit institutions should establish appropriate and prudent policies for the management of their liquidity. They should ensure, to the satisfaction of the Bank, that adequate internal systems exist to monitor and control maturity mismatches between their assets and liabilities.”

The current quantitative requirements oblige credit institutions to “maintain a minimum ratio of liquid assets to total borrowings of twenty five per cent.” This stock approach provides a useful measure of a bank’s liquidity at specific reporting dates. However, techniques for liquidity measurement and management have improved since this requirement was introduced and it is considered appropriate that the prudential requirements should progress to a more sophisticated measure of liquidity.
1.3 New Liquidity Requirements

1.3.1 Rationale for New Approach
Liquidity management is essential to the proper functioning of credit institutions. In order to maintain stability in the financial system and afford proper protection to the interests of depositors, credit institutions must operate to the highest standards of liquidity management. Management of credit institutions should also be able to demonstrate that this is the case to their Boards and to the Financial Regulator.

The forward looking approach to liquidity management in this document is based upon consultation with the Irish Bankers Federation (IBF) and credit institutions, a review of liquidity management policies submitted by credit institutions\(^1\) and research conducted by the Financial Regulator into best practice, including practices adopted by regulators of other countries in addition to papers on best practice such as those issued by the Basel Committee, on liquidity risk management.

Amendments may be made to these new requirements in the future depending on developments on liquidity management at EU level. Such amendments will be made in the context of ensuring that best market practice is adhered to and to ensure a level playing field for credit institutions.

1.3.2 Qualitative and Quantitative Requirements
In this document the Financial Regulator enhances the qualitative and amends the quantitative requirements of the existing standards. These requirements reflect the principles based approach to regulation of the Financial Regulator.


\(^{1}\) A total of 18 responses were received from credit institutions with 15 liquidity policies submitted to the Financial Regulator.
The qualitative liquidity requirements will be imposed pursuant to the European Communities (Licensing and Supervision of Credit Institutions) Regulations, 1992, (Regulation 16, Statutory Instrument Number 395 of 1992).

In addition, these qualitative and quantitative requirements are also imposed by the Financial Regulator as conditions to which all credit institutions are subject pursuant to Section 10 of the Central Bank Act, 1971, Section 17 of the Building Societies Act, 1989, Section 12 of the Trustee Savings Bank Act, 1989 and Section 16 of the Asset Covered Securities Act, 2001.

1.4 Application of Regulatory Document
The sections 1.4.1 to 1.4.3 below outline how the new quantitative liquidity requirements will be applied to each entity type listed. Even though reporting requirements are to be submitted to the Financial Regulator at certain time intervals, it is essential that both the qualitative and quantitative liquidity requirements are met on an on-going basis. Where there are breaches or a credit institution foresees a possible breach of the liquidity requirements outlined in this paper, the Financial Regulator must be notified immediately. The requirements of this document represent a minimum threshold that all credit institutions regulated by the Financial Regulator will meet. A credit institution will apply liquidity management techniques over and above those documented in this paper where it is considered appropriate by its Board and management.

1.4.1 Licensed Credit Institutions
The prudential liquidity requirements will apply to every credit institution licensed by the Financial Regulator on a consolidated basis. The Financial Regulator will consider applications for a concession from the limits in the first two timebands, as set out in this document, for a credit institution which is a subsidiary of a large financial institution and liquidity is managed on a centralised basis by the head-office. This will be considered on an exceptional bilateral basis and only in circumstances where inter alia, a sufficiently robust legally binding confirmation is forthcoming from the

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2 All entities currently consolidated into the quarterly prudential return should be included.
credit institution’s parent, stating that funds are available at all times to ensure the Irish credit institution meets its liquidity requirements. Credit institutions that are granted this facility will be required to adhere to all other qualitative and quantitative requirements of this document.

1.4.2 Banking Groups
In addition to the requirements of 1.4.1, where there is a banking group that is subject to consolidated supervision by the Financial Regulator the prudential liquidity requirements will apply to the group as a whole on a consolidated basis, including credit institution subsidiaries.

1.4.3 Branches of EEA and non-EEA Banks
The Second Banking Directive, as incorporated into the Codified Directive, leaves the supervision of the liquidity of branches of credit institutions incorporated in other EEA Member States, under the control of the host authority in cooperation with the competent authorities of the home Member State “pending further coordination”. In accordance with this responsibility, the liquidity reporting requirements will be applied to such branches. However, it is proposed that there would be scope for an exemption from this requirement where certain criteria are met. In cases where the following criteria are met on an ongoing basis, EEA and non-EEA incorporated credit institutions with a branch in Ireland may be exempt from all sections of this document.

The head-office of any branch operating in Ireland will be required to provide the Financial Regulator with the following:

- confirmation that daily monitoring of the branch liquidity by head-office and daily reporting by the branch of its liquidity position occurs;
- assurance that liquidity will be provided to the branch at any time if required and that there are no internal bank or domestic country constraints on the provision of liquidity by the head-office to the branch; and
- agreement to provide information on liquidity of the whole credit institution, if requested by the Financial Regulator, and in the event of a liquidity crisis.
The Home Supervisor of a credit institution that has established a branch in Ireland must provide the Financial Regulator with the following:

- confirmation that the Irish branch is fully integrated into the head-office for liquidity purposes and that liquidity is being managed by head-office;
- confirmation of adequacy of the level of liquidity supervision exercised;
- agreement that it will inform the Financial Regulator of any breach by the branch or credit institution of liquidity requirements as imposed by the Home Supervisor, and action to be taken to resolve this breach; and
- confirmation that there are no regulatory constraints on the provision of liquidity by the head-office to the branch.

Confirmation from the particular head-office and home supervisor in relation to these requirements must be submitted to the Financial Regulator. For Irish branches of EEA and non-EEA incorporated credit institutions which fulfil the above criteria, the Financial Regulator may not set quantitative or qualitative requirements, but will monitor in cooperation with the home country supervisor that the above criteria are being met continuously.

2. Liquidity

2.1 Definition
Liquidity is the ability of a credit institution to meet its on and off-balance sheet obligations in a timely manner as they fall due, without incurring excessive cost, while continuing to fund its assets and growth therein.

2.2 Monitoring of Liquidity by Financial Regulator
The Financial Regulator currently adopts a stock approach to liquidity, as outlined in section 6 of the standards. This paper documents the amendments that are being issued by the Financial Regulator further to a desire to capture liquidity risk more accurately and to have regard to the practices adopted by credit institutions in relation to liquidity risk.
The maturity mismatch approach set out in this paper requires credit institutions to analyse their cash flows under various headings and place them in pre-determined timebands depending on when the cash is received or paid out. These flows are slotted into the timebands based on their residual contractual maturity with assets being included according to their latest maturity and liabilities according to the earliest possible date of the obligation. (Credit institutions may make an assumption about the behaviour of certain cash flows, as listed in the tables (i) and (ii) on pages 14 and 15 that do not have a specific contractual date associated with them and in some limited cases for transactions with a contractual date). A net mismatch figure is obtained by subtracting the outflows from the inflows. Mismatches are assessed on a net cumulative basis. Limits will be imposed on the first and second timebands. A review of the reports submitted by credit institutions during the six-month parallel running period will be conducted to ensure that limits are appropriate and effective. Monitoring ratios will be calculated for subsequent timebands. A stock of liquid assets must be held by credit institutions to meet any net cash outflows in the first time period. Cash inflows plus allowable discounted liquid assets are required to be greater than or equal to 100 percent of cash outflows in the first timeband (sight to 8 days). Within the second timeband (over 8 days to 1 month) cash inflows including any net positive cash flow carried forward from the first timeband must equal at least 90 per cent of cash outflows.

3. Qualitative Requirements

The sophistication of the procedures adopted by a credit institution to manage liquidity risk will depend on the nature, scale and complexity of the business being conducted. The Financial Regulator requires that each credit institution establish a liquidity policy, which will be reviewed as part of the on-going regulation of credit institutions. It is expected, at a minimum, that the liquidity policy of every credit institution incorporates the following key components:

3.1 Board of Directors
As part of its role in managing the business, the responsibilities of the Board include but are not limited to:
• developing a strategy for the ongoing management of liquidity risk, that is consistent with the risk tolerance of the credit institution;
• establishing a management structure and assigning management responsibility for the identification, measurement, monitoring, control and reporting of liquidity risk, this will include the appointment of an Asset and Liability Committee (ALCO);
• approving the liquidity policy as developed by management and ensuring it includes management of liquidity within the group, where applicable, and in particular that any restrictions on international transfer of surplus liquidity are documented in the policy;
• reviewing:
  o relevant and timely reports on liquidity risk that facilitates an understanding of the liquidity risks facing the credit institution;
  o the adequacy of the internal controls in place over the management of liquidity; and
  o the liquidity policy and approving it on at least an annual basis to ensure its continued appropriateness; and
• documenting its ongoing consideration of liquidity risk which should be embedded into the overall risk management function of the credit institution.

3.2 Senior Management

3.2.1 Asset and Liability Committee
The ALCO will be comprised of senior management drawn from all areas of the credit institution that significantly influence liquidity risk. In order to ensure the functional independence of the ALCO, the Chairman of the ALCO should be a member of senior management not directly involved in the treasury/trading functions. The principal functions to be performed by the ALCO in relation to liquidity include the following:
• establishing and maintaining appropriate procedures for the management of liquidity risk that are consistent with the strategy and policy approved by the Board. These procedures would include the valuation of assets and liabilities and their assignment to the appropriate time band by an appropriate unit within the credit institution independent of any treasury or trading units;
• setting appropriate limits over the credit institution’s liquidity risk that reflect the risk tolerance, nature, scale and complexity of the bank’s operations. The procedure for setting such limits should be consistent with the setting of other risk management limits within the credit institution. These limits should be regularly reviewed and amended when conditions or risk tolerances change;
• setting limits over liquidity risk in foreign currencies that the credit institution has a material exposure to on an ongoing basis; and
• establishing a set of procedures whereby the impact of any new products on the bank’s liquidity is assessed by management.

3.2.2 Senior Management Role
Senior management responsibility with regard to liquidity risk limits and procedures set by the ALCO includes but is not limited to the following:
• communicating the procedures with respect to the management of liquidity risk to the relevant personnel within the credit institution;
• ensuring the integrity of cash flows and liquidity reporting to the Financial Regulator;
• establishing procedures for reporting of liquidity limit breaches to the appropriate level of management;
• implementing and maintaining an effective management information system for measuring, monitoring, controlling and reporting liquidity risk;
• understanding the dynamics of liquidity management within a group. In particular, any restrictions on the international transfer of surplus liquidity needs to be taken into account in assessing the overall group position. Communicating with the Financial Regulator with respect to any issues in this area;
• establishing and maintaining effective internal controls over the management of liquidity risk; and
• providing the Board and the ALCO with relevant and timely information with regard to liquidity risk. Liquidity reporting to the Board and the ALCO should be carried out more frequently in times of stress.
3.3 Internal Controls
The procedures and internal controls that the credit institution employs in managing liquidity risk, will include, but not be limited to:

- stating authorisation limits over cash flow levels and monitoring compliance with those limits;
- documenting the haircuts to be applied to all types of assets utilised by the credit institution for liquidity proposes;
- providing for random checking of key inputs into the liquidity calculation by either the compliance or risk management function;
- reporting of limit breaches to the appropriate level of management, including reporting to both the ALCO and the Board of Directors, the process for which should be documented in the policy statement; limit breaches should receive prompt attention;
- notifying the Financial Regulator immediately of any breach in the maturity mismatch limits and advising the Financial Regulator of the plan to rectify the breach. In instances where a credit institution anticipates a breach in the maturity mismatch limits in the future, the Financial Regulator should be notified as soon as the credit institution becomes aware of the matter;
- performing scenario analysis and stress testing on a regular basis, as outlined in section 8;
- requiring review and evaluation of the effectiveness of the internal control system by internal audit, at least, on an annual basis; and
- detailing that any weaknesses identified in the internal control system or amendments which are required will be dealt with in a timely and effective manner.

3.4 Management Information System (MIS)
Each credit institution must have a management information system that is adequate to measure, monitor, control and report liquidity risk considering the nature, size and complexity of the credit institution. The MIS will be:

- able to provide the Board of Directors, management and other appropriate personnel with timely and relevant information with respect to the liquidity position of the credit institution;
• able to produce reports in a form and content that is relevant for the nature, scale and complexity of the business;
• utilised to monitor compliance with established policies, procedures and limits;
• capable of monitoring liquidity positions on an aggregate all currency basis and for individual material foreign currency exposures; and
• able to accommodate the performance of appropriate stress testing and scenario analysis. This will be particularly important where the credit institution frequently uses inter-bank funding.

3.5 Internal Audit
Internal audit must review compliance with the qualitative and quantitative requirements on an annual basis. Confirmation of compliance, or in the case of non-compliance, details of any breaches, must be submitted to the Financial Regulator within one month of completion of such review.

3.6 Scenario Analysis, Stress Testing and Assumptions
A credit institution’s liquidity policy will document the procedures regarding scenario analysis, stress tests and assumptions, as follows:
• procedures for the performance and analysis of a range of stress and ‘what-if’ scenarios, considering institution specific and market factors including the frequency of performance;
• procedures for the action to be taken by management in the event of certain stress results;
• a timetable for the performance of stress testing and scenario analysis is to be prepared at the commencement of each financial year and the outcome of these examinations are to be reported to the Board on an annual basis; and
• assumptions about the behaviour of a credit institution’s assets, liabilities and off-balance sheet activities under stress, should be reviewed regularly to ensure their continued appropriateness in the context of the credit institutions activities.
3.7 Foreign Exchange
Where a credit institution conducts any business in a foreign currency, its liquidity policy will, at a minimum, require the following:

- documentation of limits placed by management on foreign currency mismatches individually and/or in aggregate;
- documentation of limits placed by management in cases where the currency is not freely convertible;
- an outline of the frequency of reporting of foreign currency maturity mismatches;
- an analysis of foreign currency liquidity under various scenarios; and
- approval by the Board of the institution of the limits over foreign currency mismatches and a clear process for reporting of breaches to the Board and the ALCO by management and/or to the compliance or risk management function.

3.8 Market Access
In managing its liquidity a credit institution must ensure that it has sufficient access to funding from a range of sources in the financial market. Each credit institution is expected to manage market access for liquidity purposes and its liquidity policy will document these procedures, which are to include:

- procedures to ensure that market access is actively managed on an ongoing basis;
- procedures to establish and maintain relationships with funding providers, including monitoring frequency with which funding sources are utilised;
- an assessment of market access and available funding in normal and stressed conditions; and
- monitoring of funding concentrations by assessing reliance on types of instruments, geographical location and funds provider.

3.9 Contingency Planning and Disclosure
A contingency funding plan will be developed by management and approved by the Board of Directors as part of the liquidity policy. At a minimum the contingency funding plan will address the following:
• identify the triggers that are used as signs of an approaching crisis and who has responsibility for monitoring and reporting on these triggers e.g. a predetermined drop in deposits, a predetermined decline in the value of shares, or a higher cost of funding vis-à-vis other credit institutions;

• outline individual responsibilities in the event of the credit institution experiencing liquidity problems, in particular the person with responsibility for liaison with the media, shareholders and the Financial Regulator should be outlined;

• procedures for timely and relevant information flows to senior management in the event of a crisis;

• procedures for making up cash flow shortfalls will be outlined e.g. selling assets, establishing new lines of funding etc, in both normal and stressed conditions;

• identify and quantify all sources of funding by preference of use in various scenarios extending from normal circumstances to a severe industry stress;

• strategy with respect to altering the behaviour of assets and liabilities;

• circumstances when the plan should be utilised; and

• names, contact details and geographical location of personnel responsible for contingency planning.

4. Quantitative Measurement Methodology

4.1 Description of New Requirements

The Financial Regulator has set out in section 5 of this document what it considers to be a readily marketable asset/liquid asset. The most significant change to liquid assets in this document, compared to the existing stock approach, is the requirement that to be considered liquid, the assets must be available to a credit institution at short notice, which under the proposed criteria is 4 days (business days) or less. If, for example, a credit institution cannot realise a prescribed asset for cash before 4 days have elapsed, the asset may not be included in the Liquid Assets table (See Appendix 1) and instead must be included in the first timeband of sight to 8 days (calendar not business days) in the cash inflow table, if the asset will actually be realised in that time period.
Cash inflows and outflows have been broken down into seven different timebands ranging from sight to 8 days to over 2 years. The headings under which cash inflows and outflows will be captured are set out in Appendices 2 and 3. These headings include cash flows from transactions with Monetary Financial Institutions, the ECB and Central Bank(s), cash flows from transactions with central and other government, non-government customers etc. Inflows and outflows from off-balance sheet transactions and derivatives activity, excluding uncommitted loan facilities given and received, are also captured in the cash flow tables.

Cash inflows and outflows arising from transactions are to be assigned to the various timebands based on their residual contractual maturity. Assets are included according to their latest possible date of receipt and liabilities on the basis of the earliest occurrence of the obligation. A credit institution may make an assumption about the behaviour of certain cash flows, listed in the two tables below. Table (i) refers to cash flows that do not have a specific contractual date and table (ii) details transactions with a specific contractual date. Where assumptions are made by a credit institution about the behaviour of certain cash inflows or outflows in the tables below the assumptions must be fully documented, available for inspection by the Financial Regulator and reflected in the behavioural assumptions table (Appendix 4) of the proposed quarterly reporting format. A credit institution must be capable of supporting the assumption with data about the behaviour of the particular cash flow in the past. Any assumptions made should take seasonal factors into consideration e.g. additional deposit drawdown at Christmas. Assumptions may be made about derivatives activities, however, the rationale for the assumption and the balances involved, for each type of derivatives product, must be submitted to the Financial Regulator in the table provided in Appendix 4. Where the timing of cash inflows or outflows under the terms of a derivatives contract is known, then assumptions should not be made. Assumptions in respect of transactions may be made in the following cases:
### Table (i): Transactions with No Specific Contractual Maturity Date

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Undrawn Committed Facilities Received</strong></td>
<td>The facilities that will be drawn by a credit institution in a future period should be included in the maturity ladder; the balance that will remain undrawn should be reported as a contingent position, in Appendix 5.</td>
</tr>
<tr>
<td><strong>Overdraft Facilities Granted</strong></td>
<td>Credit Institutions should not assume that all overdraft facilities drawn will be repaid on demand. The funds flows should reflect historical repayment of balances.</td>
</tr>
<tr>
<td><strong>Credit Card Balances</strong></td>
<td>Assumptions are permitted for the repayment of outstanding balances.</td>
</tr>
<tr>
<td><strong>Undrawn Committed Facilities Granted</strong></td>
<td>Where credit institutions assume that a certain level of undrawn committed facilities will be drawn down in the future the assumed funds flow should be reported in the maturity ladder. The balance that is assumed to remain undrawn should be reported as a contingent position, in Appendix 5.</td>
</tr>
<tr>
<td><strong>Retail and Corporate Deposits</strong></td>
<td>Assumptions may be made for retail deposits and corporate deposits that do not have a specific contractual date associated with them. The assumptions must be documented. Under no circumstances can a credit institution assume a net inflow in this category based on the projected growth of the deposit base. In the case of corporate deposits, a haircut of 15 per cent must be applied to the cash flow before inclusion in the relevant timeband.</td>
</tr>
<tr>
<td><strong>Derivatives Activity</strong></td>
<td>Both sides of a derivatives transaction should be reflected in the relevant timeband i.e. both inflows and outflows.</td>
</tr>
<tr>
<td><strong>Options</strong></td>
<td>The premiums payable and receivable from option transactions should be included according to contractual terms. However a credit institution should include any cash inflow or outflow from an option transaction in the maturity ladder as soon as it is aware that the option will be exercised or is likely to be exercised.</td>
</tr>
<tr>
<td><strong>Futures</strong></td>
<td>Cash flows associated with futures contracts should be included in the relevant timeband.</td>
</tr>
<tr>
<td><strong>Swaps (Interest Rate, Foreign Exchange etc.)</strong></td>
<td>Where principal payments take place e.g. foreign currency swaps, the principal cash flows should be reported in the relevant timeband based on contractual terms. Where principal amounts are not exchanged e.g. fixed and variable interest rate swaps, the cash flows should be reported in the mismatch ladder on the basis of contractual terms.</td>
</tr>
</tbody>
</table>

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3 In determining whether a deposit is a retail or corporate deposit, a threshold of €1.5 million should be used. Credit institutions should ensure, where feasible, that all deposits by any one individual in an institution are added, when determining the total deposit base of a customer.

4 For example, where historical data shows that 90 per cent of a corporate deposit portfolio will be rolled over, on a total portfolio of €100 million the 15 per cent haircut will be applied to the portion of the portfolio which is assumed to be sticky i.e. €90 million. Accordingly, €76.5 million will be recognised maturing in the appropriate timeband according to the behavioural assumptions with the remainder of the portfolio, €23.5 million, allocated to the first timeband.
Table (ii): Transactions with a Specific Contractual Maturity Date

<table>
<thead>
<tr>
<th>Fixed Term Retail and Corporate Deposits</th>
<th>Assumptions may be made for fixed term retail and corporate deposits subject to a haircut before inclusion in the relevant timeband. Haircuts of 10 per cent for retail and 15 per cent for corporate deposits should be applied. (Such haircuts to be applied as outlined in footnote 4).</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage-Based Products</td>
<td>Assumptions may be made where the effective maturity date is different to the contractual maturity date due to mortgage prepayments. In such cases, the effective maturity date, as determined by market sources, forms the basis of the behavioural assumption.</td>
</tr>
</tbody>
</table>

The haircuts which apply to retail and corporate deposits, as outlined in tables (i) and (ii) above, will be reviewed within three years of the issuance of these new liquidity requirements.

4.2 Use of Limits and Monitoring Ratios
In the first timeband cash inflows plus allowable discounted liquid assets, as detailed in section 5 below, are required to be greater than or equal to 100 per cent of cash outflows, in this regard discounted liquid assets may be utilised to meet obligations represented by cash outflows. In the second timeband cash inflows including any net positive cash flow carried forward from the first timeband must equal at least 90 per cent of cash outflows. These limits will be reviewed during the six-month parallel running period. Credit institutions should consider the need to maintain a stock of liquid assets in excess of the limits above, to meet any unexpected stress situation that may arise and have a negative impact on the liquidity position of the institution. Monitoring ratios will be utilised to observe the level of cash inflows as a proportion of cash outflows on a cumulative basis in subsequent timebands and to facilitate comparability of the liquidity position of all credit institutions.

4.3 Materiality
Credit institutions may apply a materiality test to cash flows. The Financial Regulator proposes to adopt a materiality benchmark of 1 per cent of the gap ratio in each timeband. This means that in order to exclude cash inflows or outflows from a timeband due to immateriality, the effect of such flows must not exceed 1 per cent of
the gap in that particular timeband. In cases where the gap ratio within a particular timeband is zero, credit institutions will be permitted to exclude small cash inflows and outflows provided that the basis on which such flows are excluded is fully documented and is broadly in line with previous gap ratios evidenced in that particular timeband or adjacent timebands.

If adopting this approach, credit institutions must apply the materiality concession on a consistent basis to both inflows and outflows. The Financial Regulator will monitor the use of this concession and may amend the materiality provision in light of industry developments over time.

In circumstances where certain flows are difficult to quantify, such as some derivatives activity with longer maturity dates, a credit institution may consider the use of an alternative measure to be used as a proxy for the actual flow provided that the appropriateness of this approach is fully documented and demonstrated to the Financial Regulator prior to use.

5. **Readily Marketable Assets/Liquid Assets**

5.1 **Definition**

Readily marketable assets/liquid assets are assets which can be quickly and easily converted into cash without incurring significant loss.

A description of each of the permitted liquid asset categories for the calculation and reporting of liquid assets is set out in Appendix 6.

5.2 **Overriding Criteria**

In determining readily marketable assets/liquid assets, a credit institution must also apply the following overriding criteria:

- **Concentration of Holdings:** e.g. if the credit institution holds a significant percentage of a certain issue then it may not be possible to realise the entire holding within 4 days and credit institutions will need to utilise judgement in determining whether these assets should be included in readily marketable
assets. Such assets if not included in readily marketable assets may be included in the relevant time period depending on how long it will take to realise the asset;

- **Depth of Market:** there must be an active market to facilitate the realisation of holdings within 4 days; and
- **Risk of forced sale loss:** where it is considered that such a risk exists for a particular type of liquid asset then a haircut should be applied to the holding of these assets and deducted from total liquid assets.

Liquid assets that fail to meet all of the overriding criteria cannot be included in the category of readily marketable assets. Credit institutions are obliged to ensure that their liquidity management frameworks allow for the continuous monitoring of market developments. In particular this must highlight any credit rating downgrade for highly rated investment grade securities already included in the readily marketable assets/liquid assets calculation.

### 5.3 Deposit Protection Account

Any deposit which the reporting institution must maintain with the Central Bank and Financial Services Authority of Ireland or other National Central Banks of the monetary union pursuant to the European Communities (Deposit Guarantee Schemes) Regulations, 1995 are not available to the reporting institution for liquidity purposes and must be excluded from readily marketable assets.

### 5.4 Encumbered Assets

It is not permitted to include any form of an encumbered asset as part of a credit institution’s portfolio of marketable assets which are reported as liquid assets. Encumbered assets consist of:

- securities pledged as collateral and not available to the institution for the period that they constitute collateral;
- securities transferred by the reporting credit institution as part of a sale and repurchase agreement for the duration of the agreement;
- receivables that are currently non-performing/impaired and on which impairment has been identified on individual loans;
• low grade securities\(^5\); and
• shares in affiliated companies.

Assets that are of doubtful value should be excluded from readily marketable assets and from the maturity analysis.

5.5 Discounting/Haircuts
Risk control measures have been applied to assets underlying the Eurosystem monetary policy operations and are outlined in the Documentation on Monetary Policy Instruments and Procedures. The ECB has applied valuation haircuts to eligible Tier 1 and Tier 2 assets. In the case of assets that are not ECB eligible but fall within any of the categories of liquid assets outlined in Appendix 6 each credit institution’s policy must state the level of valuation haircuts that are applied to those assets. The Financial Regulator requires that the application of haircuts to non-ECB eligible liquid assets will be broadly in line with the ECB valuation haircut levels. Any deviations from ECB haircut levels must be documented. The Financial Regulator will monitor these haircuts, to ensure consistency, as part of the on-going supervision of the liquidity requirements of credit institutions and reserves the right to specify haircuts for non-ECB eligible liquid assets in cases where it deems that the haircut applied is inappropriate. When calculating a credit institution’s liquidity levels in Appendix 1, liquid assets with the appropriate discount applied will be utilised.

5.6 Incorporation of Readily Marketable Assets into the Mismatch Calculation
Credit institutions will be required to match any net cash outflows i.e. where cash outflows are greater than cash inflows in the sight to 8 days timeband, with readily marketable assets, net of valuation haircuts.

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\(^5\) Low grade securities are defined as securities which are below investment grade.
6. Maturity Mismatch

The maturity mismatch calculation will be performed utilising residual contractual maturities, including assets according to their latest possible date of receipt and liabilities according to the earliest date on which the obligation could arise. The Financial Regulator will require credit institutions to include in maturity tables the cash flow components of each asset and liability on a contractual basis. Credit institutions will be permitted to make assumptions as outlined in section 4.1.

In all instances where assumptions are utilised, credit institutions will be required to document assumptions used and reflect such assumptions in Appendix 4, including the financial effect on cash flows. In addition, where credit institutions envisage a certain level of cash outflows from committed future business i.e. mortgage drawdowns and personal lending, this information will be required to be included in the maturity mismatch calculation and details of the assumptions utilised provided to the Financial Regulator.

6.1 Inflows and Outflows
Cash inflows and outflows are reported in the categories outlined in Appendices 2 and 3, respectively. A brief description of each of these categories is set out in Appendix 7 for information.

6.2 Timebands
The maturity mismatch framework comprises the following timebands:
- Sight to 8 days;
- Over 8 days to 1 month;
- Over 1 month to 3 months;
- Over 3 months to 6 months;
- Over 6 months to 1 year;
- 1 to 2 years;
- and 2 years +.
6.3 Limits
The Financial Regulator requires that each credit institution is in a position to meet its payment obligations as they fall due, without incurring excessive cost. To meet the prudential liquidity requirements each credit institution must maintain sufficient liquid assets and have adequate cash inflows to meet its payment obligations i.e. cash outflows. At a minimum a credit institution must maintain sufficient payment resources to meet its obligations in the first timeband, sight to 8 days, i.e. cash outflows cannot be greater than cash inflows plus liquid assets. In the second timeband cash inflows including any net positive cash flow carried forward from the first timeband must equal at least 90 per cent of cash outflows. The Financial Regulator will utilise monitoring ratios in all subsequent time periods. Limits applying to the first and second timebands will be reviewed during the six-month parallel running period and limits may be applied in any subsequent timeband on a case-by-case basis, if considered necessary. The Financial Regulator reserves the right to increase any limits set, if cash flow reporting is not accurate.

6.4 Monitoring Ratios
Monitoring ratios will provide the Financial Regulator with an overview of the net cash flows of credit institutions in all time periods subsequent to the second timeband. The use of ratios will allow regulatory teams to easily compare the cash flows of a number of credit institutions in all time periods in addition to analysing the cash flows of one credit institution over a number of time periods. The monitoring ratio will be built into the liquidity return and the calculations will be performed as either of the following:

\[
\frac{\text{Cash Inflows in Period} + \text{Positive Net Cumulative Cash Flow forward}}{\text{Cash Outflow in Period}}
\]

Or

\[
\frac{\text{Cash Inflows in Period}}{\text{Cash Outflow in Period} + \text{Negative Net Cumulative Cash Flow forward}}
\]

---

6 Where Net Cumulative Cash Flows are positive they are included in the numerator and where negative they are included in the denominator.
6.5 Undrawn Committed Facilities
Credit institutions should make conservative assumptions about the amount of committed undrawn facilities granted and received that will be utilised in certain timebands and report them in the appropriate timeband. This recognition is dependent on the fact that the basis on which such facilities are granted and received must be legally binding. The balance of undrawn committed facilities granted i.e. that balance that the credit institution has assumed will not be drawn down in subsequent timebands must be reported to the Financial Regulator separately, as part of the credit institution’s contingency position. On the undrawn committed facilities receivable side, only those undrawn facilities that the credit institution anticipates using and is confident that it can draw down without triggering concern about the liquidity position of the credit institution, should be included in the cash inflow report.

7. Foreign Exchange Business

7.1 Introduction
Foreign exchange business is defined as business conducted in a currency other than the operational currency of the entity. For most credit institutions this is business (foreign exchange) conducted in a non-euro currency.

7.2 Requirements on Quantitative FX Liquidity Management
Credit institutions will report the liquidity position of the credit institution in all currencies combined. Balances and flows denominated in foreign currencies should be converted into the operational currency, for the purposes of completing the quarterly prudential liquidity return. The qualitative requirements of section 3.7 relating to foreign exchange must also be adhered to in the credit institution’s liquidity policy.

8. Stress Testing
The Financial Regulator requires that credit institutions perform stress testing regularly, pre-determined tolerances are set, the ALCO and Senior Management
examine the results and where necessary, appropriate action is taken. However, the Financial Regulator does not wish to prescribe how assets and liabilities will behave in a stress situation. It is up to individual credit institutions to determine this based on their experience. Accordingly, the following requirements with regard to stress testing of liquidity must be adopted by credit institutions:

- Stress testing must be completed on a quarterly basis by all institutions for both a bank-specific and industry-wide liquidity stress situation.
- Each institution should consider further whether it is appropriate to perform both a moderate and severe entity-specific stress test, in addition to the minimum criteria prescribed above.
- Institutions are to document: (i) an acceptable mismatch between inflows and outflows under each scenario and (ii) the strategic responses, which would be required and available to the credit institution, in cases where these acceptable mismatches are breached. For example, if the stress testing identifies an unacceptable gap, an entity should consider the types of action it would take depending on the magnitude of the gap, the severity and likelihood of the stress scenario. These may include:
  - Sell appropriate assets or repo assets;
  - Requisition the marginal lending facility; or
  - Draw down committed lines.

These stress testing requirements are quantitative and are in addition to the qualitative requirements outlined in section 3.6 of this regulatory document. Regulatory teams will examine the reporting of stress testing results to the Board as required in section 3.6, as part of their ongoing work.

9. Reporting

The reporting obligations of each credit institution that is subject to the requirements of this paper are documented in the following sections. The reporting requirements occur at regular intervals as prescribed however all credit institutions are required to be in compliance with the requirements on an ongoing basis (i.e. between reporting dates) and any failure to do so must be reported to the Financial Regulator.
9.1 Licensed Credit Institutions
The quantitative liquidity requirements should be submitted on a quarterly basis. This return must be submitted within 15 working days of the quarterly reporting date.

9.2 Banking Groups
Where there is a banking group that is subject to consolidated supervision by the Financial Regulator the prudential liquidity return is to be submitted to the Financial Regulator on a quarterly group consolidated basis, including credit institution subsidiaries. The requirements should be submitted within 20 working days of the quarterly reporting date. The Financial Regulator will permit banking groups to submit only a group consolidated prudential liquidity return and not expect these groups to also submit prudential liquidity reports for their individual licensed entities or meet the requirements and limits as set out in this document at an individual licensed entity level, where liquidity is managed for all of the group at group level.

9.3 Branches of EEA and non-EEA Banks
Branches of EEA and non-EEA banks operating in Ireland must submit the quantitative prudential liquidity requirements on a quarterly basis, within 15 working days of the reporting date. For branches which fulfil the requirements as set out in section 1.4.3, confirmation of this, from the particular head-office and home supervisor must be submitted to the Financial Regulator every 5 years in January of the relevant year.

9.4 Implementation
The revised liquidity report will be prepared in parallel with the existing requirements for a six-month period commencing January 2007. In this regard it is envisaged that the 25% stock requirement be maintained during the term of parallel running and that the maturity mismatch levels be reported without the imposition of limits. Reporting will be required on a monthly basis during the parallel running period and will revert to quarterly thereafter. Limits on the level of maturity mismatch will take effect on the completion of the six-month parallel run in 2007.
For credit institutions that wish to move to the maturity mismatch approach prior to the commencement of the parallel run, the Financial Regulator will consider facilitating an earlier transposition on application by the credit institution. Such applications will need to demonstrate to the Financial Regulator the ability to adhere to all qualitative and quantitative requirements for the maturity mismatch approach.

10. Penalties

The legislation allows for inter alia, offences and penalties to be imposed on credit institutions that do not conform to the various legislative requirements. In particular, section 58 of the Central Bank Act of 1971, which refers to *Offences and punishments*, as amended by the substitution of section 9 of the Central Bank Act, 1989, states that a holder of a licence who commits by act or omission a breach of a condition duly imposed and which relates to a licence shall be guilty of an offence and shall be liable-

(i) “on summary conviction, to a fine not exceeding £1,000 or, at the discretion of the court, to imprisonment for a term not exceeding 12 months, or to both, or

(ii) on conviction on indictment, to a fine not exceeding £50,000 or, at the discretion of the court, to imprisonment for a term not exceeding 5 years, or to both,

and, if the contravention, breach or failure in respect of which he was convicted is continued after conviction, he shall be guilty of an offence on every day on which the contravention, breach or failure continues after conviction in respect of the original contravention, breach or failure and for each such offence he shall be liable on summary conviction to a fine not exceeding £100 or on conviction on indictment to a fine not exceeding £5,000.”

Section 60 of the 1971 Act contains an extension of the offending provisions. This states:

“*Where an offence under this Act is committed by a body corporate or by a person purporting to act on behalf of a body corporate or an unincorporated body of persons and is proved to have been so committed with the consent or approval of, or to have*
been facilitated by any wilful neglect on the part of, any director, manager, secretary, member of any committee of management or other controlling authority of such body or official of such body, such person shall also be guilty of the offence.”


In addition, the Central Bank and Financial Services Authority of Ireland Act, 2004, provides for the power of the Financial Regulator to impose sanctions directly on financial institutions or its management for breach of a requirement of an Act, Regulation, condition or requirement, as an alternative to court proceedings above.
11. **Glossary**

**Branch**: shall mean a place of business which forms a legally dependent part of a credit institution and which carries out directly all or some of the transactions inherent in the business of credit institutions; any number of places of business set up in the same Member State by a credit institution with headquarters in another Member State shall be regarded as a single branch.

**Contractual Flow Information**: numerical data on the cash inflows and outflows arising from a credit institution’s assets, liabilities and off-balance sheet activities based on the residual contractual maturities of the various elements (or on assumptions where permitted).

**Corporate**: a company within the meaning of the Companies Acts, 1963 to 2003, or a similar body established in a state outside Ireland.

**Consumer**: means a natural person acting outside his trade, business or profession. (Consumer Credit Act, 1995 & Code of Practice for Credit Institutions).

**Derivatives**: financial instruments the value of which change in response to a change in value of an underlying element.

**Freely Convertible Currency**: a freely convertible currency is understood to mean any of the currencies of the G10 countries, the countries which are members of the European Economic Area and the currencies of Australia and New Zealand.

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<tr>
<th>Credit Institution:</th>
<th>Reporting Basis: (Group/Entity)</th>
<th>Code:</th>
<th>Reporting Date:</th>
<th>Amount: Operational Currency 000</th>
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**Liquidity of Credit Institutions**

*Readily Marketable Assets* ¹

<table>
<thead>
<tr>
<th>Timebands</th>
<th>Liquid Assets</th>
<th>Haircut ²</th>
<th>Discounted Liquid Assets</th>
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</thead>
</table>

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<tr>
<th>Readily Marketable Assets/Liquid Assets</th>
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<td>Balances with the ECB and other Central Banks</td>
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<td>Exchequer Notes/Treasury Bills</td>
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1. Readily marketable assets/liquid assets with 8 or less calendar days to maturity should be recorded as an inflow in the sight to 8 days time band in Appendix 2, and should not be shown here in Appendix 1 'Readily Marketable Assets.'

2. Actual haircut percentage should be divided by 100 e.g. 10% haircut to be inserted as 0.1 on this column.
### Table 1(b) - Cash Inflows

**Liquidity of Credit Institutions**  
**Maturity Mismatch Calculation - Inflows**

<table>
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<tr>
<th>Timebands</th>
<th>Sight to 8 days</th>
<th>Over 8 days to 1 mth</th>
<th>Over 1 mth to 3 mths</th>
<th>Over 3 mths to 6 mths</th>
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1. The amount shown here refers to the unutilised portion of ECB Eligible Mortgage Backed Promissory Notes and Credit Claims
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<th>Timebands</th>
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### Table 1(d) - Assumptions

#### Liquidity of Credit Institutions

#### Maturity Mismatch Calculation - Assumptions

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<th>Credit Institution:</th>
<th>Code:</th>
<th>Reporting Date:</th>
<th>Amount: Operational Currency 000</th>
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<table>
<thead>
<tr>
<th>Product Type</th>
<th>Original Cashflow Amounts</th>
<th>Assumptions Applied/ Rationale</th>
<th>Adjusted Cashflows</th>
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<td>Undrawn Committed Facilities Received</td>
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<td>Overdraft Facilities Granted</td>
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<tr>
<td>Undrawn Committed Facilities Granted</td>
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</table>

- Retail Deposits (no contractual maturity)
  - Current Accounts
  - Demand Deposit Accounts
  - Redeemable at Notice

- Corporate Deposits (no contractual maturity)

- Retail Deposits (with contractual maturity)

- Corporate Deposits (with contractual maturity)

- Mortgage products (use of mortgage prepayment data)

- Planned Growth
  - Residential Mortgages
  - Personal Lending

- Derivative Transactions
  - Options
  - Futures
  - Swaps

- Other (please specify)

Assumption(s) applied/rationale should indicate the overriding assumption(s) adopted and the amount to which these assumptions are applied.
### Table 1(e) - Ratio Calculations

#### Liquidity of Credit Institutions

**Maturity Mismatch Calculation - Liquidity Ratios**

<table>
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<th>Timebands</th>
<th>Sight to 8 days</th>
<th>Over 8 days to 1 mth</th>
<th>Over 1 mth to 3 mths</th>
<th>Over 3 mths to 6 mths</th>
<th>Over 6 mths to 1 Year</th>
<th>1 to 2 Years</th>
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<td>0</td>
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<tr>
<td><strong>Total Cash Inflow</strong></td>
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<td>Net Cumulative Cashflow c/Fwd</td>
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<tr>
<td><strong>Total Cash Outflow</strong></td>
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<tr>
<td>Net Position in the Period</td>
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<tr>
<td>Net Cumulative Inflow/Outflow</td>
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#### Ratio Analysis

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<th>Monitoring Ratio</th>
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<tr>
<td></td>
<td>100%</td>
<td>100%</td>
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</table>

#### Contingent Position

**Facilities Granted**
- Undrawn Committed Facilities
- Uncommitted Facilities

**Facilities Received**
- Undrawn Committed Facilities
- Uncommitted Facilities

---

**Appendix 5**

**Liquidity of Credit Institutions**

**Reporting Date:**

**Code:**

**Credit Institution:**
LIQUID ASSET CATEGORIES

- **Cash**
  Cash shall comprise Euro notes and coin and any foreign currency that is freely convertible into Euro. Holdings of cash at the head office of the reporting institution and in its affiliates should be included in liquid assets subject to an assessment of the transferability of the cash in the case of foreign affiliates. Cash in transit from head office to branches, cash in tills and cash held at ATM’s should not be included in liquid assets.

- **Lending to Monetary Financial Institutions**
  Lending to monetary financial institutions (MFIs) comprises funds placed by the reporting institution on its own behalf with MFIs resident in the MU\(^1\) area, as set out in the List of MFI’s (available on the ECB website [www.ecb.int](http://www.ecb.int)) and recognised credit institutions in the rest of the world. For the purpose of the liquidity calculation certain types of lending to MFIs is considered to be liquid, as follows:
  - money market deposits with MFIs that are repayable or withdrawable on demand, overnight or within the next 4 days;
  - term deposits that are maturing overnight or within the next 4 days;
  - current accounts of the reporting institution with MFI’s or recognised credit institutions\(^2\);
  - MFI’s or recognised credit institution’s certificates of deposit.
  For the purpose of inclusion in liquid assets the reporting institution must be able to utilise these instruments as collateral or sell them within 4 days; and
  - funds financed under repurchase agreements with affiliated or other credit institutions may only be included in liquid assets if

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1 The Member States of the Monetary Union are as follows: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain.

2 The overdraft amount available on a current account should not be included in liquid assets as use of such a facility may have a negative reputational impact on the credit institution.
the funds advanced are repayable under the terms of the agreement in the next 4 days.

- **Securities other than Shares issued by MFIs**
  These are defined as securities other than shares or other equity held by the reporting institution which are issued by monetary financial institutions (MFIs) – as set out in the list of MFIs (available on the ECB’s website [www.ecb.int](http://www.ecb.int)) - and by recognised credit institutions in the rest of the world. These are negotiable and usually traded on secondary markets or can be offset on the market and do not grant the holder any ownership rights over the issuing institutions. The reporting institution must be able to utilise these securities as collateral or liquidate them within 4 days, if they are to be considered liquid. Subordinated debt that is reported under this heading in the prudential return may not be included in liquid assets.

- **Balances with the European System of Central Banks and other Central Banks**
  This asset is comprised of funds placed with the European Central Bank, the Central Bank and Financial Services Authority of Ireland or with any of the other National Central Banks of the monetary union area and with other official monetary authorities\(^3\). Only funds placed that are withdrawable or repayable on demand, overnight or within the next 4 days can be considered as a liquid asset.

- **Exchequer Notes/ Treasury Bills\(^4\)**
  Exchequer Notes and Treasury Bills held by the reporting institution may be included in liquid assets subject to the requirements that cash can be realised on the asset in 4 days.

- **Central Government – Investments\(^5\)**
  Central Government Securities held by the reporting institutions can be included in liquid assets at the market value of the assets, subject to the requirement that the credit institution can obtain cash for the assets in 4 days.

- **Securities other than Shares issued by non-MFIs**

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\(^3\) These official monetary authorities refer only to monetary authorities of OECD countries.

\(^4\) This refers to OECD government securities exclusively.

\(^5\) This refers to OECD government securities exclusively.
Highly rated investment grade securities, i.e. securities with a minimum external credit rating of A3/A-, may be included in the calculation of liquid assets if the reporting institution can utilise these securities as collateral or liquidate them in 4 days. When including such assets, credit institutions must ensure that the overriding criteria outlined in Section 5.2 are fully adhered to. With regard to highly rated investment grade asset backed securities that comply with the overriding criteria, the cash flow generating assets must not consist of credit linked notes or similar claims resulting from the transfer of credit risk by means of credit derivatives.

• **Accrued Interest**
  Accrued interest on lending to Monetary Financial Institutions, Central Banks, Central Governments and non-Monetary Financial Institutions may only be included in liquid assets if the interest is payable to the credit institution within the next 4 days.

• **Minimum Reserve**
  Balances on the minimum reserve account can be included in the amount of liquid assets.
APPENDIX 7

DESCRIPTION OF CASH INFLOW AND OUTFLOW CATEGORIES

1. CASH INFLOWS

- **Monetary Financial Institutions (“MFIs”)**
  This includes inflows from the repayment of funds advanced to MFIs (as set out in the List of Monetary Financial Institutions located at [www.ecb.int](http://www.ecb.int)), this includes affiliated and other credit institutions in addition to any other monetary financial institutions. Balances due from credit institutions should be split between those receivable from Irish licensed credit institutions and balances due from all other credit institutions. Inflows of funds further to the credit institutions entering into a sale and repurchase agreement should be analysed under the heading “Sale and Repurchase Agreements” below. Cash inflows from the sale of shares or investments in Monetary Financial Institutions should be included in the sub-category of ‘Sale of Securities or Investments in MFIs’. The cash inflows resulting from interest income should be reported with the loan principal amounts.

- **ECB and other Central Banks**
  Cash inflows from the maturity of discretionary term deposits, ECB Debt Certificates, Supplementary Deposits or from other Central Bank accounts should be included in this category.

- **Central Government**
  Central Government comprises all administrative departments, agencies, foundations, institutes, and similar state bodies with competence over the territory of one country. Cash inflows from the sale of securities or the repayment/maturity of loans should be included in this category.

- **Other General Government Credit**
  Other General Government includes state and regional government divisions exercising some of the functions of government at a level below that of central government, local government agencies which include administrative departments and agencies whose competence covers a restricted part of the economic territory. Cash inflows further to transactions with other general government agencies should be included here.
• **Non-Government Credit**
  Inflows of funds further to the granting of credit to corporate customers, credit unions, other finance companies and other non-government entities should be recorded in this section in addition to cash inflows from transactions with personal consumers (including the credit institution’s own staff).

• **Sale and Repurchase Agreements**
  Cash inflows on the maturity of a reverse repo transaction or upon entering into a repo transaction should be reported in this section.

• **Mortgage Backed Promissory Notes**
  Cash inflows from the issuance of Mortgage Backed Promissory Notes are to be included under this heading.

• **Fee Income**
  Cash inflows from fees earned by the credit institution are included in this section.

• **Other Income**
  Other cash inflows that cannot be analysed under any of the above categories should be included in ‘Other Income.’ An analysis of the amount and source of each balance comprising this total must be provided to the Financial Regulator.

• **Undrawn Committed Facilities Receivable**
  This is not a specific heading in the prudential return, however, credit institutions are to report all undrawn committed facilities that they envisage drawing down in the relevant timeband. Balances that it is not envisaged will be drawn down should be included in the contingencies section of the return, in Appendix 5.

• **Derivatives and Off-Balance Sheet Activity**
  Cash inflows from derivatives contracts entered into by the credit institution are reported under this heading.

• **Sale of Fixed Assets**
  The cash inflows from the sale of fixed/non-current assets should be included in this category. Inflows under this category should only be included in the table of cash inflows where there is a contractual obligation to sell a specific asset in a certain period.
- **Capital Items**
  Cash inflows from capital items e.g. the issuance of shares or from capital contributions etc. are to be documented here.

2. **CASH OUTFLOWS**

- **Monetary Financial Institutions**
  All amounts repayable to affiliated MFIs, other credit institutions and other MFIs should be included in this category in the appropriate timeband depending on when repayment will be made. Balances due to credit institutions should be split between those payable to Irish licensed credit institutions and balances due to all other credit institutions. Amounts repayable further to the credit institution entering into any type of sale and repurchase agreement with the relevant MFI should be analysed in the section below on Sale and Repurchase Agreements. Balances on deposit from MFIs may not be assumed to rollover.

- **Debt Securities Issued**
  Cash outflows as a result of the maturity of debt securities issued by the credit institution are to be reported here.

- **ECB and Other Central Banks**
  Balances due to be repaid to the ECB or any Central Bank further to the credit institution borrowing funds that are now repayable. Funding received under a sale and repurchase agreement, should be reported under the section on Sale and Repurchase Agreements.

- **Central Government**
  This section includes cash outflows on the repayment of Central Government Deposits or on the maturity of Debt Securities.

- **Other General Government**
  Cash outflows on the maturity or required repayment of Other General Government Deposits are reported under this heading.

- **Non-Government Deposits**
  Outflows of funds further to the repayment of accepted deposits from corporate customers, credit unions, other finance companies and other non-government entities should be recorded under the ‘Non-Government Deposits’ heading. This
section also includes the outflow of funds on the repayment of monies to personal customers.

- **Non-Government Commitments**
  Credit institutions should include assumptions about the level of mortgage lending, personal loan commitments and lending to corporates, that will result in cash outflows in the relevant timebands, taking seasonal factors into consideration.

- **Sale and Repurchase Agreements**
  Cash outflows on the maturity of a sale and repurchase transaction or upon entering into a reverse repo transaction should be analysed here.

- **Mortgage Backed Promissory Notes**
  This section includes cash outflows upon maturity of the notes.

- **Fees Payable**
  Cash outflows resulting from fees payable for financial services/facilities.

- **Other Costs**
  Any other costs incurred by the credit institution that result in a cash outflow should be reported in the relevant timeband.

- **Undrawn Committed Facilities Granted**
  Credit institutions will be permitted to make assumptions about the level of committed facilities granted that will be drawn down by credit institutions. Balances not included in the outflow analysis must be reported in the contingent outflow section of Appendix 5.

- **Derivatives and OBS Activity**
  Cash outflows from derivatives contracts entered into by the credit institution are reported under this heading.

- **Purchase of Fixed Assets**
  The cash outflows on the planned purchase of fixed/non-current assets should be included in this category.

- **Capital Items**
  This section includes cash outflows arising from capital items such as dividend payments or share buy backs etc.