



Circular 2015/2

Liquidity risks – banks

Qualitative liquidity risk management requirements and
quantitative liquidity requirements

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2 Other Languages

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Circular 2015/2

Liquidity risks – banks

Qualitative liquidity risk management requirements and quantitative liquidity requirements

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Annex 1:	Unwinding/settlement mechanism and secured financing transactions
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Addressees

BA	ISA	FinIA	FINMA	CISA	AMLA	Others
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Other intermediaries						
Insurance companies						
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Asset management companies						
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Fund management companies						
<input checked="" type="checkbox"/> Account-holding investment firms						
Non-account holding investment firms						
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Trading venues						
Central Counterparties						
Central depositories						
Trade repositories						
Payment systems						
Participants						
SICAV						
Limited partnerships for CIS						
SICAF						
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I. Objective

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

II. Qualitative requirements for liquidity risk management

A. Scope

The qualitative requirements for liquidity risk management must be met at both at the stand-alone institution level and the financial group level. The following shall be exempted: 2

- a. Group entities in Switzerland, provided it is ensured contractually and/or in their articles of incorporation that the group's holding company always has access to all relevant information and documents required to assess the group's liquidity position at the single entity level; 3
- b. Banks which are part of a central organization as described in Article 17 Banking Ordinance (BO, SR952.02), provided these have ensured contractually and/or in their articles of incorporation that the central institute always has access to all relevant information and documents required to assess the liquidity position of the member banks at the stand-alone institution level; or 4
- c. Foreign branches in Switzerland, provided these have been exempted from fulfilling the LCR requirements by FINMA, if the foreign parent company is subject to comparable qualitative requirements for liquidity risk management and provided these have ensured contractually and/or in their articles of incorporation that the foreign parent company always has access to all relevant information and documents required to assess the foreign branch's liquidity position in Switzerland. 5

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

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

B. Principles

a) The principle of proportionality

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

Small banks as per margin no. 8 shall be defined as banks in FINMA Categories 4 and 5 and securities firms⁹. For individual cases, FINMA may grant simplifications or set more stringent requirements. 8.1 *

a) Ensuring a bank's continuous solvency

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

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

C. Governance, control and steering functions

a) Tasks and responsibilities of the Executive Board

Repealed 11 *

The risk tolerance for liquidity risk shall correspond to the liquidity risk tolerance, and shall be regulated by the governing body in the framework concept for its institution-wide risk management (FINMA Circular 17/1 "Corporate governance – banks"). The liquidity risk tolerance shall be the starting point for the operationalization of the bank-internal strategies for managing liquidity risk, liquidity-related policies, as well as risk management and controlling processes. 12 *

The strategies for managing liquidity risk may be formulated and implemented by the executive board or a committee that reports directly to the executive board. 13 *

Where appropriate, the executive board shall stipulate requirements on 14

a. the degree of centralization of liquidity management; 15

b. the organizational and operational structure of liquidity risk management, specifically on the establishment of risk management and controlling processes; 16

c. the composition and maturity profile of assets, liabilities, and off-balance sheet positions; 17

⁹ Cf. Annex 3 BO

d. the allocation of liquidity risk to business activities;	18
e. intraday liquidity management;	19
f. collateral management;	20
g. limit-setting and the escalation procedures;	21
h. the diversification of funding sources and the limitation of funding concentrations;	22
i. the size and composition of reserves from liquid assets which may be sold or used for secured funding in times of stress;	23
j. the processes around the design, approval, application and review of the stress tests including their underlying assumptions;	24
k. the contingency funding plan;	25
and shall assess the adequacy as well as the operational readiness to apply the above-mentioned requirements regularly, but at least on a yearly basis.	26*

b) Allocation of liquidity risk to business activities

The bank shall establish an appropriate liquidity transfer pricing system which considers the bank's refinancing structure to allocate liquidity costs, risks and, where appropriate, liquidity benefits internally. The transfer prices must be used to manage the bank's business activities and to price both on and off-balance sheet transactions. The holding periods of assets and their market liquidity shall be considered appropriately in the calculation of the respective liquidity transfer prices. Appropriate assumptions shall also be made for contingent cash flows. 27

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

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

D. Risk measurement and management systems

a) Processes used to identify, measure, manage and monitor liquidity risk

The risk management and controlling processes include, in particular, comprehensive liquidity risk measurement systems tailored to the needs of the bank for identifying and quantifying risks, whereby these systems are also integrated into the strategies for liquidity management and the contingency funding plan. These include 30

a. a robust liquidity overview with an appropriate set of time horizons which compares the expected cash inflows and outflows. Fluctuations of cash flows due to the normal course of business must be reflected appropriately. Any underlying assumption for the expected cash inflows and outflows shall be defined and documented and 31

b. a liquidity reserve which consists of unencumbered, high-quality, highly liquid assets which is held to mitigate a short-term deterioration of the bank's liquidity situation. The requirements for the liquidity reserve are addressed in margin nos. 63–71. 32

The risk management and controlling processes shall also include 33

a. an effective contingency funding plan linked to the stress events defined in margin no. 84; 34

b. a limit framework and controls in accordance with the defined risk tolerance; 35

c. provisions to ensure that the incentives for all business areas to take risks are consistent with the resulting liquidity risks for the bank as a whole. 36

d. provisions to manage the access to well-diversified funding sources and tenors; and 37

e. IT systems as well as qualified employees to ensure the timely measurement, monitoring and reporting of liquidity positions in comparison to the defined limits. 38

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

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

a. manage and monitor liquidity risks regardless of their organizational structure and degree of centralization of liquidity management, whereas a minimum level of central oversight is required; 40

b. ensure that all legal entities have access to liquidity even in the event of liquidity shortages; 41

c. if appropriate, establish internal limits applicable between group entities; 42

d. establish internal agreements regarding the provision of liquidity support between group entities; and 43

e. assess whether there are any legal, regulatory or operational restrictions which could impair the transferability of liquidity and unencumbered assets within the group. 44

To ensure the ability to meet its payment obligations, a bank with significant assets or liabilities in foreign currencies and, at the same time, considerable mismatches in tenors or currencies of these assets and liabilities must establish appropriate procedures to manage the foreign liquidity in these significant foreign currencies. This shall include a separate liquidity overview, separate foreign currency stress tests as well as specific measures for liquidity shortages in the contingency funding plan for each significant currency. Significance shall be measured in accordance with margin no. 325. 45*

Banks with significant liquidity risks in foreign currencies as described in margin no. 45 must be in a position to recognize early changes in the liquidity of foreign currency swap markets and in the currency convertibility and take appropriate countermeasures. Sudden distortions in foreign currency swap markets which widen currency mismatches as well as unexpected price volatilities must be reflected in the stress tests. 46

c) Intraday liquidity requirements

Banks must be able to demonstrate comprehensibly that they are in a position to reliably estimate and manage the impact of an intraday stress event on the liquidity situation during the course of the day. Banks shall establish appropriate stress tests which simulate such events. 47

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

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

d) Assets held abroad

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

E. Liquidity risk mitigation

a) Limit system requirements

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

Repealed 52*-58*

b) Funding diversification

Banks must take appropriate measures to limit and monitor the concentration of funding sources and tenors. Funding diversification should occur across short-, medium- and long-term tenors, depositor types, investors, counterparties, instrument types, markets and currencies. Appropriate measures may for instance include the establishment of limits. 59

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

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

Banks exhibiting a high concentration in money and capital market funding through institutional investors such as other banks, insurers, hedge funds, money market funds, pension funds, or other large companies shall assess the consequences of a loss of funding from an important counterparty and take the appropriate precautionary measures for such a loss. 62

c) Requirements concerning liquidity reserves to mitigate short-term deteriorations of a bank's liquidity situation

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

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

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

c. are aligned with the liquidity needs according to the stress tests conducted, and 66

d. take into consideration their distribution to jurisdictions and currencies as well as corresponding risks and market-specific characteristics. 67*

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

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

Banks must assess to what extent counterparties and central banks will accept these assets as collateral in secured funding transactions during a stress situation. 70

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

F. Stress tests

Banks shall 72

a. regularly perform stress tests at all relevant levels in order to identify and quantify the liquidity drain from potential extreme events and to analyze the impact on their cash inflows and outflows and liquidity position; 73

b.	appropriately define stress test guidelines regarding the scope, methods, scenario types, scenario severity, time horizons, types of shocks and frequency of testing;	74
c.	substantiate and document comprehensibly their selection of stress tests. Moreover, the stress tests must be reviewed on a regular basis and after a stress event has occurred to ensure that the tests remain appropriate and relevant for the bank.	75
	Repealed	76*
	The results of stress tests shall be adequately documented and used for the following:	77
a.	alignment of the established liquidity risk tolerance with the liquidity risk situation;	78
b.	alignment of the size and composition of the liquidity reserve;	79
c.	integration in the limit-setting process;	80
d.	integration in the process of allocating of liquidity risk to business activities;	81
	whereby small banks as per margin no. 29 shall be exempted from fulfilling margin no. 81.	82
	The executive board shall be closely involved in the liquidity stress testing process. The governing body must be regularly informed, at least on a yearly basis, of the stress test results. The stress test results shall support the executive board in its assessment of the need for risk-mitigating actions according to margin nos. 77-82.	83*
	Banks must define their stress tests and the underlying assumptions. Banks covered in margin no. 76 shall be exempted from this requirement. Stress tests must also reflect extreme scenarios which are unlikely but nonetheless plausible.	84
	Except for the institutions listed under margin no. 76, banks shall take into account the additional following aspects:	85
a.	The severity of the stress events selected shall be based on historical events, case studies on liquidity crises and/or hypothetical models defined by internal and/or external experts. In doing so, banks shall take into consideration that liquidity shortfalls are often extreme situations with unexpected liquidity outflows and funding consequences. Therefore, the parametrization of the stress shall be particularly conservative.	86
b.	It shall be ensured that the selected set of scenarios covers all significant liquidity risks the bank is exposed to.	87
c.	The stress scenarios must specifically consider the link between increased liquidity needs, reduced market liquidity and financing liquidity as well as drawdown risks.	88
d.	The stress scenarios must take into consideration sudden short-term as well as long-term liquidity shortfalls.	89

If the LCR is calculated according to the trade date accounting principle, the bank must be able to explain the key differences to the LCR calculated according to the settlement date accounting principle at FINMA's request. 89.1*

Banks exposed to risks in intraday payment transactions shall also take into account intraday liquidity risks in their stress tests. 90

G. Contingency funding plan 91

Banks shall have in place a comprehensive and effective contingency funding plan for acute liquidity shortages that is closely integrated in the ongoing liquidity risk evaluation.

The contingency funding plan shall include: 92

- a. appropriate early warning indicators which can identify the emergence of increased vulnerabilities in the bank's liquidity position and funding possibilities, allowing the bank to respond accordingly; 93
- b. emergency triggers and a structured, multi-tiered escalation procedure depending on the severity of the liquidity crisis; 94
- c. liquidity generating and liquidity saving measures and their priority. The measures shall be conservative estimates and depend on the escalation level and/or the type and severity of the stress event; 95
- d. operational procedures to transfer liquidity and assets between jurisdictions, legal entities, and systems, taking into consideration any transfer restrictions; 96
- e. a clear definition of roles and the allocation of competences, rights and duties to all functions involved; 97
- f. clear procedures, decision-making processes and reporting duties with the aim of providing a timely and ongoing flow of information to senior management. The issues requiring escalation to senior management must be clearly defined; 98
- g. a clearly defined communication plan that ensures a transparent, consistent and regular flow of information to internal and external parties in a stress situation. 99

In the event of serious liquidity problems, FINMA shall be informed immediately. 100

The contingency funding plan must be reviewed and updated on an annual basis. The review must encompass all elements of the contingency funding plan. The executive board must be informed about the results of the review. 101

The contingency funding plan must be integrated into the bank's business continuity plans. 102

Banks must adequately document the components of the contingency funding plan covered in margin nos. 91-99. 103

III. Quantitative requirements (Liquidity Coverage Ratio, LCR)

A. Scope

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

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

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

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

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

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

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

B. LCR calculations

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

Repealed 112*

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

"Coins and banknotes" as per Article 15a(1)(a) LiqO are not equal to "liquid assets" as per FINMA Circular 20/1 "Accounting – banks", Annex 1, margin nos. A2–3 f. 113*

Specifically, current account balances due from banks, postal check account balances abroad or clearing balances with banks considered to be "liquid assets" pursuant to FINMA circ. 20/1 "Accounting – Banks", Annex 1, item 1.1 must be recorded as cash inflows for LCR purposes if the relevant criteria are fulfilled, but do not qualify as HQLA. 114*

The following shall apply to the calculation of the central bank reserves held at the SNB and the treatment of the SNB minimum reserves pursuant to Article 15a(1)(b) LiqO: 115

a. the SNB minimum reserve must be deducted from the SNB central bank account balance; 116

b. if the central bank reserves held at SNB are negative after the SNB minimum reserves have been deducted, this amount must be deducted from the coins and bank notes balance; 117

c. if the coins and bank notes balance become negative after the amount stipulated in margin no. 116 has been deducted, this amount must be recorded as cash outflow. 118

Minimum reserves held with foreign central banks may only be included in the LCR if these reserves are also eligible in the relevant LCR jurisdiction. If these are eligible in the relevant LCR jurisdiction, the bank shall consider the deduction method stipulated by the supervisory authority in question. 118.1*

Multilateral development banks referred to in Article 15a(1)(c)(8) LiqO shall be those listed in FINMA circular 2017/7 "Credit risks – banks", Annex 1. 119

Bonds of the European Financial Stability Facility (EFSF) and the European Stability Mechanism (ESM) may be eligible as assets of Category 1 if they fulfill the requirements of Article 15d LiqO. 119.1*

Marketable securities representing claims towards a central government or central bank in local currency in accordance with Article 15a(1)(d) LiqO may be included up to a maximum of the net cash outflow of a subsidiary or branch of the bank in that particular country or up to a maximum of the net cash outflow in the respective currency. For the purposes of Article 15a(1)(d) LiqO, the individual member states of the European Union and not the European Union as a whole constitute a country. Similarly, the criterion for the inclusion up to a maximum of the net cash outflow in the respective currency is not applicable in the case of the European Monetary Union and other cross-country currency areas. 119.2*

Bonds issued by the Emissionszentrale für gemeinnützige Wohnbauträger (EGW) (issue center for the construction of housing), which are irrevocably guaranteed by the Swiss Confederation, may be recorded as assets of Category 1 if they fulfill the requirements of Article 15d LiqO. 120*

According to Articles 15a(1)(c)(3) and 15b(1)(a)(3) LiqO, bonds issued by Swiss cantons are to be considered as the following: 121*

a. Category 1 assets if they have a rating that equals rating category 1 or 2 according to the FINMA 122

concordance table by a FINMA-recognized rating agency, and if they fulfill the requirements stipulated in Article 15d LiqO;	
b. Category 2a assets if they have a rating that equals rating category 3 according to the FINMA concordance table by a FINMA-recognized rating agency, and if they fulfill the requirements stipulated in Article 15d LiqO;	123
c. Non-HQLA if they have a rating that equals rating category 4 or lower according to the FINMA concordance table by a FINMA-recognized rating agency or are not rated at all.	124
Cantonal banks that have an unlimited or limited cantonal guarantee for liabilities may not consider bonds issued by the canton which acts as guarantor for this particular cantonal bank as HQLA.	125
According to Article 15b(1)(a)(3) LiqO, bonds issued by Swiss cities, municipalities, or the Emissionszentrale der Schweizer Gemeinden (ESG) (issue center for Swiss communities) shall be considered as follows:	126
a. Category 2a assets if they have a rating that equals rating category 1 or 2 according to the FINMA concordance table by a FINMA-recognized rating agency if they fulfill the requirements stipulated in Article 15d LiqO;	127*
b. Non-HQLA if they have a rating that equals rating category 3 or lower according to the FINMA concordance table by a FINMA-recognized rating agency or are not rated at all.	128*
If a non-financial institution issues bonds through a specialized financing subsidiary that also provides financial services for the non-financial institution but this financing subsidiary does not have a banking license in Switzerland or abroad, such bonds may be considered as assets of Category 2a pursuant to Article 15b(3) LiqO if they fulfill the requirements of Article 15d LiqO.	129*
Should such a financing subsidiary hold a banking license in Switzerland or abroad, bonds issued through the financing subsidiary may not be considered as HQLA.	130*
Covered bonds shall be Category 2a assets pursuant to Article 15b(1)(c) LiqO if they are under a special law regulation which subjects such bonds to special public supervision for the protection of the bond holders and if they fulfill the requirements of Article 15d LiqO.	131*
Precious metal holdings are not considered as HQLA.	132
Common equity shares may be considered as Category 2b assets as per Article 15b(5) and (6) LiqO, if:	133
a. they are exchange-traded and cleared centrally; and	134
b. the common equity share portfolio is well-diversified across different sectors; and	135
c. they are denominated in Swiss francs or in the currency in which the liquidity risk is taken; and	136

- .d. they are constituents of the Swiss Market Index (SMI); or in the case of non-Swiss common equity shares 137
- e. they are constituents of a stock index that the foreign regulator considers eligible for the consideration as Category 2b assets 138*

D. Characteristics of HQLA

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

- a. The assets are traded in broad, deep, and functioning markets that have a low degree of concentration with respect to market participant structure; 140
- b. They have to have a proven record as a reliable source of liquidity in repo or spot markets, even during stressed market conditions. In particular, 141
 - In the case of Category 2a assets, they must neither have experienced an increase in haircut in a repo transaction of more than 10 percentage points nor a decline of price in spot markets of more than 10 percent over a 30-day horizon of a relevant period with stressed market conditions or since their initial issue; 142*
 - In the case of common equity shares, they must neither have experienced an increase in haircut in a repo transaction of more than 40 percentage points nor a decline of price in spot markets of more than 40 percent over a 30-day horizon of relevant period with stressed market conditions or since their initial issue; 143*
- c. The price shall be established by market participants and shall easily be determined in the market or may be calculated using a simple formula with inputs that are publicly available and not based on complex model-based assumptions; 144
- d. They shall be listed at a Swiss FINMA-regulated stock exchange or at a foreign stock exchange which is regulated by a foreign regulator; 145
- e. They can be converted into cash immediately either through an outright sale or a simple repo transaction; and 146
- f. The value of the HQLA may not be negatively impacted by the occurrence of the stress scenario assumptions (correlation risk, wrong-way risk). 147

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

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

If a foreign regulator has a catalog or a register of eligible assets or if it has defined particular requirements regarding which assets are eligible for the purpose of the LCR, margin nos. 140-147 do not need to be reconsidered separately for such foreign assets. 150

E. Operational requirements for managing HQLA

Banks must have processes and appropriate systems in place to be able to sell HQLA or to utilize them in a simple repo transaction at all times. A bank must exclude from its stock of HQLA any assets where it does not have the operational capability to monetize them under a 30-calendar-day liquidity stress scenario. 151

The stock of HQLA must fulfill the following operational requirements: 152

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

- h. Assets may be considered part of the stock of HQLA if they have been: 162
- received in reverse repo, securities financing and collateral swap transactions and have not been rehypothecated, and are legally and contractually freely available to the bank; 163
 - pre-positioned, deposited or pledged with central banks, a central clearing house or another public institution for precautionary purposes but have not been used to generate liquidity from an end-of-day view ("excess collateral"), whereas assets with the highest liquidity must be captured as exceeding first; or 164*
 - received as collateral for derivative transactions that are not segregated and can be legally rehypothecated, provided the bank records an appropriate outflow for the associated risks. 165

F. Requirements for an adequate diversification

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

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

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

Small banks must avoid inappropriate concentrations in specific securities. 168

G. Unwinding/settlement

The unwinding/settlement mechanism shall cause the stock of Category 1 and 2a assets to become relevant for the calculation of the LCR once the secured financing transactions have matured. Therefore, such transactions do not impact the calculation of the LCR in regard to the stock of HQLA and to the net cash outflows. 169*

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

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

Collateral which the bank has lent to clients to cover short positions must be treated like secured financing transactions.	172
The application of the unwinding/settlement mechanism and the treatment of secured financing transactions shall be covered in Annex 1.	173
For transactions where the liquidity inflow or outflow takes place in a foreign currency in which the bank does not possess a central bank account, the unwinding/settlement nonetheless takes place against the central bank credit balance, i.e. rows 002 and 003 in the liquidity report of the relevant currency, regardless of whether the bank holds a central bank account in the corresponding currency or not.	173.1*
Lombard loans (pledging of custody accounts in the retail business) are not considered secured financing transactions pursuant to Article 15e(2) LiqO.	173.2*

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

a) Retail deposits

Retail deposits pursuant to Annex 2, item 1 LiqO shall be defined as deposits of natural persons.	174*
For LCR purposes, retail deposits shall include demand deposits, and term deposits maturing within 30 calendar days. Deposits that are irrevocably pledged for more than 30 calendar days do not need to be taken into account.	175
If a retail deposit has been actively terminated and becomes due within 30 calendar days, the outflow shall be captured as “other contractual outflows” as per Annex 2, item 13 LiqO. Terminated deposits may be allocated to the same category as term deposits maturing within 30 calendar days if the institution can prove to the audit firm that in the past, customers have withdrawn terminated deposits only to a limited extent and if no payment to another bank has been agreed.	176*
Liabilities from derivative transactions shall be explicitly excluded from this definition.	177
Financial instruments that consist of an underlying contract and one or more embedded derivatives (“structured product”) may be treated as retail deposits, provided:	177.1*
a. they are offered for sale to retail customers only, and are held in retail custody accounts of, and	177.2*
b. the fair value of the structured product is used to calculate the outflow.	177.3*
Stable deposits pursuant to Annex 2, item 1.1.1 LiqO are deposits that are fully insured by a Swiss or a foreign deposit insurance scheme, or by an equivalent guarantee by a central government and which either	178*
a. are a component of an established client relationship that makes deposit withdrawal highly unlikely, or	179
b. are held in a transaction account.	180

An established client relationship shall be given if the depositor fulfills at least one of the following criteria:	181
a. The depositor has had an active contractual relationship with the bank for at least 24 months;	182
b. The depositor has entered into a long-term credit relationship with the bank (mortgage loan or other long-term loan); or	183
c. The depositor has at least three other products with the bank, other than loans (i.e. EC card, credit card, Pillar 3a account, etc.)	184
Repealed	185*
The Swiss deposit insurance scheme can be taken into account up to the sum of CHF 6 billion per institution.	186
The following priority order is to be applied to the allocation of the deposits insured by the Swiss deposit insurance scheme: stable retail deposits, including deposits from small business customers are given first priority, followed by deposits from other corporate and wholesale clients.	187*
If a retail customer has deposits maturing in more than 30 calendar days and some that mature in less than 30 calendar days, the allocation of the deposits to the deposit insurance scheme shall be as follows:	187.1*
a. deposits with a maturity of more than 30 calendar days shall be given first priority for the deposit insurance scheme.	187.2*
b. Only after the full allocation to deposits with a maturity of more than 30 calendar days (or deposits classified as not due within 30 calendar days as a result of withdrawal restrictions pursuant to margin nos. 194-197), the remaining part up to the deposit insurance ceiling may be allocated to deposits with maturities shorter than 30 calendar days.	187.3*
If deposits with a foreign subsidiary or foreign branch are subject to an especially secure deposit insurance scheme, the respective LCR outflow rates that the national regulator applies to these deposits may be applied. Such deposits must fulfill the requirements stipulated in margin nos. 178–184 as well as the following additional criteria:	188*
a. the deposit insurance scheme is pre-funded by the regular levying of contributions from banks with insured deposits;	189
b. the scheme has adequate means of ensuring ready access to additional funding in the event of a large call on its reserves, e.g. an explicit and legally binding guarantee from the government, or a standing authorization to borrow from the government; and	190
c. the access to insured deposits is granted to depositors shortly after the deposit insurance is triggered.	191
If deposits with a foreign subsidiary or foreign branch are subject to a deposit insurance scheme, the respective provisions of the foreign regulator must be taken into consideration when calculating the insured portion.	192

Less stable deposits pursuant to Annex 2, item 1.1.2 LiqO shall be deposits which do not meet stable deposit criteria.	193*
Deposits with a contractual residual maturity of more than 30 calendar days (including those with undefined maturity periods), but which may be withdrawn within 30 calendar days (explicit and implicit special termination/withdrawal rights, termination options etc.), may not be considered as deposits due within 30 calendar days, if:	194*
a. the client would have to make a penalty payment to the bank of a kind that would make such a withdrawal sufficiently unlikely, and	194.1*
b. the interest on the deposit payable to the client is calculated exclusively up to the date of payment.	194.2*
The penalty payment as per margin no. 194.1 shall be composed of:	194.3*
Repealed	195*
a. the compensation for the lower interest rate since the time the deposit was made. For fixed-term deposits, this shall be calculated by taking the difference between the refinancing costs as at the time of the withdrawal for the residual maturity of the deposits on the money and capital markets and the refinancing costs of a corresponding financing as at the time of the conclusion for the entire maturity period of the deposit, and	196*
b. for all deposits: at least 200 basis points on the deposit.	197*
If a portion of the deposit can be withdrawn without incurring a penalty payment as per margin nos. 194-197, only that portion is to be treated as a deposit maturing within 30 calendar days.	198
If a bank allows a depositor to withdraw such deposits despite a clause forbidding a withdrawal, the entire category of these funds (stable and less stable deposits) shall then be treated as demand deposits. If a bank grants this extraordinary withdrawal only in hardship cases, then it does not need to view the entire category of these deposits as demand deposits.	199
A hardship case shall exist if the client were subject to serious financial difficulties not justified by the circumstances. For retail customers, an example would be if the client requires the deposit to be able to subsist. For a corporate client, an example would be if the client requires the deposit to maintain business operations.	199.1*
The following are also not subject to the penalty payment pursuant to margin nos. 194-197:	199.2*
a. deduction for fees and interest payments at the same bank where the deposit is;	199.3*
b. deduction for scheduled and non-scheduled amortizations at the same bank where the deposit is booked;	199.4*
c. deduction for repaying liabilities at the same bank where the deposit is;	199.5*

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

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

- a. settlement are made in physical form, or 200.1*
- b. by contract, the client receives a cash payment or credit to a clearing account after placing an order for the sale of a certain quantity of the precious metal in question only after the sale of the precious metal position or the hedging transaction has been undertaken by the bank (such as a precious metal fund or precious metal account with another bank) at the price obtained in this case, provided that the liquidation proceeds can cover the outflow. The client is not entitled contractually to a cash payment of the precious metal price fixed, so that the liquidity risk is fully transferred to the client. In this case, the hedging transaction may not be recorded as an inflow. 200.2*

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

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

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

If medium-term notes and other debt instruments are designed as bearer securities, it shall be sufficient to ensure that at issuance, they were sold to retail customers exclusively. 206

b) Unsecured funding provided by corporate or wholesale clients

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

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

Repealed 209*

Unsecured funding provided by corporate or wholesale clients shall be any funding that is callable within 210

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

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

Small business customers pursuant to Annex 2, item 2.1 LiqO shall be non-financial legal entities, sole proprietorships or partnerships under Swiss or foreign law with a credit volume (on a consolidated level where applicable) and a total amount of deposits (on a consolidated level where applicable) of less than CHF 1.5 million. The credit volume and the total amount of deposits shall be considered separately; netting is not allowed. Consolidated level shall mean that all companies under common control ("group of small companies") have to be considered as a single creditor or debtor. The bank may treat such deposits like retail deposits if they have similar characteristics as deposits from retail customers. 211*

Deposits from associations or charitable foundations according to Articles 80 et seq. of the Swiss Civil Code or partnerships according to Articles 530, 552, 594 of the Swiss Code of Obligations, or legal entities or partnerships under foreign law that correspond to the associations, foundations, and partnerships under Swiss law may be treated like retail deposits if the association, charitable foundation or partnership fulfills the requirements of small business customers as per margin no. 211. 212*

Margin nos. 176-200 shall apply to corporate and wholesale clients by analogy. 212.1*

Deposits shall only be separated into "operational" and "non-operational" pursuant to Annex 2, item 2.2 LiqO after the type of counterparty has been determined. 213*

"Operational deposits" pursuant to Annex 2, item 2.2 LiqO shall be the deposits from corporate or wholesale clients that are generated from clearing, custody or cash-management services, as well as deposits from other banks subject to a contractual agreement that these shall be treated as operational just as in margin no. 297, whereby 214*

Repealed 215*-218*

a. the services are provided in the course of an established relationship and the depositor is notably reliant on the bank to perform these services; 219

b. the services do not consist of prime brokerage or correspondent banking services; 220

c. the client cannot withdraw deposits which are legally due within the 30-calendar-day time horizon without impacting its normal banking activities; 221

d. the services are provided under a legally binding service agreement; and 222

- e. the deposits are held in specifically designated accounts (such as current cash management or securities settlement accounts) and are priced without giving an economic incentive to the client to leave any excess funds on these accounts. 223

Any deposits that could be withdrawn and would still leave enough funds to fulfill these clearing, custody and cash management activities do not qualify as operational deposits. 224

For banks in Categories 1, 2, and 3¹⁰ the following shall apply: 224.1*

- a. For the portion to be considered as operational deposits for clearing, custody, and cash management purposes, the bank shall use an internal model that comprehensibly substantiates and quantifies the minimum amount that the client must hold to preserve its operating activity. 225*
- b. The internal model referred to in margin no. 225 must take into account the complexity, as well as the type and scope of the bank's business activity. 226
- c. If the bank chooses a model based on account turnover, the parameterization of the model should consider the different payment behavior of the counterparties. 226.1*
- d. For banks in accordance with Annex 1, item 2 LiqO, margin no. 293 shall be taken into account by analogy when determining the operational deposits. In other words, the demand deposits from other domestic banks, or from foreign banks from countries that have introduced the LCR in accordance with the guidelines of the Basel Committee, shall be recorded as non-operational. 226.2*
- e. The internal model referred to in margin no. 225 must be submitted to FINMA in advance for approval. 227*
- f. If FINMA does not approve the internal model, banks in Categories 1, 2, or 3 shall consider all relevant deposits as non-operational deposits. For banks in Categories 4 and 5, margin nos. 228 to 231 shall apply. 227.1*

Banks in Categories 4 or 5¹¹ shall record the following portions of deposits as non-operational, depending on the counterparty: 228*

- a. For non-financial institutions, central governments, central banks, subordinate regional authorities, other public sector entities and multilateral development banks as well as deposits allocated to this category pursuant to margin no. 245: 80 percent of deposits are non-operational; 229*
- b. for financial institutions which are not banks and for all other legal entities and corporate clients: 90 percent of deposits are non-operational; 230
- c. for banks: 100 percent of deposits are non-operational. Excluded from this are deposits where it has been contractually agreed that these are deemed to be operational, just as in margin no. 297. 231*

¹⁰ Cf. Annex 3 BO

¹¹ Cf. Annex 3 BO

In deviation to margin nos. 228-231, banks in Categories 4 or 5¹² may determine the portion of operational deposits using an internal model if they can prove that they are in a position to manage such a model. In this case, margin nos. 226-227 shall apply accordingly. 231.1*

An institutional network of cooperative banks pursuant to Annex 2, item 2.3 LiqO shall be a group of legally autonomous banks with a statutory framework of cooperation with a common strategic focus and brand where specific functions are performed by central institutions or specialized service providers. An outflow rate of 25 percent shall only be given to the amount of deposits from member institutions with the central institution that: 232*

a. is placed due to statutory minimum deposit requirements declared to the regulator; 233

b. serves to protect the institutional network of cooperative banks against insolvency or illiquidity, as defined in the articles of incorporation; or 234

c. fulfills the requirements for operational deposits as per margin nos. 214, 218–223. 235*

No other deposits from member institutions with the central institution as well as all deposits from correspondent banking activities with the central institution shall qualify for the 25 percent outflow rate; instead, they shall be considered deposits from financial institutions with an outflow rate of 100 percent. 236

Medium-term notes and other debt securities with a residual maturity of up to 30 calendar days may be recorded as non-operational deposits from non-financial institutions pursuant to Annex 2, item 2.4.2 LiqO, if it is ensured that these cannot be purchased and held by financial institutions pursuant to Annex 1 LiqO, including affiliated entities or other legal entities associated with these as per margin no. 242. 236.1*

An outflow rate that normally applies to less stable retail deposits (Annex 2 Item 1.1.2) may be selected for deposits in vested benefit and Pillar 3a accounts, if: 237*

a. Repealed 238*

b. these funds can only be withdrawn by natural persons (and not by the vested benefits, bank, or investment foundation) within 30 calendar days; and 239*

c. the deposits can be clearly assigned to the corresponding natural person. 240

The ceiling of CHF 1.5 million stipulated in Annex 2, item 1.2 LiqO does not apply to deposits in vested benefit and Pillar 3a accounts as per margin nos. 237–240. Moreover, there is no need to aggregate these with other deposits in order to determine whether a depositor exceeds the ceiling. 240.1*

Pledged Pillar 3a deposits and other pledged deposits may not be recorded as an outflow if they are pledged for more than 30 calendar days through the underlying transaction. 241

Annex 2 item 2.5 LiqO (“all other legal entities”) shall include fiduciaries, beneficiaries, conduits and special purpose entities and other legal entities. 242*

¹² Cf. Annex 3 BO

Repealed	243*-244*
The treatment of deposits from all other legal entities pursuant to Annex 2 Item 2.5 LiqO shall depend on the beneficial owner. These may be treated as deposits from non-financial institutions pursuant to Annex 2, items 2.4.1 and 2.4.2 LiqO, provided the following conditions are met:	245*
a. the beneficial owner is a specific, individualizable natural person or several natural persons who are closely related to each other;	245.1*
b. the beneficial owner is the ultimate owner of the deposit;	245.2*
c. the structure in question does not serve the purpose of collective capital investment;	245.3*
d. it is not a conduit or a special purpose vehicle of a bank; and	245.4*
e. it is not an affiliated company of the bank.	245.5*
If unit-linked products are segregated from other assets, the corresponding assets and liabilities may be netted with each another. Any asset surplus should be recorded as an outflow from "deposits from all other legal entities"	245.6*
An "affiliated company" as per Annex 2, item 2.5 LiqO shall be a company that is not part of the group created by the bank, but which is under common control by a company situated above the bank in the group structure.	245.7*
Outflows of deposits provided by affiliated companies of the bank pursuant to Annex 2, item 2.5 LiqO must be recorded as "other legal entities," except if the funds are provided as part of an operational relationship as per margin nos. 214, 218-223, represent a deposit in an institutional network as per margin nos. 232-235 or the funds are provided by affiliated companies that are non-financial institutions.	246*
Repealed	247*
Unsecured debt instruments pursuant to Annex 2, item 2.6 LiqO include all debt securities issued by the bank maturing within 30 calendar days except for medium-term notes and those debt instruments which have been sold exclusively to retail customers and which fulfill the criteria of margin no. 205.	248*
In the case of unsecured debt securities, products that do not give rise to a liquidity outflow at the bank and can therefore be reduced so that the stock of HQLA remains unchanged, do not need to be considered in the calculations.	248.1*
Demand deposits arising from offering prime brokerage services, including the balances resulting from activities that meet the requirements for operational deposits as per margin nos. 214 et seq., shall be treated separately from segregated holdings required for national insurance schemes. No netting with other client positions is possible when calculating the LCR. The segregated holdings that cannot be netted shall be considered as inflows pursuant to margin no. 298.2 and must be excluded from HQLA.	248.2*

c) Derivatives and other transactions

The net cash outflow from derivatives pursuant to Annex 2, item 5.1 LiqO shall be based on the expected contractual cash inflows and cash outflows. The following shall apply:	249*
<ul style="list-style-type: none"> a. The cash inflows and outflows for each counterparty may only be calculated on a net basis if a valid master netting agreement exists. An exception shall be made for payments from foreign currency derivatives that involve a simultaneous exchange of the notional values. For the purpose of the LCR across all currencies, such payments may also be netted without a master netting agreement. For the LCR in Swiss francs, inflows and outflows may be netted if they are expected to be settled/unwound on the same day with a simultaneous exchange of notional values; b. in the case of options, the underlying assumption is that these will be exercised if they are “in the money” from the buyer’s perspective and such exercise is contractually possible; c. the calculation must exclude outflows due to market valuation changes of the derivative (margin no. 262) and outflows due to valuation changes of collateral (margin no. 267); and d. where derivatives are collateralized with HQLA, the cash outflows must be calculated net of any corresponding cash or collateral inflows that would result, all other things being equal, from contractual obligations for cash or collateral to be provided to the bank. In doing so, the bank must be legally entitled and operationally capable to re-use the collateral in new cash-raising transactions once the collateral is received. It shall be ensured that inflows and assets are not recorded twice. 	250*
“Other transactions” as per Annex 2, items 5.2 - 5.7 LiqO shall be defined as derivative-like structures such as structured products. Secured refinancing transactions including securities lending and borrowing shall be excluded.	251
If the bank is contractually obliged to post additional collateral in derivatives, financing transactions and other transactions in case of a downgrade of its long-term credit rating up to and including 3 rating categories (Annex 2, item 5.2 LiqO), the bank shall record the total amount of additional collateral as cash outflow (outflow rate of 100 percent).	252
Margin no. 255 (outflow rate of 100 percent) shall also apply if the counterparty is entitled to demand early repayment of existing liabilities or the drawdown of contingent funding obligations instead of posting additional collateral upon the bank’s downgrade of up to and including 3 rating categories.	253
If the posting of additional collateral, the early repayment of existing liabilities or the drawdown of contingent funding obligations is connected to a downgrade of the bank’s short-term rating, it shall be assumed that this will also trigger a downgrade in the long-term rating as per the concordance table “Swiss and International Standardized Approach” published with FINMA circ. 17/7 “Credit Risks - Banks”	254
The impact of a downgrade shall consider all types of posted collateral and contractual triggers which change rehypothecation rights for non-segregated collateral.	255
If the bank holds excess non-segregated collateral that the counterparty could contractually call at any time (Annex 2, item 5.3 LiqO), the bank shall record the total amount of this collateral as a cash outflow (outflow rate of 100 percent).	256
If the bank contractually owes collateral to the counterparty on transactions for which the counterparty	257
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has not yet demanded the posting of such collateral (Annex 2, item 5.4 LiqO), the bank shall record the total amount of this collateral as a cash outflow (outflow rate of 100 percent).

If the bank holds non-segregated HQLA collateral which the counterparty can substitute for non-HQLA assets without the bank's consent (Annex 2, item 5.5 LiqO), the bank shall record the total amount of this collateral as a cash outflow (outflow rate of 100 percent). 261

Repealed 262*

As an alternative to the look-back approach pursuant to Annex 2 item 5.6 LiqO in conjunction with Article 16(9)(b) LiqO, banks may apply an internal model approach to quantify the net cash outflow from derivatives or other transactions on the basis of market value changes. When applying such a model, the following criteria shall be taken into account: 263*

a. If using a scenario-based approach, the stress assumptions made must at least align with the extent of the LCR scenario; 264

b. If using a VaR model-based approach, a confidence level of at least 98 percent and a holding period of 30 calendar days must be taken as a basis. For the look-back approach, a data history of at least 24 months shall be considered. If no data history is available or if an alternative approach is used, the bank shall make conservative estimates that align with the extent of the LCR scenario. 265

c. The internal model approach shall be submitted to FINMA in advance for approval. 265.1*

d. If FINMA does not approve the internal model approach, the look-back approach shall be applied. 265.2*

Repealed 266*

To calculate the net cash flows in accordance with Annex 2, item 5.6 LiqO, compensation payments made and received from so-called settled to market transactions where the market value of a derivative is reduced according to schedule but the derivative is not canceled but continues to exist shall be treated as part of the net cash flow. 266.1*

If a bank provides and receives non-Category 1 collateral for derivatives and other transactions to/from the same counterparty (Annex 2, item 5.7 LiqO), it must record 20 percent of the value of all such posted collateral net of collateral received on a counterparty basis as cash outflow in order to cover potential valuation changes. 267

When calculating the outflow for potential valuation changes as per margin no. 267, the following shall apply: 268

a. the collateral received may only be deducted if it is not subject to any restrictions on re-use or rehypothecation; 269

b. the 20 percent outflow rate is calculated based on the nominal value of the collateral to be provided, after applying any relevant haircuts that apply to the collateral category in question; and 270

- c. any collateral held in a segregated margin account can only be used to offset outflows that are associated with payments that are eligible to be offset from that same account. 271

d) Credit and liquidity facilities

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

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

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

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

Repealed 276*

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

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

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

The portion of the follow-up financing facility that covers debt securities not due within 30 calendar days shall be recorded as a credit facility if the facility may be used for purposes other than the cover of issued debt. 278.1*

In the case of an acquisition facility, no outflow shall be taken into account for purposes of the LCR until the relevant authorities have approved the takeover or merger. If the capital market transaction for acquisition 278.2*

tion facilities or new financing facilities requires the approval of shareholders, no outflow shall be recorded until the shareholders have approved the capital market transaction.

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

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

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

Repealed 279*-280*

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

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

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

e) Other contingent funding obligations such as guarantees, letters of credit, revocable credit and liquidity facilities

Cash outflows from managed money market funds that are managed with the aim of retaining a stable value (Annex 2, item 9.3.5 LiqO) do not need to be recorded if the fund legislation in the country in which the fund is established is designed in such a way that support from the bank in excess of legally prescribed minimum reserves is excluded or the risk of having to support it is sufficiently limited by prescribing standards in credit quality for the acceptable assets and makes available adequate instruments to manage a stressed market situation (rules for redemption fees and/or blocks). 281.3*

f) Customer short positions covered by other customers' collateral

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

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

g) Other contractual cash outflows within 30 days

All other contractual cash outflows over the next 30 calendar days, such as outflows to cover unsecured collateral borrowings, uncovered short positions as well as short positions that are covered by unsecured securities borrowing, dividend payments and contractual interest payments, shall be recorded as "other contractual cash outflows" (Annex 2, item 13 LiqO). This does not include cash outflows for operational costs. In case relevant outflows amount to more than 1 percent of net cash outflows, these shall be reported to the FINMA, stating which positions were recorded as an "other contractual cash outflow". Only relevant changes in the positions compared to the prior month shall be reported. 285.1*

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

For unsettled orders to buy and sell securities of securities that will not be (buy) or are not (sell) HQLA Categories 1 and 2a, instead of gross disclosure as "other contractual cash outflows" and "other contractual cash inflows", these unsettled orders to buy and sell securities that are settled on the same day and on the same trading venue may be netted. 286.1*

I. Cash inflows - explanations on Annex 3 LiqO

a) General requirements

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

- a. there are no late payments or value adjustments; 288
- b. the bank does not expect a default nor a value adjustment due to default risks for these receivables in the next 30 calendar days in line with Article 24 FINMA-AO; and 289
- c. the cash inflows are not conditional. 290

Loaned HQLA that are not matched by any offsetting transaction with a repo transaction or collateral swap and which the bank gets back or can reclaim in the next 30 calendar days may be recognized as other 290.1*

contractual cash inflows. If they are Category 2 assets, the haircuts must be taken into consideration.

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

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

Demand deposits with other domestic banks or with banks in other countries which introduced the LCR according to the rules issued by the Basel Committee may be recorded as cash inflows if no default or value adjustment is expected for these receivables within the next 30 calendar days. 293

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

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

Overdrafts on granted current account facilities as well as other not explicitly granted overdrafts that hold a temporary character are exempted from this requirement and may be recorded as a cash inflow. 294.2*

Cash inflows from loans that have no specific maturity may not be included in the calculation. Contractually agreed minimum repayments, interest or fees may be included in the calculation if these become due in the next 30 calendar days, taking into account the relevant inflow rates of Annex 2 Point 5.1–5.3 LiqO. 294.3*

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

b) Secured financing transactions

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

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

The definition of operational deposits pursuant to Annex 3, item 4 LiqO, which the bank holds at other financial institutions for clearing, custody, and cash-management purposes, shall be the one set out in margin nos. 214-219 and 221-224. Correspondent banking balances that the bank holds with other banks must be treated as operational deposits. 296*

Margin nos. 224.1–227 shall apply to banks in Categories 1, 2, and 3¹³ by analogy. 296.1*

For banks in Categories 4 and 5¹⁴, all deposits with other financial institutions shall be treated as non-operational deposits, subject to margin nos. 297.2 and 297.3. Excluded from this are correspondent banking balances and deposits where it has been contractually agreed that these are deemed to be operational. 297*

In deviation to margin no. 297, banks in Categories 4 or 5¹⁵ may determine the portion of operational deposits using an internal model if they can prove that they are in a position to manage such a model. In this case, margin nos. 226–227 shall apply accordingly. 297.1*

Regardless of whether a bank uses an internal model to estimate the split between operational and non-operational deposits or not, deposits with SIX SIS shall be split between operational and non-operational balances as follows (rows 200 vs. 202 in the liquidity report): 297.2*

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

d) Derivatives

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

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

e) Non-HQLA securities maturing within 30 calendar days

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

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

J. Fulfillment of the LCR in Swiss francs

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

¹³ Cf. Annex 3 BO

¹⁴ Cf. Annex 3 BO

¹⁵ Cf. Annex 3 BO

- In general, net cash outflows in Swiss francs shall be covered by HQLA in Swiss francs. 300
- Banks may not simultaneously use additional foreign currency HQLA (margin nos. 303-314.3) and additional Category 2 HQLA in Swiss francs (margin nos. 315-320.1) to cover net cash outflows in Swiss francs. 301
- The use of additional Category 2 HQLA in Swiss francs (margin nos. 315-320.1) shall be limited to those banks which, due to their business model, hold less than 5 percent of their total of liabilities in foreign currency liabilities and, in the case of commercial banks, where domestic loans make up more than 50 percent of their total assets ("domestic bank") or which do not have adequate organizational and operational structures to measure, manage and monitor their foreign currency risks. 302
- For the look-back approach pursuant to Annex 2 item 5.6 LiqO, the absolute greatest net cash flow must be calculated separately from the one across all currencies. 302.1*

a) Consideration of additional foreign currency HQLA

- Foreign currency HQLA to cover net cash outflows in Swiss francs shall be limited to securities denominated in the four primary foreign currencies (British pound, euro, Japanese yen, US dollar), as well as those denominated in other important secondary foreign currencies (Danish krone, Norwegian krone, Swedish krona, Singapore dollar). 303*
- The conditions for being able to use the exception-to-policy rule for additional foreign currency HQLA pursuant to margin no. 303 shall be the following: 304*
- a. The bank must have an appropriate organizational and operational structure to measure, manage and monitor its foreign currency risks; and 305
 - b. the bank takes into consideration that the ability to convert foreign currencies and the access to the relevant currency markets may deteriorate quickly under stress conditions and that abrupt exchange rate changes could significantly increase existing currency mismatches. The bank must therefore estimate the convertibility of the used foreign currencies into Swiss francs in times of liquidity stress. In doing so, the depth of the foreign exchange swap markets used to convert assets into the required liquidity in Swiss francs during times of liquidity stress shall be assessed. 306
- Additional requirements the banks must fulfill when considering additional foreign currency HQLA are the following: 307
- a. Where foreign currency HQLA are used to cover the net cash outflow in Swiss francs, and these HQLA exceed the threshold of 25 percent of the net cash outflow in Swiss francs, a haircut for foreign currency risks shall be applied in addition to the haircut that applies to the asset category in question. Category 1 assets denominated in primary foreign currencies must be considered first, followed by the ones denominated in secondary foreign currencies, followed by Category 2a assets in the same order. The haircuts shall be defined as follows: 308*
 - HQLA denominated in primary foreign currencies (margin no. 303) receive an additional haircut of 8 percent, and 309*

- HQLA denominated in all of the acceptable secondary foreign currencies (margin no. 303) receive an additional haircut of 10 percent; 310*
 - b. Foreign currency HQLA used to cover the net cash outflow in Swiss francs are eligible up to a ceiling of 40 percent of the net cash outflow in Swiss francs. This ceiling shall apply after the consideration of the haircuts and after the unwinding/settlement of secured financing transactions which mature within 30 calendar days and which involve the exchange of Category 1 and 2a HQLA; 311
 - c. Acceptable foreign currency HQLA shall be limited to Category 1 and Category 2a HQLA; 312
 - d. Foreign currency HQLA used to cover net cash outflow in Swiss francs must be considered in the relevant asset category in Swiss francs when determining the ceiling for Category 2a and 2b assets combined according to Article 15c(2)(c) LiqO; and 313
 - e. The stock of foreign currency HQLA must be disclosed separately in the liquidity report. 314
- If the LCR in a significant foreign currency pursuant to margin nos. 324 and 325 is negative, the assets may not be considered for the calculation of the LCR in Swiss francs. 314.1*
- Positive Category 1 or Category 2a stocks of HQLA may be included in the liquidity report for the LCR in Swiss francs in rows 056–059 , 511–514 and 611–618 only if, following the transfer, no weighted negative sum of Category 1 and 2a HQLA remains in the relevant currency. 314.2*
- Negative Category 1 or Category 2a stocks of HQLA in foreign currencies do not need to be transferred to the LCR in Swiss francs; margin no. 314.1 shall apply in this situation. 314.3*

b) Consideration of HQLA of Category 2a in Swiss francs above the 40 percent ceiling

- The prerequisite for applying the exception-to-policy rule to consider additional assets of Category 2a in Swiss francs shall be that the associated risks are mitigated effectively. The bank must be in a position to adequately measure, monitor, and mitigate any concentration risks, price risks, and monetization risks related to holding these additional Category 2a assets. 315
- Additional requirements banks must fulfill when considering additional Category 2a HQLA in Swiss francs are the following: 316
- a. Category 2a assets which exceed the ceiling of 40 percent, as determined in Article 15c(2)(c) LiqO, are subject to an additional haircut of 5 percent, leading to a total haircut of 20 percent; 317
 - b. Category 2a assets (including the additional assets) are eligible up to a ceiling of 60 percent of the total stock of HQLA; 318
 - c. the additional Category 2a assets above the 40 percent ceiling must be rated at least AA and must be eligible as collateral for regular money market transactions with the SNB; and 319
 - d. Category 2b assets remain limited to 15 percent of the total stock of HQLA prior to adding the addi- 320

tional Category 2a HQLA in Swiss francs.

In accordance with margin no. 319, additional Category 2a HQLA shall be permitted in the calculation of the LCR_TOT. 320.1*

K. LCR in significant foreign currencies

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

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

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

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

For the look-back approach pursuant to Annex 2 item 5.6 LiqO, the absolute greatest net cash flow must be calculated separately for each significant currency. 325.1*

Positions denominated in gold shall be allocated to the currency in which payments are usually settled. 325.2*

L. Temporary breaches of the LCR under extraordinary circumstances

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

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

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

- a. inform FINMA of the breach; 329
- b. present FINMA with an assessment of the liquidity situation, including the factors that caused the breach in the LCR; 330
- c. provide FINMA with measures which will be taken in order to meet the minimum requirements again as quickly as possible; and 331

- d. clearly show FINMA the point at which the bank will be complying once again with the LCR requirement. 332

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

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

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

M. Liquidity report

For the recording of spot transactions concluded but not yet settled, the option shall exist to choose between the trade date accounting principle and the settlement date accounting principle (according to Article (6)2 FINMA-AO). From a liquidity perspective, however, the settlement date accounting principle should be applied in general. In the event of exceptions, margin no. 89.1 must be observed. 336*

All relevant positions needed to calculate the LCR shall be valued according to the FINMA-AO. 337

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

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

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

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

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

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

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

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

shall apply:

- a. generally, an outflow rate of 100 percent shall apply to all intra-group cash outflows (Annex 2, item 15 LiqO) and an inflow rate of 100 percent shall apply to all intra-group cash inflows (Annex 3, item 7 LiqO); 344
- b. in deviation thereof, a look-through approach may be used for back-to-back transactions and the parent company may apply outflow and inflow rates in accordance with Annexes 2 and 3 LiqO. . This approach may be applied if the cash flow due to the guarantee, liquidity facility, or credit facility provided by the parent company to its subsidiaries is triggered only if a specific underlying transaction of the subsidiary with a third party causes such outflow. 345*
- c. Guarantees that are only paid out in the event of the bankruptcy of a group company (so-called default guarantees) do not have to be recognized as an outflow. 345.1*
- d. For guarantees and facilities not covered in margin nos. 345 and 345.1, a treatment deviating from 100 percent by 0 percent may only be applied if this has been approved by FINMA separately. A prerequisite for approval is an application in which the bank demonstrates that the outflow would not be consistent to the scenario, the guarantee or facility is revocable at any time, and that, at the internal counterparty, the outflow is not reflected as an inflow in any regulatory or internal liquidity metric. 345.2*

Repealed 346*-347*

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

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

O. Simplifications for completing the liquidity report for small banks

Banks in Categories 4 and 5¹⁶ may make use of the simplifications for the areas listed in this section, thus reducing the complexity of filling out the liquidity report (Articles 14(3)(c) and 17c(1) LiqO). For individual cases, FINMA may grant simplifications or set more stringent requirements. 350*

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

- a. that there are no substantial interdependencies between the financial group and the individual institution with respect to liquidity, and 352*
- b. that the stand-alone institution, in the event of a liquidity crisis, has a contractual obligation, or 353*

¹⁶ Cf. Annex 3 BO

considers itself obliged for reputational reasons, to provide liquidity comprehensively to the other subsidiaries in the financial group and has documented this accordingly.

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

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

a. the HQLA of all subsidiaries are less than 5 percent in total in proportion to the HQLA of the financial group, and 356*

b. the net outflows of all subsidiaries are less than 5 percent in total in proportion to the net cash outflows of the financial group. 357*

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

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

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

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

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

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

IV. Quantitative requirements (Net Stable Funding Ratio, NSFR)

A. General aspects

Unless otherwise indicated to the contrary, the terms and definitions used for the NSFR shall be the same as those for the LCR. This shall also hold true in particular for the definitions of eligible and required capital (margin no. 108) and the treatment of deposits from other legal entities (margin no. 245). 364*

The application of the NSFR follows the existing area of application analogously to the LCR pursuant to margin nos. 104–110. 365*

The NSFR as per Article 17h(2) LiqO shall be calculated by capturing all of the NSFR-relevant positions as defined in Articles 17k, 17m and Annexes 4 and 5 LiqO in all currencies translated into Swiss francs. 366*

The prerequisite for an exception regarding the fulfillment of Article 17h(1) LiqO, corresponding to Article 17h(3) LiqO, shall be a request made by the bank where it demonstrates which other Swiss-domiciled stand-alone institutions of the same financial group should be considered for the assessment of sufficiently stable funding. The NSFR to be disclosed shall not be affected by this derogation. 367*

[BCBS NSFR Conso 30.16] Equity instruments, liabilities, assets and off-balance sheet items are to be allocated to the maturity bands consistent with their contractual residual maturity. In doing so, the provisions set out in Art. 17l and 17n LiqO on how to determine the residual maturity shall be taken into account. 368*

B. Secured financing transactions

[Article 17i(2) LiqO + BCBS NSFR Conso 30.20 footnote 11] Securities or assets generally shall be considered as encumbered if they were pledged as collateral for an existing liability, or otherwise can no longer be used, sold or transferred to secure additional sources of financing. Encumbered assets include, among other things, assets that serve to secure securities, other covered bonds, or those that are pledged either in secured financing transactions or collateral swaps. 369*

[Article 17i(4)(a) LiqO + BCBS NSFR Conso 30.21 FAQ1] If, in the case of encumbered securities that are used as collateral in secured financing transactions, the residual maturity is shorter than the term of the financing transaction itself, these securities shall be recorded as encumbered for the entire term of the secured financing transaction in question. The reason for this shall be that the collateral will have to be replaced as soon as its term has expired. Accordingly, securities that are pledged for longer than one year must be given an RSF factor of 100 percent in all cases, irrespective of the residual maturity of these securities. 370*

[Article 17i(4)(b) LiqO + BCBS NSFR Conso 30.21 FAQ1] In the case of partially secured financing transactions, the specific characteristics of the individual tranches of such transactions shall be considered. The secured and the unsecured part of the transaction shall be assigned to separate RSF categories. If the transaction cannot be split into a secured and an unsecured part, the higher RSF factor shall be applied to the entire transaction. 371*

[Article 17i(4)(c) LiqO + BCBS NSFR Conso 30.21 FAQ1] In the case of reverse repo transactions without a term restriction (non-maturity/open reverse repos) it shall be assumed that the term is longer than one year. Accordingly, these transactions shall be assigned an RSF factor of 100 percent (Article 17n(2) and (3) LiqO). An exception shall be possible if the bank can justify and comprehensively demonstrate on the basis of quantitative and/or qualitative criteria that the transaction without a term restriction is of short-term nature from an economic perspective. This analysis shall be performed annually and be confirmed to FINMA by the statutory audit firm during its regulatory audit in the frequency which results from the audit strategy in accordance with FINMA circular 13/3 "Auditing". 372*

[BCBS NSFR Conso 30.20 FAQ1*] For securities lent that were previously received as collateral but do not appear on the bank's balance sheet, the receivable related to the securities financing transaction is considered as "encumbered" for the duration of the lending. 373*

C. Liabilities and assets from derivative transactions

[Article 17j(3) LiqO + BCBS NSFR Conso 30.9] If, in the case of derivative transactions, an asset associated with collateral posted in the form of variation margin that is deducted from negative replacement values for the purpose of the NSFR (Article 17j(3) LiqO) is recognized in the balance sheet due to accounting standards, then this asset does not need to be included in the calculation of the RSF in order to avoid any double-counting. 374*

[Article 17j(5) LiqO + BCBS NSFR Conso 30.24 FAQ1] For derivative transactions in which a minimum transfer amount for collateral was determined that must be exchanged on a daily basis, the collateral amount below the minimum transfer amount, i.e. the non-exchanged collateral, may be deducted from the amount of the positive replacement values if the conditions of Paragraph 30.28 of the Basel Leverage Ratio Framework are met, in particular the conditions stated in 30.28(ii) (collateral amount exchanged on a daily basis based on a mark-to-market valuation of derivatives positions). 375*

[BCBS NSFR Conso 30.24 FAQ2] If initial margin and variation margin payments are not separated, the following procedure shall be adopted for the calculation of the initial margin payment (Annex 4 item 6.5 LiqO and Annex 5 item 6.1 LiqO): 376*

- a. In the case of OTC derivative transactions, the entire amount that a bank must pay to the counterparty at the point of execution of the derivative transaction should be recorded as initial margin, irrespective of whether a part of this amount has been returned to the bank in the form of variation margin. The netting of initial margin and variation margin payments is not permitted. 377*
- b. If the initial margin is calculated at portfolio level, the amount calculated as per the NSFR reference date is deemed an initial margin payment, even if, for example, the payment made to the counterparty is actually lower due to variation margin payments received. 378*
- c. For derivative transactions cleared via a central counterparty, the initial margin payment corresponds to the total payment made to the central counterparty minus market value losses on the corresponding portfolio of cleared derivative transactions. 379*

[BCBS NSFR Conso 30.24 FAQ3] In the case of derivative transactions, an asset associated with collateral posted as initial margin for NSFR purposes that is recognized on the balance sheet due to accounting 380*

* "Translator's remark: original refers to incorrect item in BCBS"

standards, shall not be counted as an encumbered asset in the RSF calculation to avoid any double-counting.

[BCBS NSFR Conso 30.32 FAQ2] In order to calculate the liabilities arising from derivative transactions in accordance with Annex 5, item 7.3 LiqO, settlement payments made and received from so-called settled-to-market transactions, through which the market value of a derivative is regularly reduced by the payments but it is not terminated but continues to exist, shall be excluded when determining the market value. The market value shall therefore be determined as if no settlement payments had taken place. 381*

D. Calculation: ASF

[ASF factor for Pillar 3a accounts] An ASF factor of 90 percent – just like for the less stable deposits of private clients (Annex 4 item 3 LiqO) – may be selected for deposits from vested benefits accounts and deposits from tied pension provision, if: 382*

- a. these funds may only be withdrawn by the natural person within one year; 383*
- b. these funds may only be withdrawn by the vested benefits / bank / pension scheme themselves in the event of a substantial rating deterioration on the part of the bank; and 384*
- c. the deposits may be clearly assigned to a specific natural person. 385*

[ASF factor for funding within the same financial group] In line with Article 17r LiqO and in derogation to Annex 4 LiqO, an ASF factor of 0 percent shall apply to funding within the same financial group if: 386*

- a. The funding originates from an intra-group counterparty that itself does not meet the applicable regulatory requirement for stable funding, or 387*
- b. The funding originates from an intra-group counterparty that is not subject to regulatory requirements for stable funding and where sufficiently stable funding of the counterparty for the one-year time horizon can also not be demonstrated by means of an internal model accepted by FINMA. 388*

E. Determination of the residual maturity of equity instruments and liabilities

[BCBS NSFR Conso 30.10(3), last sentence] Cash outflows such as amortizations and interest payments with maturity dates of less than one year but which arise from the liabilities with a term of more than one year pursuant to Annex 4 item 1.3 LiqO do not receive an ASF factor of 100 percent. The ASF factor shall be determined by the due date of the cash outflow and the counterparty. 389*

[BCBS NSFR Conso 30.14(2), 2nd sentence] Liabilities without a fixed term pursuant to Annex 4 item 6.2 LiqO shall comprise short positions and open maturity positions. 390*

Operational deposits in accordance with Annex 2, item 2.2 LiqO shall be considered as short-term and shall be captured in the NSFR with a term of up to 6 months. 391*

F. Calculation: RSF

[Article 17m(1), LiqO, BCBS NSFR Conso 30.15] The carrying value of an asset is determined by the accounting value after the deduction of individual value adjustments pursuant to Paragraph 20.1 of the Basel Revised Framework for the calculation of Capital Measurement and Capital Standards (Basel II) and Paragraph 30.1 of the Basel Liquidity Coverage Ratio Framework. Collective individual value adjustments may not be deducted at all. 392*

[Article 17m(3)-(5) LiqO] The bank can take account of the encumbrance of mortgage claims through the securing of loans from central mortgage bond institutions pursuant to the Mortgage Bond Act [MBoA; SR 211.423.4] by means of a pool approach, as follows: 393*

a. The carrying value is deducted from the encumbered mortgage claim in the case of “mortgage claims for residential properties with a risk weighting of 35 percent or less pursuant to the Basel II standard approach for credit risks” (Annex 5 items 4.5 and 5.1 LiqO). 394*

b. The encumbered amount to be deducted shall be the product of the sum of carrying values of the loans from central mortgage bond institutions of a specific maturity band (up to 6 months, 6 to 12 months, and more than 12 months) multiplied by the statutory minimum coverage ratio of the relevant mortgage bond institution). This product shall be subtracted in the row of the unencumbered residential mortgages with the same residual maturities (up to 6 months, 6 to 12 months, more than 12 months) and then added to the encumbered residential mortgages. 395*

c. The duration of the encumbrance shall correspond to the residual maturity of the loans from central mortgage bond institutions. For the residual maturity of encumbered residential mortgages, the same term shall be assumed. 396*

[BCBS NSFR Conso 30.20 FAQ3] Assets that are posted to the covered bond collateral pool and that result in over-collateralization shall generally be considered encumbered as per Annex 5 LiqO. This shall not apply in cases where the bank can either sell assets of the over-collateralized collateral pool or use them to issue further covered bonds. However, neither reputational, contractual, regulatory, nor operational reasons (e.g. negative impact on the rating sought by the bank for the covered bond) may restrict the use or withdrawal of the assets leading to over-collateralization. In particular, over-collateralization required by rating agencies for a minimum rating must be taken into account when assessing the encumbrance. 397*

[BCBS NSFR Conso 30.15, footnote 9, BCBS NSFR Conso 30.26 FAQ1] For the purposes of calculating the NSFR, HQLA shall be defined as all HQLA, without regard to operational requirements pursuant to margin nos. 151–165 and LCR ceilings for Category 2 assets pursuant to Article 15c(1)(c) LiqO and LCR ceilings for Category 2b assets pursuant to Article 15c(1)(b) LiqO, which may otherwise limit the ability of some HQLA to be included as eligible HQLA in the calculation of the LCR. Debt securities issued by the Swiss Government or the SNB shall qualify as category 1 HQLA for the purpose of the NSFR, regardless of Article 15a(1)(e) LiqO. Thus, they may also be included if they exceed the net cash outflows of the bank in the respective currency. 398*

[BCBS NSFR Conso 99.6] The bank’s non-operational deposits with other financial institutions shall be treated as deposits with / loans to financial institutions. Depending on residual maturity, they shall be assigned to item 2, 3.4, 4.3 or 7.4 of Annex 5 LiqO. The same shall apply to prime brokerage loans with a 399*

contractual term where the counterparty is a financial institution. For receivables from credit institutions contractually guaranteed by a central government, the guarantor's risk weighting may be applied if the requirements of margin no. 283 et seq. FINMA circ. 17/7 "Credit risk – banks" are met, provided that the receivable is fully guaranteed and marketable.

[BCBS NSFR Conso 30.31(1), BCBS NSFR Conso 30.9 footnote 2] An RSF factor of 85 percent pursuant to Annex 5 item 6.1 LiqO shall apply to cash, securities or other assets posted as initial margin, regardless of whether those assets are recognized on or off-balance sheet. If the initial margin payment is recognized on the balance sheet, any double-counting must be avoided. 400*

[BCBS NSFR Conso 30.25 footnote 14, BCBS NSFR Conso 30.31 footnote 16] An exemption from the RSF factor of 85 percent pursuant to Annex 5 item 6.1 LiqO shall be made for initial margin payments made by a bank on behalf of a customer if the bank does not guarantee the default of the counterparty to the customer's derivative transaction. This shall be the case, in particular, if the bank provides the customer with access to a central counterparty for the purpose of settling derivative transactions, where the transaction is settled on behalf of the customer and the Bank does not guarantee the default of the central counterparty. 401*

[BCBS NSFR 30.31 footnote 17] "Non-distressed deposits and loans to counterparties" (Annex 5 item 6.2 LiqO) shall be deposits and loans that, according to Article 26 FINMA-AO, are not in arrears for more than 90 days and therefore past due. 402*

[FAQ BCBS 14] The derivative liabilities pursuant to Annex 5 item 7.3 LiqO shall encompass all derivative transactions, i.e. also all OTC cleared transactions and exchange-traded derivatives. 403*

[BCBS NSFR Conso 30.32 FAQ1] The RSF category "20 percent of the derivative liabilities pursuant to Art. 17j(1) LiqO prior to the deduction of the posted collateral" (Annex 5 item 7.3 LiqO) shall apply to the gross amount of liabilities from derivative transactions. 404*

[RSF factor for funding within the same financial group] In line with Article 17r LiqO and in derogation to Annex 5 LiqO, an RSF factor of 100 percent shall apply to funding within the same financial group if: 405*

- a. the funding is provided to an intra-group counterparty that does not itself meet the applicable regulatory requirement for stable funding ; or 406*
- b. the funding is provided to an intra-group counterparty that is not subject to regulatory requirements for stable funding and where sufficiently stable funding of the counterparty for the one-year time horizon can also not be demonstrated by means of an internal model accepted by FINMA. 407*

[RSF factor for funding within the same financial group up to 6 months] Funding to internal counterparties with a term of up to 6 months that do not violate the requirements of margin nos. 406 and 407 and therefore receive the RSF factor of a third-party relationship may, in derogation to Annex 5 item 3.4 LiqO and based on Article 17r(b), be taken into account with an RSF factor of 0 percent . 408*

[RSF factor for guarantees within the same financial group] Guarantees that are only paid out in the case of a group company's bankruptcy ("default guarantees") may, in derogation to Annex 5 item 9.2 LiqO and based on Article 17r(c) LiqO, be taken into account with an RSF factor of 0 percent. 409*

Operational deposits in accordance with Annex 3, item 4 LiqO shall be considered as short-term and shall be captured in the NSFR with a term of up to 6 months. 410*

G. Determination of the residual maturity of assets and off-balance sheet positions

[BCBS NSFR Conso 30.17] For loans or facilities without a term restriction (non-maturity loans/facilities) but involving an explicit contractual provision with a review date to determine whether a given facility or loan is renewed or not, the financial institution may only use this review date as the maturity date in the case of financial institutions and if it is ensured that the bank will not have to renew the loan facility due to reputational concerns (Article 17n(2) LiqO). In the case of loans or facilities to retail customers, small business customers, non-financial institutions, central governments, central banks, local authorities, other public sector entities, multilateral development banks, and other legal entities and corporate clients, it shall be assumed that these will always be renewed after the review date. 411*

H. Interdependent liabilities and assets

[BCBS NSFR Conso 30.35 FAQ1] Derivative transactions do not qualify as interdependent liabilities and assets. 412*

[Article 17p(1)] The following balance sheet items count as interdependent liabilities and assets if they fulfill the conditions pursuant to Article 17p(2) LiqO: 413*

a. Physical inventories of precious metals, precious metal funds, precious metal accounts with other banks or similar positions to the extent that these are used to hedge precious metal accounts where 414*

- settlement either takes a physical form, or 415*

- by contract, the client shall receive a cash payment or credit to a clearing account after placing an order for the sale of a certain quantity of the precious metal in question only after the sale of the precious metal position or the hedging transaction has been undertaken by the bank (such as a precious metal fund or precious metal account with another bank) at the price obtained in this case, provided that the liquidation proceeds can cover the outflow. The client is not entitled contractually to a cash payment of the precious metal price fixed, so that the liquidity risk is fully transferred to the client. 416*

b. provisions for bonuses recorded as deferred income and the associated hedging transactions for market risks that are reported on the asset side of the balance sheet if the asset is liquidated at the same time as the liability. 417*

By way of derogation from margin no. 412, for banks in Categories 3, 4 and 5, the replacement values that arise from a client's derivative transaction and the corresponding offsetting transaction of the same kind with another counterparty for hedging purposes count as interdependent liabilities and assets as long as the bank changes the hedging exposure in a way that mirrors the change in the corresponding client position. 418*

I. Funding statement

For the recording of spot transactions concluded but not yet settled, the option shall exist to choose between the trade date accounting principle and the settlement date accounting principle (according to Article (6)2 FINMA-AO).. For purposes of the NSFR, margin no. 337 applies in analogy 419*

J. Simplifications for completing the funding statement for small banks

For purposes of the NSFR, margin nos. 350–357, 360 and 362 apply in analogy 420*

[Recording of pledged securities in accordance with the residual maturity of the encumbrance] If a bank cannot assign its encumbered securities to a particular maturity band for the duration of the encumbrance (encumbrance buckets: encumbrance for less than six months, at least six months and less than one year, or more than one year) in the funding statement, it may generally record these in the maturity band “more than one year” for the duration of the encumbrance. 421*

[Simplifications for completing the funding statement] Simplifications for completing the funding statement shall apply in accordance with Annex 4 of this circular. 422*

Annex 1

Unwinding / settlement mechanism and secured financing transactions

A. Treatment of repos and secured securities financing transaction⁹, maturing within 30 calendar days¹⁰

Borrower / lender	Cash outflow rate
Transactions conducted with the <u>SNB or another central bank</u> , of which:	
- backed by Category 1 assets	unwound/settled
- backed by assets of Category 2 - excluding equity shares ¹¹	unwound/settled
- backed by Category 2 assets – including equity shares ³	0% (Article 15e(4))
- backed by non-HQLA	0%
Transactions <u>not conducted with a central bank</u> , of which	
- backed by Category 1 assets	unwound/settled
- backed by Category 2 assets – excluding equity shares ³	unwound/settled
- backed by Category 2 assets - shares 3 included, of which are:	
– conducted with the domestic sovereign, multilateral development banks, or domestic public sector entities with a <u>risk weighting of 0% or 20%</u> as counterparty	25%
– not conducted with the domestic sovereign, multilateral development banks, or domestic public sector entities with a <u>risk weighting of 0% or 20%</u> as counterparty	50%

⁹ Includes secured SLB transactions, i.e. the lender has unrestricted access rights to the securities received. According to margin no. 163, secured SLB transactions with unrestricted access rights are not eligible as HQLA.

¹⁰ For transactions with the SNB that include a contractual termination option, the notice period shall be relevant for determining the residual maturity.

¹¹ according to Article 15b(5) LiqO

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

B. Treatment of reverse repos and secured securities financing¹², maturing within 30 calendar days:¹³

Lender / borrower	Cash inflow rate
Transactions in which the collateral was not reused to cover short positions, of which:	
Transactions conducted with the SNB, of which:	
- backed by Category 1 assets	unwound/settled
- backed by assets of Category 2 - excluding equity shares ¹⁴	unwound/settled
- backed by Category 2 assets – including equity shares ⁶	unwound/settled
Margin lending backed by non-HQLA	unwound/settled
- backed by non-HQLA	unwound/settled

¹² Includes secured SLB transactions, i.e. the lender has unrestricted access rights to the securities received. According to margin no. 163, secured SLB transactions with unrestricted access rights are not eligible as HQLA.

¹³ For transactions with the SNB that include a contractual termination option, the notice period shall be relevant for determining the residual maturity.

¹⁴ according to Article 15b(5) LiqO

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

C. Treatment of collateral swaps maturing within 30 calendar days:¹⁵

Lender / borrower	LiqO reference	Cash outflow rate	Cash inflow rate
Borrowed securities <u>not</u> reused to cover short positions, of which:			
- Category 1 assets are lent and Category 1 assets are borrowed	15e	unwound/ settled	unwound/ settled
- Category 1 assets are lent and Category 2 assets (excluding equity shares ¹⁶) borrowed	15e		unwound/ settled
- Category 1 assets are lent and Category 2 assets including equity shares ⁸ are borrowed	Annex 3, 1.3		50%
- Category 1 assets are lent and non-HQLA are borrowed	Annex 3, 1.6		100%
- Category 2 assets excluding equity shares ⁸ are lent and Category 1 assets are borrowed	15e	unwound/settled	
- Category 2 assets excluding equity shares ⁸ are lent and Category 2 assets excluding equity shares ⁸ are borrowed	15e	unwound/settled	unwound/settled
- Category 2 assets excluding equity shares ⁸ are lent and Category 2 assets including equity shares ⁸ are borrowed	Annex 3, 1.2		35%
- Category 2 assets excluding equity shares ⁸ are lent and non-HQLA is borrowed	Annex 3, 1.5		85%
- Category 2 assets including equity shares ⁸ are lent and Category 1 assets are borrowed	Annex 2, 3.5	50%	
- Category 2 assets including equity shares ⁸ are lent and Category 2 assets excluding equity shares ⁸ are borrowed	Annex 2, 3.3	35%	
- Category 2 assets including equity shares ⁸ are lent and Category 2 assets including equity shares ⁸ are borrowed	Annex 2/3, 3.1/1.1	0%	0%

¹⁵ For transactions with the SNB that include a contractual termination option, the notice period shall be relevant for determining the residual maturity.

¹⁶ according to Article 15b(5) LiqO

Lender / borrower	LiqO reference	Cash outflow rate	Cash inflow rate
- Category 2 assets including equity shares ⁸ are lent and non-HQLA are borrowed	Annexes 3, 1.3		50%
- Non-HQLA are lent and Category 1 assets are borrowed	Annex 3, 3.7	100%	
- Non-HQLA are lent and Category 2 assets excluding equity shares ⁸ are borrowed	Annex 3, 3.6	85%	
- Non-HQLA are lent and Category 2 assets including equity shares ⁸ are borrowed	Annex 2, 3.5	50%	
- Non-HQLA are lent and non-HQLA are borrowed	Annex 2/3, 3.1/1.1	0%	0%
Borrowed securities reused to cover short positions, of which:			
- Category 1 assets are lent and Category 1 assets are borrowed	Annex 2/3, 4.1/1.1	0%	0%
- Category 1 assets are lent and Category 2 assets excluding equity shares ⁸ are borrowed	Annexes 3, 2		0%
- Category 1 assets are lent and Category 2 assets including equity shares ⁸ are borrowed	Annexes 3, 2		0%
- Category 1 assets are lent and non-HQLA are borrowed	Annexes 3, 2		0%
- Category 2 assets excluding equity shares ⁸ are lent and Category 1 assets are borrowed	Annexes 2, 4.2	15%	
- Category 2 assets excluding equity shares ⁸ are lent and Category 2 assets excluding equity shares are borrowed	Annex 2/3, 4.1/1.1	0%	0%
- Category 2 assets excluding equity shares ⁸ are lent and Category 2 assets including equity shares ⁸ are borrowed	Annexes 3, 2		0%
- Category 2 assets excluding equity shares ⁸ are lent and non-HQLA is borrowed	Annexes 3, 2		0%
- Category 2 assets including equity shares ⁸ are lent and Category 1 assets are borrowed	Annexes 2, 4.4	50%	
- Category 2 assets including equity shares ⁸ are lent and Category 2 assets excluding equity shares ⁸ are borrowed	Annexes 2, 4.3	35%	
- Category 2 assets including equity shares ⁸ are lent and Category 2 assets including equity shares ⁸ are borrowed	Annex 2/3, 4.1/1.1	0%	0%
- Category 2 assets including equity shares ⁸ are lent and non-HQLA are borrowed	Annex 3, 2		0%
- Non-HQLA are lent and Category 1 assets are borrowed	Annex 2, 4.6	100%	

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

Annex 2

Liquidity report simplification for small banks

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

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

Annex 3

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

Sample calculation to illustrate the unwinding/settlement mechanism for small banks that fulfill margin no. 359 Background:

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

Balance sheet values (CHF)

C1 CHF (central bank reserves)	100
C1 CHF (bonds in own inventory)	30
C2a CHF (bonds in own inventory)	10
Assets from securities transactions CHF:	10
Liabilities from securities financing transactions EUR:	20

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

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

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

LCR EUR (in CHF)		
Row	Comment	Holding
002	Unwinding / settlement: - liabilities from securities financing transactions: -20	-20

Annex 4

Funding statement: simplifications for small banks

No.	Rows in the funding statement	Area in the form	Permitted simplification
1	64, 323	"Total initial margin received / posted according to residual maturity of associated derivative contracts"	No reporting obligation (the total initial margin received / posted is shown in lines 63 / 320).
2	321	"whereof cash or other assets provided to CCPs for default fund"	No reporting obligation (the total is shown in line 320)
3	90-92 94-96 100-102 104-106 110-112 114-116 120-122 124-126 130-132 134-136 280-282 284-286 290-292 294-296	- "Short-term unsecured instruments" - "Securities held where the institution has an offsetting reverse repo transaction" - "Securities eligible for Level 1 / 2a / 2b of the stock of liquid assets"; - "Non-HQLA exchange traded equities" - "Non-HQLA securities not in default"	Encumbrance of securities: option of recording pledged securities generally in the encumbrance range ">= 1 year" (column O).
4	138-156 158-206 208-236	"Loans" – special reverse repo transactions	Encumbrance of reverse repos: Option of recording the encumbrance through rehypothecation of received collateral generally in the encumbrance range ">= 1 year" (column N) [rows 138-156], O [rows 158-206], L [rows 208-138-156], O [rows 158-206], L [rows 208- 236]].

Annex 5

Glossary

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

Back-to-back transactions	Back-to-back transactions are defined as transactions where the parent company assumes the liquidity risks of directly or indirectly held subsidiaries of the same financial group as part of central treasury management.
Beneficiary	A beneficiary shall be a legal entity (including independent assets) that receives, or may become eligible to receive, contributions from a will, an insurance policy, retirement plan, annuity, trust, family foundation or other contract such as a personal investment company (PIC) (see also Basel Committee for Banking Supervision (2019), "LCR – Liquidity Coverage Ratio", 40.42 footnote 13). Small charitable foundations pursuant to margin no. 212 and vested benefits foundations, bank pension plan foundations, or investment foundations pursuant to margin nos. 237– 240 shall be excluded from this definition of the term for the purposes of the LCR calculation.
Cash management services	Cash management services shall encompass the provision of products and services to a customer in order to help the customer manage its cash flows, assets and liabilities, and conduct financial transactions necessary for the customer's ongoing operations (see also Basel Committee for Banking Supervision (2019); "LCR – Liquidity Coverage Ratio", 40.35).
Clearing relationship	A clearing relationship shall describe a service arrangement that enables customers to transfer funds (or securities) indirectly through direct participants in domestic settlement systems to final recipients (see also Basel Committee for Banking Supervision (2019); "LCR – Liquidity Coverage Ratio", 40.33).
Conduit	A conduit shall be a vehicle or a financing structure to which the bank transfers assets and receives financing resources in return.
Custody banking service	Custody banking services shall encompass the provision of safekeeping, the management and reporting of securities, and support in the operational and administrative elements of related activities on behalf of customers (see also Basel Committee for Banking Supervision (2019); "LCR – Liquidity Coverage Ratio", 40.34).

Hedge Funds	A hedge fund shall be an investment fund that invests using non-traditional strategies and is largely free of conventional investment restrictions. Hedge funds shall differ from traditional investment funds above all in their multi-faceted strategies and investment techniques, which are used to improve the risk/return structure of the portfolio. The hedge funds' strategy shall be to use a broad spectrum of financial instruments and techniques, including derivatives and short sales. Hedge funds shall make use of a combination of long and short positions, as well as leveraging. While hedge funds also invest in traditional asset classes (equity and bond markets), they shall employ alternative investment strategies and techniques to do so. The management of hedge funds typically involves the manager(s) having a personal financial stake in the fund.
HQLA	High-quality liquid assets
Correspondent banking services	Correspondent banking refers to arrangements under which one bank (correspondent) holds deposits owned by other banks (respondents) and provides payment and other services (e.g. so-called nostro and vostro accounts used for the clearing and settlement of foreign currency transactions). Also see Basel Committee for Banking Supervision (2019); "LCR – Liquidity Coverage Ratio", 40.32, footnote 10.
Unencumbered	Unencumbered shall mean free of legal, regulatory, contractual or other restrictions regarding the bank's ability to transfer or sell HQLA or dispose of HQLA in the context of simple repo transactions at any point within the next 30 calendar days (see also Basel Committee for Banking Supervision (2019); "LCR – Liquidity Coverage Ratio", 30.16).
Prime brokerage services	Prime brokerage services shall refer to a package of services offered to large, active investors, particularly institutional investors or hedge funds. These services shall usually include: clearing, settlement and custody, consolidated reporting, financing (margin payments, repo transactions, synthetic instruments), securities lending, capital introduction, and risk analyses. Also see Basel Committee for Banking Supervision (2019); "LCR – Liquidity Coverage Ratio", 30.27.
Short position	A short position shall denote a transaction where a bank's customer or the bank itself sells a security it does not own, and the bank subsequently obtains the same security from internal or external sources to pass on to the customer for the above-mentioned sale, thereby meeting its own delivery obligations. Internal sources shall include the bank's own trading portfolio as well as rehypothecatable collateral held in other customers' margin accounts. External sources shall include securities obtained through a securities borrowing, reverse repo transactions, or similar transactions. Also see Basel Committee for Banking Supervision (2019); "LCR – Liquidity Coverage Ratio", 30.33.

Transaction account	A transaction account shall be a salary account, private account and/or other account offered in connection with the majority of the following services: payment orders, use of ATMs, checks, debit and credit cards, home/online banking, and overdraft facilities. Accounts used strictly for securities are not transaction accounts.
Fiduciaries	Fiduciaries shall be legal entities authorized to manage assets for a third party (see also Basel Committee for Banking Supervision (2019), "LCR – Liquidity Coverage Ratio", 30.28). Asset management companies, hedge funds, and other collective investment vehicles are also deemed to be fiduciaries.
Trust	Management of asset rights on behalf of third parties, whereby both the trustee and the beneficiaries are owners.
VaR model	Value-at-risk model
Special purpose entity	In line with the definition in the Basel Committee for Banking Supervision (2019), "Calculation of RWA for credit risk", 40.21, a special purpose entity (SPE) shall be a company, fiduciary, or other entity organized for a specific purpose and whose activities are limited to those appropriate to accomplish this purpose; the intention of the structure shall be to isolate the SPE from the credit risk of an originator or seller of exposures. SPEs are commonly used as financing vehicles in which exposures are sold to a trust or similar entity in exchange for cash or other assets funded by bonds issued by the trust (see also Basel Committee for Banking Supervision (2019), "LCR – Liquidity Coverage Ratio", 30.34).

List of amendments

The circular has been amended as follows:

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

Newly inserted margin nos. 8.1, 89.1, 118.1, 119.1, 121, 166.1, 173.1, 173.2, 177.1, 177.2, 177.3, 187.1, 187.2, 187.3, 194.1, 194.2, 194.3, 199.1-199.6, 200.1, 200.2, 210.1, 212.1, 224.1, 226.1, 226.2, 227.1, 231.1, 236.1, 240.1, 245.1-245.7, 248.1, 248.2, 265.1, 265.2, 277.1-277.3, 278.1-278.5, 281.1-281.3, 285.1, 294.1-294.4, 296.1, 297.1-297.4, 298.1-298.3, 314.1-314.3, 320.1, 341.1, 350-363

Amended margin nos. 1, 7, 12, 13, 26, 39, 45, 50, 51, 67, 83, 120, 127, 128, 129, 130, 131, 138, 153, 156, 157, 158, 159, 160, 161, 166, 167, 169, 171, 174, 176, 178, 187, 188, 193, 194, 196, 197, 199, 200, 201, 202, 204, 205, 207, 211, 212, 213, 214, 225, 227, 232, 235, 237, 239, 242, 245, 246, 248, 249, 250, 263, 272, 274, 277, 278, 281, 282, 286, 292, 294, 295, 296, 297, 298, 303, 304, 308, 309, 310, 336, 342, 343, 345

Repealed margin nos. 11, 52, 53, 54, 55, 56, 57, 58, 112, 185, 195, 209, 215-218, 238, 243, 244, 247, 262, 266, 276, 279, 280, 347

Other amendments Annexes 2-4 (new)
Amended titles before margin nos, 11, 39, 104, 166

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

Amended margin no. 76

As at 1 January 2020, references to FINMA circular 2015/1 "Accounting — banks" were amended to FINMA circular 2020/1 "Accounting — banks" and/or the FINMA Accounting Ordinance, FINMA-AO of 31 October 2019.

This amendment was passed on 4 November 2020 and shall enter into force on 1 January 2020.

Amended margin no. 8.1

These amendments were passed on 4 November 2020 and shall enter into force on 1 July 2021.

Newly inserted margin nos. 119.2, 266.1, 286.1, 290.1, 302.1, 325.1, 325.2, 345.1, 345.2, 364-422

Amended margin nos. 113, 114, 164, 210.1, 214, 229, 231, 245, 250, 263, 278.1, 281.3, 285.1, 294.2, 297.2, 314.2

Repealed margin nos.	76, 346
Other amendments	New title before margin no. 363

The annexes to the circular were amended as follows:

These amendments were passed on 4 November 2020 and shall enter into force on 1 July 2021.

Amended	Annex 4 "Glossary" now is Annex 5. References to Basel Committee on Banking Supervision documents have been updated to the 2019 consolidated framework. Annex 2: Item 6
New	Annex 4 "Funding statement: simplifications for small banks"

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