



BANKING CONTROL COMMISSION
BANQUE DU LIBAN

Beirut, April 26, 2018

Circular No.295

Addressed to Banks operating in Lebanon

Subject: Calculation of the Liquidity Coverage Ratio

Pursuant to Basic Circular No 12768 issued by Banque du Liban on 8 March 2018 (Basic Circular No 145) and relating to the Liquidity Coverage Ratio, and
Based on the Liquidity Coverage Ratio Standard issued by the Basle Committee,

Banks operating in Lebanon are required to act as follows:

First- Definitions

For the purposes of implementing this Circular, the definitions below shall be adopted:

1. Liquidity Coverage Ratio (LCR)

A short-term liquidity coverage ratio in each significant currency, designed to ensure that banks maintain a sufficient stock of unencumbered high quality liquid assets to cover liquidity needs over a 30-calendar-day stress period. This stock shall be consistent with the bank's liquidity risk profile, and shall possess the characteristics specified in Paragraph 2, Article 4 of BDL Basic Circular No 12768 of 8 March 2018 (Basic Circular No 145).

The Liquidity Coverage Ratio shall be calculated according to the following equation:

$$\frac{\text{Stock of High Quality Liquid Assets (HQLA)}}{\text{Total Net Cash Outflows over the Next 30 Calendar Days}} > 100\%$$

2. Unencumbered assets

Performing assets that are not pledged or received as collateral, or that are free from any liens limiting their likely conversion into cash, sale, transfer, or use as collateral for loans.

3. Factors

- The factors that are specific to high quality liquid assets are those adopted to calculate the portion of HQLA qualifying for the LCR numerator.
- The factors that are specific to cash outflows are those adopted to calculate the portion of expected payables within 30 days or less due to stressed conditions experienced by the bank.
- The factors specific to cash inflows are those adopted to calculate the portion of expected receivables within 30 days or less.
- Annex 1 shows separately the factors for high quality liquid assets, for cash outflows, and for cash inflows, in addition to the relevant explanations.

4. High Net Worth Individual

Any natural person with total bank deposits above 1 million USD.

Second: Scope of application

1. The Liquidity Coverage Ratio shall apply at the following two levels:
 - The individual financial statements (branches in Lebanon) for the bank in Lebanon.
 - The individual financial statements for the overseas branch and for the other directly owned overseas subsidiaries.
2. Directly owned subsidiaries include the subsidiaries in which the Lebanese parent bank participates through one of its holdings.
3. Islamic banks shall not be governed by the provisions of this Circular.

Third: Caps for LCR calculation

Cap	Ratio	Remarks on cap calculation
Cap on level 2 HQLA	40% of the total stock of HQLA	- The cap is calculated separately for each significant currency. - The cap is calculated after the application of the factors.
Cap on level 2-B HQLA	15% of the total stock of HQLA	
Cap on foreign-currency sovereign bonds qualifying as HQLA and not risk-weighted at 0% when calculating the liquidity ratio	100% of net cash outflows	- The cap is calculated separately for each significant currency. - Capped sovereign bonds include: Lebanese sovereign Eurobonds, at the level of the bank in Lebanon; and sovereign bonds issued by the host countries, at the level of overseas subsidiaries.
Cap on total cash inflows	75% of total cash outflows	- The cap is calculated separately for each significant currency.

Fourth: Additional requirements

1. For the purpose of managing and examining the liquidity position, banks shall adopt strict factors that reflect the vulnerability of expected cash flows to any changes in the situation of the bank and/or market. Banks shall also develop any necessary complementary liquidity tools to assess liquidity needs under stressed conditions (including, but not limited to: analysis of maturity gaps, concentration of funding sources...)
2. In this context, banks shall study depositors' behavior, including unexpected withdrawal and transfer requests and attempts, and shall breakdown deposits, particularly retail deposits, by categories with similar characteristics sharing a set of factors which include, but are not limited to:
 - Value.
 - Place of residence (resident or non-resident).
 - Type (term deposit...).
 - Maturity.
 - Interest rate.
 - Expected pace of withdrawals and/or transfers.
 - Other factors deemed appropriate by the bank to breakdown these deposits.

Fifth: Reporting to the Banking Control Commission

1. The liquidity coverage ratio shall be reported pursuant to Annexes 2 and 3 (where applicable), on a monthly basis, as of the financial position of end-April 2018, within the time limits set for sending the monthly reports requested by the Banking Control Commission.
2. The Banking Control Commission may request to increase the LCR reporting frequency, whenever deemed appropriate.
3. The LCR shall be reported as follows:
 - The Lebanese pound/the local currency of each country.
 - Each significant foreign currency separately.
 - All other foreign currencies combined.
4. To report the LCR of overseas branches and other overseas subsidiaries, the requirements stated in the table below should be met:

Case	Requirements
The subsidiary operates in a jurisdiction that does not apply the Basle3 LCR	<ul style="list-style-type: none"> - The calculation methodology specified in this Decision and in BDL Basic Circular No 12768 of 8 March 2018 (Basic Circular No 145) shall apply to the subsidiary. - Annex 3 shall be adopted for LCR reporting.
The subsidiary operates in a jurisdiction where the LCR calculation methodology differs from the one specified in this Decision and in BDL Basic Circular No 12768 of 8 March 2018 (Basic Circular No 145) - in case the parent bank <u>has obtained</u> BDL approval on the calculation methodology imposed by the host country.	<ul style="list-style-type: none"> - The calculation methodology of the host country shall apply to the subsidiary. - Annex 3 shall not be adopted. The LCR calculation templates adopted in the host country shall be sent to the Banking Control Commission.
The subsidiary operates in a jurisdiction where the LCR calculation methodology differs from the one specified in this Decision and in BDL Basic Circular No 12768 of 8 March 2018 (Basic Circular No 145) - in case the parent bank <u>has not obtained</u> BDL approval on the calculation methodology imposed by the host country.	<ul style="list-style-type: none"> - The calculation methodology specified in this Decision and in BDL Basic Circular No 12768 of 8 March 2018 (Basic Circular No 145) shall apply to the subsidiary. - Annex 3 shall be adopted for LCR reporting.

Annexes 2 and 3 shall be temporarily prepared on Excel then sent on a CD, together with a duly signed hard copy, to the BCCL Secretariat, until the time when LCR calculation templates on Oracle are requested.

On behalf of the Banking Control Commission

The Chairman
Samir Salim Hammoud

Annexes:

Annex 1: Factors adopted and explanations concerning the requested data for LCR calculation.

Annex 2: Data requested for LCR calculation over a 30-day period, for the bank operating in Lebanon (on an individual basis).

Annex 3: Data requested for LCR calculation over a 30-day period, for the overseas subsidiary (on an individual basis).