Consultation for Proposed Liquidity Risk Management Module (LM)

Industry Comments and Feedback

February 2018

General Comments:		
Comments	**REF**	**CBB Response**
A Bank: *With regard to LCR and NSFR calculation* a) As the LCR is a measure of the bank's ability to meet a liquidity stress event over the short-term of 30 days, it is critical that this assessment is restricted to each entity on a standalone basis. b) Consolidation of LCR across entities from different jurisdictions assumes the ability to seamlessly transfer or make available High Quality Liquid Assets (HQLA) across geographies in a short duration which may be difficult to achieve under stressed conditions. c) The NSFR is a measure of the availability of adequate stable funds with a view to promoting a more resilient banking sector over a longer time horizon. As stable funding sources are not uniformly available across jurisdictions, a bank may disproportionately source stable funds in different jurisdictions to achieve better efficiency as part of its group funding strategy. Unlike the assessment of short-term liquidity, where ease of rapid transferability across jurisdictions should be proven, the assessment of stability of funds does not require rapid or immediate transferability as an acceptable criterion. It is, therefore, more appropriate to assess availability of stable funds on a consolidated basis, instead of at the level of each standalone entity. It may be noted that major regulatory authorities such as the Hong Kong Monetary Authority and Monetary Authority of Singapore require the compliance with NSFR only on a consolidated basis based on the above considerations.	GR1	a) The rules are consistent with the BCBS standard which requires LCR and NSFR to be computed at a consolidated and at a solo level and as such the CBB plans to apply the standard as intended. b) The CBB is aware that different business models and the different group legal entity structures, among other factors, may mean the risk measure is difficult to analyse. c) Region specific and domestic specificities and capital market structure /characteristics does not ease the liquidity issue which the LCR/NSFR measures are attempting to quantify. Banks may wish to discuss specific implementation issues with the CBB.

The bank recommends the following: a. LM 11.1.5 be revised as follows: "Banks must calculate the LCR on a standalone basis". b. LM 12.2.1 be revised as follows: "Banks shall calculate the NSFR on a consolidated basis". *Chapters LM 11: Liquidity Coverage Ratio (LCR) & LM 12: Net Stable Funding Ratio (NSFR) – These sections define the qualifying HQLA and stipulate various run-off rates for LCR and ASF factors for NSFR.* The LCR and NSFR rules on deposit / liability run-off rates and Available Stable Funding (ASF) factors respectively, as prescribed in the LRM module, do not take into consideration the specific country and regional characteristics typically impacting the asset and liability profiles of the banking sector. In general, the distinguishing features of the regional liquidity risk profiles are as follows: a. Significant presence of institutional shareholders who are primarily Bahraini and GCC Governments / Quasi-Government organisations substantially owned / controlled by the Governments / Pension Funds. These shareholders are a source of reliable stable funding in terms of deposits or other similar liabilities which, though, contractually of short term, are behaviorally stable over long periods of time extending well beyond one year as evidenced by long stretching verifiable historical data. b. Historically, Government organisations in Bahrain and from regional countries have consistently accorded preferential treatment to banks within the GCC for placing their surplus funds. While the contractual maturities of these placements are short term, they are also proven to be behaviorally long-term. c. Existing demographic size, lack of an established savings culture and retail client aversion to committing to longer dated deposits result in a relatively smaller proportion of retail deposits, almost entirely concentrated in 1-6 months' time band for Bahrain and regional banks as compared to other more advanced		(a) and (b): The rules are consistent with Basel and leading practices. (a) – (c) The Components of HQLA, the run-off rates and ASF factors are in-line with Basel.

markets whose statistics shaped the BCBS methodology. As a result, Bahraini and regional banks are at a competitive disadvantage with banks in other parts of the world, which enjoy a higher proportion of liabilities in the form of retail deposits, sourced from a large domestic pool, and are, therefore, able to benefit from low run-off rates / high ASF factors. d. Debt security issuers in the region are predominantly from the Government/Quasi Government or financial sectors. As an example, non-financial sector issuances were only 12% of the GCC security issuances by volume and 5.4% by number of issuances in 2017. The level of investment grade corporate debt security issuances which may qualify as Level 2A or Level 2B HQLA is, as a result, extremely limited. OECD countries enjoy a larger and more diversified pool of corporate issuances reflecting their larger economies, stronger private corporate sector and more advanced capital markets capabilities. These actual and very relevant domestic market features and limitations support a distinct treatment of certain asset and liability categories in LCR and NSFR computations for Bahraini banks to adjust for market realities, as recommended. The Bank recommends that the LRM module permits a lower run-off rate for LCR and higher ASF for NSFR for the following categories of liabilities: I. a) Term Deposits / liabilities with contractual maturity below 1 year from institutional shareholders – Reduce the run-off rate from 40% to 10% for LCR (for deposits with residual maturity up to 30 days) and increase the ASF factor from 50% to 90% for NSFR. b) Term Deposits / liabilities with contractual maturity below 1 year from regional central banks / government institutions / banks – Reduce run-off rate from 40% to 10% for LCR (for deposits with residual maturity up to 30 days) and increase ASF factor from 50% to 90% for NSFR.		(d) Noted. a) – c) No change made as CBB rules are in aligned with Basel III.

c) Non-retail deposits / liabilities with contractual maturity below 1 year – Reduce run-off rate from 40% to 25% for LCR (for deposits with residual maturity up to 30 days) and increase ASF factor from 50% to 75% for NSFR. *<u>NB</u>: All the above concessions to be supported by verifiable liability behavioral data reviewed by External Auditors.* II. To overcome the very limited supply of regional Level 2 HQLA, Bank A also recommends that debt issuances by the financial sector from the region are allowed to qualify under Level 2A or Level 2B depending on a minimum investment grade criteria and that the ceiling on Level 2 and 2B HQLA be revised upwards from 40% and 15% to 50% and 25% respectively. *<u>Chapters LM 11: Liquidity Coverage Ratio (LCR) & LM 12: Net Stable Funding Ratio (NSFR) – These sections stipulate (i) reporting of LCR and NSFR to the CBB on the fourth working day of the following month (ii) reporting the daily average NSFR on a monthly basis.</u>* The existing CBB rules require the submission of monthly Statistical Returns (SR) by the 10th of the following month and the submission of quarterly Prudential Information Reports (PIR) by the 20th of the following month. These reports include, among others, information related to liquidity risk. A uniform reporting deadline is necessary to ensure consistency of information across various reports. The NSFR is a structurally stable ratio which is expected to remain steady on a daily basis and no material change is expected even on a monthly basis. Many of the regional as well as international regulators like Saudi Arabia Monetary Authority, Monetary Authority of Singapore have set the reporting frequency for LCR on a monthly basis and NSFR on quarterly basis. <u>The Bank recommends that:</u> a. LM section be revised to require the submission of the LCR on a monthly basis by the 10th of the following month duly aligned with the reporting deadline for		

the monthly SR. b. LM 12 be revised to require the submission of NSFR reports on a quarterly basis by the 20th of the following month duly aligned with the existing deadlines for the quarterly PIR.		a) LCR solo submissions will need to be within 7 calendar days and consolidated within 14 calendar days. b) NSFR: Within14 calendar days.
<u>A Bank:</u> • Regarding Chapters LM-7 and LM-8 "Intraday Liquidity Management & Collateral Management", we agree with the spirit of the regulations, while we are concerned that the proposed regulations are very burdensome due to the following: a) Implementation cost, efforts and time: full implementation of all the proposed rules will require significant financial resources, human efforts and time (probably beyond the current deadline of 1st January 2019); for instance Bank of England postponed implementation of intraday liquidity to July 2019 despite that British banks started working on liquidity much earlier than Bahraini banks b) Business implications: some of the requirements, such as operating within multiple limits (including limits by currency, time band …etc.), would be too restrictive and would negatively affect the business and competitiveness of Bahraini banks in comparison to their other GCC counterparts banks; some of the proposed regulations are very burdensome such as liquidity limits for beyond 1 year and intraday collateral valuation, which could be meaningless for commercial banks who do not have huge collaterals and huge changes in their intraday liquidity. c) Overall, the proposed draft seems to suggest a one-size-fits all banks, regardless of the size and liquidity risk which the banks are exposed to. In some other cases a lot of things were left to the bank to decide if its size warrants the implementation. This could result in huge differences between banks, and could also lead to disagreements with CBB at later stages. We believe that commercial banks with basic plain vanilla banking activities shall have different framework to operate within compared to banks who	GR2	a) Deadline for implementation of the Module requirements is specified in the final Module. b) Intraday monitoring tools are important to manage payments and settlements on a timely basis. c) Banks must implement the requirements of this Module considering the size, complexity and risk profile specific to them. d) The same treatment should be applied for NSFR, consistently with LCR treatment (e.g. if a jurisdiction applies 10% to stable deposits for LCR purposes and, consistently, a 90% for stable deposits in ASF, then the same treatment (for both LCR and NSFR) has to be considered when calculating the ratios at consolidated level). Rulebook has been amended e) LCR should be disclosed as well, as both provide useful information for investors and rating agencies. Rulebook has been amended. f) LCR should be calculated

engage in huge derivative contracts, and therefore have much bigger liquidity needs/risks. d) Chapter LM-11 “NSFR factors for overseas branches of local banks” In chapter 11, for LCR purposes, it is mentioned that the "the run-off rate assumptions for branches and subsidiaries outside Bahrain must be as per the requirements of the host supervisor". However, it is not specified which factors/ rates to use in case of NSFR. e) In reference to Chapter LM-11.*LCR public disclosure*: In Chapter LM-12, the CBB explicitly referred to public disclosure for NSFR. However, there is no such reference in chapter 11 for LCR. Do this mean that there is no public disclosure requirements for LCR? f) *LCR by average balance*: In Chapter LM-12, the CBB explicitly referred to calculating the NSFR according to end-of-period and daily average balances. In Chapter 11, there is no such reference for calculating LCR based on average balances. Do this mean that it is not required for LCR purposes? g) Related to Annexures under LM-12.6 (part of Chapter 12: Net Stable Funding Ratio). The Annexures are related to both LCR and NSFR ratios while the title of Chapter 12 is only NSFR. We would like to kindly recommend either moving the LCR related annexures to chapter LM-11 (Liquidity Coverage Ratio), or moving all annexures to a new chapter with a title that clearly shows that they relate to both LCR and NSFR.		considering daily balances and reported with reference to a specific date. With regards to NSFR, the specification of daily average balances could be misleading and might be interpreted as the need to calculate daily NSFR. Rulebook has been amended to eliminate the reference to daily average balances and require to report the NSFR as of last day of each month g) Chapter name has been amended.
<u>A Bank:</u> **1. Implementation of proposed Liquidity Risk Management Module:** The consultation paper requires the calculation of the LCR and NSFR ratios at both the consolidated and solo level, and the calculation of the LCR by significant currency on a daily basis, as well as prescribing detailed rules for the monitoring of intra-day liquidity. While banks should be in a position to report Parent Bank LCR and NSFR ratios for each month end, the daily reporting of these ratios at both a consolidated and solo level, and the requirements of managing intra-day liquidity in accordance with section 7 of the consultation paper, is likely to require significant enhancements to IT systems in order to automate the	GR3	1. Refer to GR-2(a).

calculation of the ratios on a daily basis. We are currently in the process of identifying IT systems that would enable the automation of the calculation of the liquidity ratios on a daily basis. We expect that it could take up to 12 months to evaluate, select, and fully implement the necessary IT systems for daily reporting purposes. We would respectfully request the CBB to take this into consideration when finalising the date from which the requirements of the Liquidity Risk Management Module will be effective. 2. **Treatment of trapped liquidity for consolidated NSFR computation** We also note that for the purpose of the consolidated NSFR calculation, the consultation paper does not contain any reference to excluding trapped surplus available stable funds (ASF) held by subsidiaries that cannot be transferred to the parent entity. It would be useful if the CBB could confirm if this omission is intentional, If not, we would recommend that the CBB provides an example of how trapped surplus ASF held by subsidiaries should be excluded in the consolidated NSFR calculation. 3. **Treatment of stable deposits from entities that could be viewed as financial institutions:** In accordance with the proposed LCR rules set out in the consultation paper, deposits from PSE customers have a 40% run-off factor in the computation of the LCR while deposits from banks, securities firms, insurance companies and fiduciaries have a more penal run-off factor of 100%. We note that there are entities that can be considered as a PSE as well as a fiduciary entity (e.g. GOSI Bahrain and GOSI KSA) and that some of these institutions may have provided a stable source of funding for a prolonged period of time. For the avoidance of doubt, we would recommend that the CBB makes it explicit that GCC government-owned pension funds be subject to a 40% run-off factor similar to other PSEs. We also recommend that where a bank's asset management subsidiary has a proven and documented historical track record in providing a stable source of		2. Para 36, 171 and 172 of *Basel III Liquidity Coverage Ratio and liquidity risk monitoring tools*, Jan 2013 describe the process. 3. See 11.3.8 of revised module.

fiduciary deposits over an extended period (e.g. two years), that these deposits receive the **40% run-off applicable to customer deposits, rather than the 100%** run-off applicable to third party fiduciaries. Fiduciary deposits held within a group are more stable from a NSFR perspective than fiduciary deposits from third parties and should be treated as such in the NSFR calculation. Similarly, the NSFR rules (para 12.4.10) in the consultation paper specify that deposits from PSEs and non-financial corporates with a residual maturity of six months or less should have a 50% available stable funds (ASF) factor, and similar tenor deposits from financial institutions (FIs) and central banks should have a more penal 0% ASF factor. The proposed rules further specify that FIs include investment companies and insurance companies. We agree in principle that deposits from FIs in general should be subject to a 0% ASF, as these deposits typically tend to be transient in nature. However, we recommend that a 50% ASF should be considered for deposits with a residual maturity of six months or less from the following type of entities that could be viewed as FIs: a) GCC state owned pension funds (e.g. GOSI Bahrain and GOSI KSA) as they should be viewed as a PSE rather than a FI. These institutions have provided banks with a stable source of funding for a prolonged period of time. b) Asset management subsidiaries of a banking group that have provided a stable source of fiduciary deposits over a minimum period of two years c) Deposits from central banks and GCC sovereign wealth funds that have provided a stable source of deposits over a minimum period of two years. **4. Reporting line of the Liquidity Risk Management Unit:** Paragraph LM-1.1.1 requires banks to have a liquidity risk management unit within the Risk Management function. Paragraph LM-1.1.2 further stipulates that "the role of the ALCO liquidity risk management would form part of the Bank's Market Risk function and would contribute to the preparation of liquidity risk management reports to be submitted to the Assets and Liability Committee". In our experience, comprehensive synergies and efficiencies can be derived from		4. Reference to Liquidity Risk Management Unit has been removed and replaced with establishment of a Framework and also ALCO.

liquidity risk management reports being prepared by the Finance function, who are the owners of financial data within the bank and are independent of the business units. The preparation of the liquidity risk management reports by the Finance function ensures consistency of data with other related financial reports, including liquidity risk and asset / liability maturity disclosures in the financial statements and Basel 3 Pillar 3 disclosure report, and consolidation adjustments between group entities at the consolidated level. Hence, we would like the CBB to consider expanding the responsibility for the preparation of the liquidity risk management reports to include the Finance function, and where considered to be practical and beneficial, where the CFO or the Head of Finance is independent of the business units and has no income targets to adhere to. The liquidity risk management reporting unit should nevertheless have a dotted reporting line to the Chief Risk Officer so as to ensure that all risk-related issues are adequately addressed. **5. Consistent terminology with capital adequacy regulation**: The consultation paper requires LCR (para 11.1.5) and NSFR (Para 12.2.1) to be calculated on a "standalone" basis and on a consolidated basis. It is recommended to use the term "solo" rather than "standalone" to be consistent with the terminology in the CBB's capital adequacy regulations.		5. Agreed, and final Module reflect amended terminology.

<u>A Bank:</u>
• LM-9: Stress Testing is performed regionally at Head Office level but not locally specific to Bahrain Branch
• LM-11: LCR (section states it only applicable to Locally Incorporated Banks)
  • LCR is managed and monitor locally in light of overall risk framework of the Head Office, hence the limits proposed by CBB under the paper may not be in line with those specified by our Head Office (e.g. LCR managed on a Total Currency basis at a minimum 130%, with significant currencies allowed a limit of lower than 100%).
  • Certain Inflow/Outflow factors may not be in line with our Head Office specified requirements (e.g. Contingent Liabilities attracting 2.5% Outflow
	GR4	Only the qualitative requirements apply.

compared to CBB proposed 5%, etc.) • LM-12: NSFR (section states that it only applicable to Locally Incorporated Banks) – however, similar to LCR comment above, the ASF and RSF factors proposed may not be in line with our Head Office methodology. We would like to seek additional clarity on the applicability of this Module and/or its various Chapters specifically to the Bahrain Bank (which is a Branch of a Foreign Bank in Bahrain). Based on this confirmation, the Bank can perform a detailed gap analysis on the proposed requirements and the policies and processes the Bank currently has in place around Liquidity Risk Management.		
<u>A Bank:</u> • Annexure A under LCR sections specifies 0% runoff factor for term deposits with remaining maturity over 30 days. Clarity is needed if this clause is applicable to all term deposit or only to term deposits with non-premature-withdrawal clause. • Unlike LCR, there is no mention of applicability of NSFR to all locally incorporated conventional banks licensed by the Central Bank of Bahrain. As such, we understand that NSFR is applicable to all conventional banks, including that of a branch of a foreign bank. NSFR is yet to be implemented by the home regulator as final guidelines are awaited. The proposed compliance date in some of the countries, like Canada, Malaysia, UK, etc., is January 1, 2020. Clarity would be needed on the applicability of the requirement.	GR5	a. As specified under LM-11.3, paragraph B – Less Stable Deposits, term deposits with remaining maturity over 30 days will be excluded from the total expected cash outflows if the depositor has no legal right to withdraw deposits within the 30 days horizon, or if early withdrawal results in a significant penalty greater than the loss of profits payable on the deposit. b. As per LM-12.1.1, the NSFR is applicable to all Bahraini conventional bank licensees.
<u>A Bank:</u> a. Annexure (A): Illustrative Summary of the LCR: In Point B (Unsecured Wholesale Funding) (Page 72) under Cash Outflows in the LCR, there is no line and factor for the Less Stable Deposits in foreign currencies of SMEs' deposits. b. As per our understanding of the CBB guideline and the criteria applied to	GR6	a. The rulebook mentions 10% for less stable small business deposits b. Yes, all CBB marketable securities are covered under HQLA level 1.

marketable securities issued by government of Bahrain and CBB, all marketable securities issued by the Government of Bahrain and CBB have been included in Level 1 of HQLA of the LCR. c. As per the CBB guideline, it is unclear if the debt securities that have been repo-ed should be included under **Point 13-A** or **Point 29 (All Other Assets)** under Required Stable Funding in the NSFR. d. The implementation of Liquidity Risk Management Module (Module LM) requires many changes to the processes, infrastructure, systems and staff training in the Bank accordingly suitable timelines for implementing are critical. e. There are no proven methods for handling intraday liquidity management. Suitable guidelines from CBB could be very useful for setting standards and initiate the processes.		c. Repo-ed debt securities: securities used for repo transactions have to be considered encumbered if the repo operation expires beyond 30 days. In this case the treatment will be according to LM-12.4.18. d. See GR-1. e. Intra –day liquidity: Refer to GR-2(a).
<u>A Bank:</u> • Chapter LM-11 "Liquidity Coverage Ratio" We understand that LCR is not applicable to the branches of an overseas bank. Please confirm this understanding. • Chapter LM-12 "Net Stable Funding Ratio" Not Applicable to the bank as a branch of an overseas bank.	GR7	Yes, it is not applicable to branches of foreign banks.
<u>A Bank:</u> The thorough and exhaustive Liquidity guidelines envisaged in the Consultative Paper are noted – however we suggest that some flexibility also be provided for a simplified liquidity risk management structure for smaller banks (commensurate with the lighter complexity of business activities).	GR8	The rules must be applied by all banks.
<u>A Bank:</u> • Section LM-1.3 Responsibilities of Senior Management, "Allocation of Liquidity Costs, Benefits and Risks" part: Not relevant given the Bank's investment business model. • Section LM-1.3 Responsibilities of Senior Management, "Independent Reviews and Audits" part: Internal audit will conduct the review pursuant to this rule. • Chapter LM-7 "Intraday Liquidity Management" Not relevant given the Bank's alternative investments business model.	GR9	Bank specific issues shall be discussed with CBB supervisors. The rules must be applied by all banks.

• Regarding LCR & NSFR (LM-11.1.5 (a) & LM-12.2.1 (a)) calculation on standalone basis. Calculations on a standalone basis is not relevant given the Bank business model and these ratios will instead be calculated only on a consolidated basis. • Regarding LCR Reporting (LM-12.5.1 & LM-11.1.11) and NSFR Reporting (LM-12.5.1) The books are closed and reconciled end of each month. Therefore, it is more practical to report the monthly LCR and NSFR reports within 14 days of month end and utilize the reconciled month end figures for NSFR calculations and not the daily average. • Regarding NSFR Components (LM-11.2 and LM-12.4) We suggest that the “undrawn revolving commitments” should be included as a cash element in LCR and NSFR component calculations. • We suggest to continue to report LCR and NSFR quarterly along with the prudential reports and not monthly until the consultation paper is finalized.		
<u>A Bank:</u> Chapters LM-11 and LM-12 are not applicable to us.	GR10	The LCR and NSFR chapters are not applicable presently for Branches.
<u>A Bank:</u> • As a wholly owned branch of a foreign entity, it would be appreciated if further clarification could be provided on the extent of required compliance with the Module LM for foreign branches where liquidity risk management is centralized at the Head Office level. • We noted that the module requires clarification with respect to which provisions apply to all licensees under wholesale banking versus locally incorporated wholesale banks.	GR11	See GR 10.
<u>A Bank:</u> (a) Our overall opinion is that that the proposed module has been framed keeping in consideration the liquidity risks and systemic risks of larger systemically important banking entities. While this may be very important when viewed from CBB lenses, many of the requirements in the module are very onerous for smaller banks to	GR12	a. The rules are consistent with Basel III and must be applied by all banks.

comply with. We would urge CBB to revisit the module and consider relaxing some requirements for smaller banks which they would find very difficult in adhering to. In that light, CBB could consider framing some rules as guidance statements that the banks need to follow based on the size and scale of their operations, some of which we have highlighted in our detailed comments below. (b) We would also like to highlight that the proposed rules will most likely require banks to implement a full scale liquidity risk management system without which many of the monitoring and reporting requirements of the module would not be achievable. Some of the requirements like intraday liquidity monitoring in each currency, calculating LCR and NSFR in each significant currency and liquidity calculations under range of stress scenarios are functionalities which are only available in advanced systems. While larger banks would have such systems in place, smaller banks would find it difficult to justify the costs associated with implementing and maintaining such systems, especially if the bank's liquidity position is already very comfortable. (c) Finally, we would urge CBB to phase in these requirements in stages rather than implementing them in all at once. CBB could possibly consider prioritizing LCR and NSFR sections for the first stage and the other rules for the next stage. This will help banks to cope better with the changes and provide them time to implement the regulations in a cost effective manner. ➢ Regarding the definition of HQLA, under Section 11.2, we believe that cash and placement with banks and other financial institutions should also be classified under HQLA Level 1 assets (100% factor); however the same is not mentioned in the rules. This is particularly important for non-retail banks wherein all their cash balances are kept with other banks. Including cash and bank placements in HQLA Level 1 assets is already being done in some jurisdictions/regulators.		b. Proportionality will be a consideration in the practical application of the rules. c. Intraday liquidity monitoring would be relevant to retail/commercial banks that have significant size. Intraday monitoring is not prescriptive.

A Bank: a. In regards to the requirement of updating policy, framework and requisite systems for liquidity risk measurement and management in line with the updated module, we recommend that the CBB gives consideration to the fact that implementing new policy, framework and systems at a bank for liquidity or any other risks is a laborious and time-consuming process. This process at all banks is generally handled in phases and the duration of each phase varies across banks based on each bank's structure and complexity of operations. We would therefore like to recommend that the CBB monitors this process through an action plan designed by each bank and monitored by the CBB rather than setting a fixed tight deadline for all banks. b. We found that the CBB has given valid consideration to aspects of the banking group structure such as requirements for intragroup deposits. We would be grateful if the CBB also gives a consideration to the intricacies and impediments that parent banks in Bahrain encounter in getting the required information with very tight deadlines. We kindly request that the CBB extends the deadline of submitting the consolidated LCR and NSFR to 20th of the month following the end of each month. It is nearly impossible to collect, verify and submit the LCR and NSFR on the proposed date of 4th of each month. As such, we would appreciate that the said deadline for submissions is extended. c. In regard to the matrix (financing/ Deposits), we recommend that the CBB provides a definition of what constitutes deposits. This is particularly important for Islamic banking instruments as practitioners may opine differently in some cases such as Sukuk and Wakala for example. d. Since liquidity risk management is under the mandate of the board risk committee at banks, we recommend that the CBB specifically refers to BRCs rather than referring to the whole board. Albeit the whole board is ultimately responsible for the liquidity risk management of an institution, the specific	GR13	a. The Bank must develop an action plan and report to CBB b. See GR-1. c. The definition of deposits for Islamic banks is consistent with the definition used for Deposit Protection. d. The Board must take overall responsibility – if a Board delegated committee is functioning, there is no need to change the reference to Board.

detailed requirements, reporting and monitoring requirements outlined in this module can be reviewed by BRCs rather than the full board. The whole board can receive summary or excerpt of these discussions only.		
A Bank: a) No mention of how the three accounts being Self-Financed, URIA, and RIA relate to the newly proposed liquidity buckets; b) No mention of the current 0 to 8 days and 8 days to 1 month liquidity mismatch limits within the new module ; c) Recommendation to include all GCC Sovereign (except Qatar) to be HQLA Level 1; d) Intraday liquidity monitoring and reporting requires significant investment relative to low volume since we do not hold trading positions; e) Difficult to prove that a depositor does not have a backup operational or transaction account, which is needed in order to be considered as stable funds; f) Costly to test the sale of the HQLA under the contingency funding plan on an annual basis; g) LCR reporting on the 4th working day however no deadline has been communicated with respect to the NSFR.	GR14	a. The rules apply in the same manner as they apply for Module CA purposes. b. The Banks may use additional time intervals. c. See revised Rulebook Module. d. Intraday monitoring tools are important to manage payments and settlements efficiently. e. Banks must start applying these principles and report specific issues as they arise to the Board and to the CBB as appropriate. f. Banks must start testing. g. Refer to GR-1
A Bank: Kindly note that the Bank's only comment is for the CBB to advise the proposed minimum regulatory thresholds for all the proposed metrics as put in LM2.1.4 &5. The current document is only explicit on NSFR and LCR.	GR15	These metrics should be managed according to prudent risk management practices.
A Bank: CBB is requested to consider the provision of adequate time line for implementing the provisions of the subject module as it would necessitate appointment of a Liquidity Risk Manager, implementation of a software application to enable the Bank to monitor the intra-day liquidity position, revision of existing policies on Liquidity Risk Management and support other requirements as detailed in the subject module.	GR16	Refer to GR-2(a).
A Bank: We suggest that the CBB carefully consider the effective date of the new module	GR17	Refer to GR-1

implementation. We also suggest to change the submission date of the LCR & NSFR to 10 days to avoid any delays and due to other monthly reporting deadlines.		
A Bank: We wish to bring to the CBB's attention the unresolved limitations of HQLA eligible instruments on Islamic Banks.	GR18	Banks must work together in the face of these new regulations to improve the HQLA access for Islamic banks.
A Bank: 1. **Consolidated reporting:** the Bank being the parent company of a diverse range of businesses (including non-banking subsidiaries), a consolidated analysis of liquidity ratios may not be an effective way for management of its liquidity risk. Further, the Bank also does not have an access over the liquidity of its subsidiaries. Hence providing information on a consolidated basis will not reflect the true position of the Bank. We request the CBB to allow the Bank to report the liquidity ratios on a standalone basis. (However, any funding support that the Bank may need to provide to these subsidiaries from time to time, will be considered in the liquidity risk analysis for the standalone entity). 2. **HQLA definition:** It is one of the Bank's prime objective to hold sufficient liquidity to be able to meet its commitments and obligations under all plausible scenarios. However, currently the liquid assets are held mostly in the form of cash and bank balance in current accounts and Murabaha/Wakala Placements with other Islamic banks. None of these satisfy the criteria of HQLA as per the definition provided in the consultation paper. As a result, in spite of having sufficient liquidity, the Bank's LCR as per the paper, is coming significantly below the minimum requirement of 1.0. In order to meet the minimum LCR requirement, the Bank will be forced to place part of its liquidity in HQLA securities which will further unnecessarily expose the Bank to the Market Risk related to price fluctuation of the Sukuks (specially before any particular repayment is due). We would request CBB to reconsider these aspects in the final version of the module and allow the Bank to consider the cash and bank balances and Murabaha/ Wakala Placements as HQLA.	GR19	1. Consolidated reporting is expected of all banks regardless of their business models. There are rules that describe how banks should deal with situations where it does not have access to surplus liquidity of subsidiaries. 2. HQLA – the definition are harmonized and are consistent with Basel III. This is due to BCBS interpretation that in the event of a severe liquidity crisis, the bank may not be able to withdraw cash from other banks

3. **Run-off factor based on management expectation for some specific deposit/funding:** If a deposit/funding is under negotiation/dispute/sanction, management should be allowed to apply a run-off factor for those funding/deposits based on its expectation of outflow for next 30 days. 4. **Frequency of monitoring:** Given the Bank's limited transaction volume, a very frequent monitoring like intra-day or daily monitoring will not provide any significant added benefit. We request CBB to provide us a waiver on monitoring and reporting intra-day and daily basis and allow the Bank to monitor and report liquidity ratios on a monthly basis. 5. **Time to comply with the minimum ratio requirements:** Based on the current definitions of LCR and NSFR, the Bank fails to meet the minimum required levels. However, as communicated above, the major reason for its inability to meet LCR requirement is due to stringent criteria of HQLA securities which may put additional challenges and adds up to market/price risk given the investment banking business model of the Bank. Reconsideration of the same by CBB will help the Bank to meet the LCR criteria. To meet the minimum NSFR criteria, the Bank will proactively explore opportunities to change its funding mix to have more long term source of funds and exit some of its long gestation investments. However, the same may need some time. So, request CBB to grant us some time to comply with the minimum LCR NSFR requirements. **6. System implementation time:** Lastly, the implementation of the regulations in its current consultation form will entail a significant time and investments in systems, which will need to be considered by the CBB in enforcing an implementation date. **7. Regarding Chapter LM-7** "Intraday Liquidity Risk Management", given the nature of business activity of the Bank, intra-day basis monitoring of liquidity is not warranted. Request to waive this requirement of intra-day limit monitoring as given in LM 7 for the Bank. **8. Regarding the definition of HQLA, under Chapter 11.2**, the definition does not include cash and bank balances and bank placement. Given, that our Bank is an Investment Bank it does not hold much of cash in hand. Also given the limited availability of Islamic securities which can qualify		3. Any arrangement under negotiation cannot be considered final. 4. This would depend on the nature, size and complexity of the bank. Specific constraints must be discussed with the CBB. 5. Refer to GR-1 6. System implementation issue: The bank shall submit an action plan and report back. 7. See 4 above. 8. This is due to BCBS interpretation that in the event of a severe liquidity crisis, the bank may not be able to withdraw cash from other banks.

as HQLA, request you to consider cash and bank balances kept in current accounts and Murabaha/Wakala Placements with other Islamic banks as HQLA. Moreover, investment in HQLA, may additionally expose the bank to market risk related to price fluctuation of the securities at the time of repayment. However, going forward, the Bank will endeavor to implement a business plan to invest in Sukuks and short-term liquidity instruments, which can qualify as additional HQLA. Request to consider cash and bank balances kept in current accounts and Murabaha/Wakala Placements with other Islamic banks as HQLA.		
A Bank: Section L.M. 1.1 requires that the bank must have an independent Liquidity Risk Management unit within its Risk Management function, with proper delineation of powers, responsibilities and reporting lines for different levels of management, so that the Liquidity Risk Management strategy, policies and procedures are executed effectively. In our view, for the bank XYZ's size and complexity, it is not practicable to establish an independent unit for Liquidity Risk Management. ALCO is adequate enough to deal with the implementation of the updated Liquidity Risk Management framework and monitor its compliance. Section L.M 11.2 High Quality Liquid Assets (HQLA). The definition of HQLA does not include bank placements. In our view, this would affect inter-bank placement activities and banks will be forced to move away from this asset class to meet their LCR requirements.	GR20	See revised Module.
A Bank: Chapter LM-11 "Liquidity Coverage Ratio", We note that balances and placements with financial institutions are not included in the list of High Quality Liquid Assets (HQLA) under section LM-11. Whilst this may be acceptable for retail / commercial banks, it is not acceptable in the case of investment banks undertaking investment transactions primarily using investor's funds and should be reconsidered.	GR21	All banks, regardless of their business model type, shall apply the rules.

We wish to stress that it will not be practical for investment banks of our nature to maintain the required LCR (as stated in LM- 11.1.4) if balances with banks and placements with financial institutions which normally comprise a key component of our liquid assets used for day to day liquidity management are excluded from the stock of HQLA.		
A Bank: High-level messages **1. Proportionality** The draft LM generally proposes a 'one-size fits all' approach and does not distinguish for different business models and proportionality of application. **We suggest the LM should be more explicit in allowing firms some degree of discretion to adapt the approach where appropriate, assuming that any adaptations are done within acceptable risk parameters and agreed with the CBB.** **2. Organisation (Section 1.1.1 to 1.1.4)** The LM is prescriptive in defining that liquidity risk management should be performed in an independent unit within the Risk function. In line with many international and regional banks, Bank XYZ's Liquidity Risk Management Strategy, Policies and Procedures are defined by the Group ALCO (GALCO). Supporting the GALCO is Group Balance Sheet Management (GBSM) to perform the liquidity strategy, policy and planning function (under Group CFO); Corporate Treasury, which performs day to day liquidity management (and has liquidity management metrics as part of its performance scorecard, reporting to the Group Treasurer), and Market Risk, as part of the Risk management function, which conducts daily liquidity stress tests and monitors compliance with liquidity risk metrics. Working effectively together these three areas co-ordinate to organize an	GR22	1. **Proportionality:** Comparability, consistency and supervisory equivalency are important principles that should be adhered to by the CBB and the industry. The final Basel III rules on liquidity as issued by the BCBS consider the issues of one-size-fits all. The CBB will apply the principle of proportionality in all matters concerning regulation and supervision if appropriate. 2. **Organisation:** See revised Module.

effective Liquidity Risk Management Framework, with updates regularly presented to GALCO. The liquidity risk management structure within Bank XYZ is commensurate with its scale and complexity and benchmarks to structures in place in other international banking organisations. **We propose that the organization structure for managing liquidity risk should allow for flexibility in terms of organizational placement so long as the effectiveness and independence of the liquidity risk management function can be demonstrated.** **3. Treatment of Bahrain entities as a "Domestic Liquidity Group"** Bank XYZ operates a centralised treasury in Bahrain and manages the liquidity risk for **Bank XYZ BSC and Bank XYZ Islamic E.C.** The liquidity for both these entities is regulated in the same jurisdiction without any restrictions on portability. We believe that the LM should be applied at an aggregate level for the Bahrain reporting entities and not at an individual entity level for these entities. Such a precedent is exemplified within UK Prudential Regulation Authority's liquidity guidelines that allow for Domestic Liquidity Group (**DLG**) as well as the European Banking Authority's liquidity supervisory guidelines for treatment of domestic Single Liquidity Sub-Group (**SLSG**). **We propose that CBB should adopt a similar approach to liquidity regulations for Banks in Bahrain and provide for Bahrain entities on a collective basis within a single banking group to be a "DLG" for regulatory reporting and monitoring of liquidity metrics.** **Consolidated Reporting of Liquidity Metrics** Bank XYZ operates in a number of countries principally through subsidiaries that are self-funded in their domestic currency operations. Each of our subsidiaries have		3. Bank specific implementation issues must be raised to the CBB.

individual liquidity risk appetite and monitoring mechanisms for liquidity risk management, besides complying with their local regulatory requirements. In addition, the Group's Risk Management Framework reinforces compliance of liquidity risk metrics by subsidiaries. The subsidiary entities' liquidity risks are assessed in the Group ILAAP and within its liquidity stress testing framework, and the Group allocates liquidity buffer for such risks. **We believe that the LM should be clear in that its primary application is to Bahrain banks and their associated branches forming part of the same legal entity or DLG. Consolidated Group Liquidity metrics should of course be monitored and reported but at an aggregated currency level and at an appropriate frequency, no more than monthly (see following point). This is also provided for in terms of Basel allowing national discretion on this issue.** **4. Timing and aggregation of liquidity metrics monitoring and reporting** Taking into account the points made above about the proposed DLG and the consolidated reporting of liquidity metrics, we would propose the following: • **LCR** (**Section 11**): we would support the proposal that for a Bahrain DLG monitoring should be daily on an aggregated currency level, but that it would be efficient to align reporting frequency to CBB to the Capital Adequacy reporting timeline. Further, we would propose the reporting of the liquidity metric for the Consolidated Group and the monitoring of LCR should be aggregated at the currency level and set to a monthly frequency with the reporting timeline of within 30 days of the month end (this would be in line with other regional regulators such as SAMA). • **NSFR** (**Section 12**): this is a less dynamic liquidity metric and the stable funding position typically does not vary significantly between months, we propose that the monitoring and reporting of NSFR be only as at month-ends		4. **Timing and aggregation**: Given the nature of LCR, the reports should be available soon after month end.

for the Consolidated Group with the reporting timeline as recommended above. Further, the reporting requirement for an average NSFR be removed from the LM as this appears to add little value, if any, while adding an additional operational burden. **5. Early warning indicators (Section 2.3)** The LM provides for a long list of early warning indicators (EWI) and the list appears to be prescriptive. We propose that the **Early Warning Indicators be grouped into the six broad themes in line with the EBA's guidelines (EBA-GL-2015-02)** of quantitative recovery plan indicators viz. Capital, Liquidity, Profitability, Asset quality, Market based and Macro-economic indicators, and as many will be specific to individual business model. **We propose that the list of EWIs be suggestive rather than prescriptive.** **Independent review (Section 1.3.7 to 1.3.9)** Unless there has been a fundamental change to the business model, an annual independent review of the liquidity risk management framework would seem to be excessive. The annual ILAAP will in any case cover all material sources of liquidity risks and a comprehensive assessment is made of such risks with suitable mitigants. **We would propose an independent review cycle of 3 years to be more efficient and effective.** **6. Phased Implementation timeline** A number of aspects in **the proposed LM required an increased granularity of data, frequency of monitoring, forward modelling of balance sheet, intra-day liquidity and liquidity MIS enhancements (Section 2.4 and 2.5).** This could require significant enhancements to current IT systems and processes. Banks are also currently challenged with IFRS9 implementation. Finally, it would be		5. **Early warning indicators:** The list is suggestive rather than prescriptive. 6. **Independent review** requirements are modified in the final rules.

pertinent to note that the UK PRA has deferred the implementation of its liquidity guidelines to July 1, 2019, taking into account such considerations, despite having a consultation period that has lasted several years. **We propose that the CBB consider a longer or a phased implementation approach for the more complex aspects of the LM, potentially giving banks until January 1, 2020 to be fully compliant with an appropriate roadmap plan of any necessary systems changes to be submitted to CBB by January 1, 2019.** ➢ Regarding paragraphs LM-11.1.5 to LM-11.1.11, Bank XYZ suggests that the reporting timeline for the Bahrain DLG and the Consolidated LCR be aligned with the reporting timeline of other monthly regulatory reports as followed by regional regulators. LCR reporting for subsidiaries, where there are no local LCR guidelines, should be based on either based on Basel rules or CBB rules to be consistent. Please clarify the basis for such assessments. ➢ Regarding the definition of HQLA, under Section 11.2, we recommend that you include balances with central banks including reserves under "Level 1 Assets" and to include RMBS as in Basel BCBS 238 and for NSFR (LM 12.6) under "Level 2B Assets". Risk weighting to be made clear as in Basel BCBS 238. • Annexure (A): Illustrative Summary of the LCR Level 1 assets should include balances with other Central Banks. "Deposits by other legal entity corporation – Outflow 100%" - Need clarification on how 'other legal entity corporation' is defined. Cash inflows – Inflow rates are incorrect as they seem to represent the haircut rates in the table for Level 1 and Level 2A assets.		7. **Refer to GR-2(a)**
An Audit Firm **A. Liquidity Risk Management Governance**	GR23	a. See finalized Module.

The governance structure prescribed by Module LM is prescriptive and requires Liquidity Risk Unit under a Market Risk function. CBB may consider that in some cases banks have Liquidity Risk being managed either by Corporate Treasury or Finance functions or the wider Risk Management function and as such, a Liquidity Risk unit may not always fall under the ambit of Market Risk function. CBB may consider liquidity risk unit to be not part of market risk function as long as the unit is independent from front office (i.e., profit making unit). **B. Liquidity Risk Monitoring Metrics** **i. Net Stable Funding Ratio (NSFR)** ► **Reporting Requirements:** CBB requirements for NSFR reporting requires averaging daily positions across each month. • NSFR is a long term ratio that is expected not to significantly change on a daily basis and is expected to be stable across monthly periods as well. • The daily monitoring and reporting of the ratio is expected to be onerous for the banks to achieve – particularly on the consolidated position for large groups where generating data and results to calculate the NSFR on a daily basis will be a major challenge. • Given this background CBB may consider reporting requirement for NSFR being only on a monthly basis based on end of month position including daily positions produced at the end of the month for the reporting month (similar to Central Bank of Kuwait instructions). ► **Significant Currencies:** CBB to clarify what currencies minimum requirements apply to. • Do the LCR and NSFR need to be calculated on an aggregate basis in BHD or USD (converting all currencies to BHD or USD). • Do the ratios also need to be calculated only for BHD and USD (if applicable) without including other currencies?		b. NSFR reporting is on monthly basis, based on the position at the end of the month and on the average of daily data. c. Specific reference has been made in the Module for USD.

► **Submission Cycle:** CBB reporting deadline of 4th of the month is a challenging deadline • For large groups consolidating data from entities to report by the 4th following the month-end will be a challenge. • Other GCC regulators allow around 14 working days. • CBB may consider increasing the time allowed to submit the reports. **ii. Liquidity Coverage Ratio (LCR)** ► **Reporting Requirements:** CBB requirements for LCR requires daily monitoring of solo and consolidated positions to report any shortfall on a daily basis. • The daily monitoring and reporting of the ratio is expected to be onerous for the banks to achieve – particularly on the consolidated position for large groups where generating data and results to calculate the consolidated LCR on a daily basis will be a major challenge. • CBB may consider clarifying if daily monitoring of LCR may be performed at each overseas branch and subsidiary on a solo basis to avoid the complexity of consolidation on a daily basis. ► **Run off rates:** • CBB may consider more varied run-off rates for foreign currencies – currently there is very little difference in the run off rates prescribed for Local currency vs Foreign currencies. • CBB may also consider different run-off rates for different size/amount of Retail/Individual deposits as per Basel III and other LCR regulations issued by GCC Central Banks. More specifically CBB to clarify if there is any limit beyond which a retail depositor will be considered HNWI and if any different run off rates should apply given less stable nature of these deposits compared to other retail deposits.		d. Refer to GR-1 e. Given nature of LCR, daily monitoring is important. f. Run-off rates are in-line with Basel requirements.

► **HQLA criteria:** • CBB may wish to consider or prescribe some criteria for consideration of Investment Funds in HQLA. Some of Bahrain banks have significant assets invested in Funds. Can CBB consider providing some more criteria in considering some portion of these funds in HQLA? Notably, alternative approaches to funds have been suggested for capital purposes by the BCBS paper on treatment of Funds in capital adequacy (i.e. Look-Through Approach, Mandate-Based Approach and Fall-Back approach). CBB may consider if similar approaches could be viable for use of funds for HQLA and what criteria CBB would require. • Clarification on treatment of 0% RW (Capital Risk-Weight) Sovereign Assets in HQLA i.e. Will CBB inherit RW from Capital Adequacy guidelines, or will it issue a separate RW instructions for LCR purpose, similar to CBK? • Given the lack of availability of HQLA in the region (including Level 1 and Level 2 assets) and more specifically in Bahrain (due to below investment grade rating), most regional corporate bonds would qualify as Level 2B assets which is capped at 15%. Due to these factors local banks may have to buy assets outside Bahrain/GCC. This would mean funds flowing out of Bahrain and GCC. The CBB may consider expanding the scope of GCC assets which can be considered as Level 1 and Level 2 assets. ► **Liquid assets in Islamic Finance:** • For Islamic Banks particularly, CBB to prescribe how to treat specific issuances of Islamic finance such as IILM sukuk that are meant to increase availability of liquid assets that comply with principles of Islamic finance. **i. Loan to Deposit Ratio** ► Will CBB impose system wide minimum threshold? ► Though the paper mentions that banks should use variants of the ratio		g. HQLA is in-line with Basel requirements.

according to their needs (for e.g. Wholesale Loans to Wholesale Deposits etc) will CBB prescribe any minimum for one definition of the ratio? If so, what will be the denominator used, will this cover all customer deposits (wholesale and retail)? Any exclusions? **ii. Liquidity Ladder Gap** ► Will CBB impose system wide minimum gap threshold? For example, in Kuwait the central bank mandates minimums as -10%, -20%, -30% and -40% for <7d, 7d-30d, 1m-3m and 3m-6m respectively **iii. Funding Concentrations** ► Is CBB planning to consider introducing regulatory limits for top 10 deposits / total borrowing? **C. Liquidity Risk Infrastructure and MI systems** CBB to provide more clarification on what is mandatory in terms of systems and time to implement. Specifically on the following requirements: 1. Intraday liquidity monitoring: Are all banks expected to have systems capable of monitoring intraday liquidity at the maturity level described in the module? If so, what is the timeline by which CBB expects banks to be fully compliant. 2. LCR and NSFR daily consolidated monitoring and reporting: Is there a transition period (or lower minimum applicable during a transition such as seen in other GCC jurisdictions) for application of these requirements? Could CBB consider providing large banking groups more time to implement systems that are required to collect data, calculate, track and monitor these ratios on a daily basis given the complexity of consolidation required?		h. The industry should work together to bring solutions for liquid assets for Islamic Banks. i. Refer to GR-2(a).
<u>A Bank:</u> As defined in CBB Liquidity Risk Management consultation document LM-12.4.11 and related templates. "Deposits with no specified maturity should treated as zero	GR24	Refer to LM-12.4.9

percent ASF " Please note that call and demand deposits have no specified maturity and represent 51% of our customer deposit base. If we consider them in the "no maturity bucket" then applying the zero ASF factor significantly reduces available stable funding which has a materially adverse impact on the NSFR ratio to well below regulatory requirements. Historically these deposits have been stable, we therefore request that CBB consider allowing us to bucket call & demand deposits into the less than 6 month maturity bucket or consider maturity profiling by behavioral approach to avoid unduly penalizing the bank		

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
LM-A.1.4 This Module contains the Central Bank of Bahrain's ('CBB's') Directive (as amended from time-to-time) on the liquidity risk management requirements for conventional banks, and is issued under the powers available to the CBB under Article 38 of the CBB and Financial Institutions Law 2006 ('CBB Law'). The directive in this Module is applicable to all conventional banks.	**A Bank:** The guidance specifies that the directive in this module is applicable to all conventional banks. We understand that the rules mentioned in the Consultation Paper would be applicable to the Bank, Bahrain as well.	SP1	Qualitative rules apply to branches of foreign banks.
Section LM-1.1 **Liquidity Risk Management Unit**	**A Bank:** Limited complexity of the Bank's business model does not trigger for it to have an independent Liquidity Risk Management Unit within Risk Management function. However, liquidity risk is managed in a centralized manner.	SP2	Please refer to the final rules. Liquidity management should be independent of business and the back office/central operations and can be part of risk function.
	A Bank: The consultation paper should be generic to allow for Banks to organise the liquidity risk management function so long as the independence of the control function is maintained and such units do not engage in profit making activities. Many International Banks manage the liquidity risk through a Group Corporate Treasury function or Balance	SP3	Refer to SP2.

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
	Sheet Management function. Bank XYZ's Liquidity Risk Management Strategy, policies and procedures are approved by the Group ALCO and implemented as follows: Group Balance Sheet Management (**GBSM**), develops strategy, policy and plans in consultation with Treasury, Finance, Operations and Market Risk. Market risk, as part of the Risk management function, conducts daily liquidity stress test to ensure compliance with internal risk limits and a summary is presented to GALCO regularly. Corporate Treasury effects day to day liquidity management and operations and is clearly delineated from the Financial Markets organization. Corporate Treasury also has defined objectives to optimize liquidity metrics within GRAS. Liquidity risk management structure within Bank XYZ is commensurate with its scale and complexity and benchmarks to other international banking organization structures.		

<table>
<tr><th colspan="2">Specific Comments:</th><th></th><th></th></tr>
<tr><th>Reference to the draft Directive:</th><th>Comments</th><th>REF</th><th>CBB Response</th></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td>LM-1.1.1 A bank must have an independent Liquidity Risk Management unit within its Risk Management function, with proper delineation of powers, responsibilities and reporting lines for different levels of management, so that the Liquidity Risk Management Strategy, policies and procedures are executed effectively.</td><td><u>A Bank:</u>
As a branch of a foreign bank, Liquidity risk management is within the Treasury Function and not risk. That is considered to be an independent team with proper delineation of powers, responsibilities and reporting lines for different levels of management.

We are of the view that a distinction must be made for branches of foreign banks with respect to equivalent mechanism at the parent level, in relation to this rule.

<u>A Bank:</u>
We believe that the CBB needs to consider the size of the Bank in terms of activities and manpower. We recommend the CBB have this as a recommendation and not a rule or have it as a rule on Retail Banks with bigger operations, whereas excluding wholesale Banks or banks with smaller operations.

<u>A Bank:</u></td><td>SP4

SP5

SP6</td><td>Qualitative rules apply, but LCR/NSFR do not apply to branches.

See final rules.
The rules, however, apply to all banks regardless of business model type and or size.

Refer to SP2</td></tr>
</table>

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
	Bank must have an independent Liquidity Risk Management Unit within its Risk Management Function. (This is done at HO level).	SP7	Refer to SP2 and SP5.
	A Bank: We recommend that this should be made guidance rather than rule with the following condition 'commensurate with the bank's business nature, size and complexity'. All banking licenses will have full scale risk function, however having a dedicated staff/unit for Liquidity Risk management may be an onerous responsibility and cost for the smaller Banks.	SP8	Refer to SP2 and SP5.
	A Bank: Given the nature of business and volume of transactions, setting up of a separate liquidity risk management unit may not be warranted. The current Risk Management Department will ensure that proper systems are in place and adequate resource allocation is made to comply with the effective execution of the	SP9	Refer to SP2

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
	liquidity risk management as per CBB guideline. Request to waive this requirement for Bank XYZ. **A Bank:** Liquidity risk management as a separate unit within the risk function is not practical for all banks as they vary in size and transaction volume, and particularly so in the case of wholesale / investment banks undertaking investments primarily funded by investors funds. This is corroborated by LM 1.1.4 that the overall liquidity risk mgt. structure must be commensurate with the nature, scale and complexity of the bank's operations.		
LM-1.1.2 Depending on the overall risk management structure, the role of Liquidity Risk Management would form part of a bank's Market Risk function and would contribute in preparation of liquidity risk management reports to be submitted to Asset and Liability Management Committee (ALCO).	**A Bank:** Market risk is part of the Risk Management function. Inputs from market risk is embedded in the liquidity risk management reports and are presented at ALCO. We understand that the bank's existing structure meets the requirement.	SP10	Refer to SP2

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
LM-1.2.1 The Board must be responsible for determining the types and magnitude of liquidity risk that the bank can tolerate according to the Liquidity Risk Management Strategy, and ensuring that there is an appropriate organization structure for managing liquidity risk.	**A Bank:** XYZ Bahrain is a branch of a foreign bank, hence there are no board of directors in Bahrain. However, the senior management is responsible through ALCO. Treasury Risk along with Treasury Markets manages liquidity risk on a daily basis.	SP11	Refer to SP2
LM-1.2.2 The Board of Directors is ultimately responsible for the liquidity risk assumed by the bank and the manner in which the risk is managed. The Board must establish the bank's liquidity risk tolerance and ensure that it is clearly articulated and communicated to all levels of management.	**A Bank:** XYZ Bahrain is a branch of a foreign bank, hence there are no board of directors in Bahrain. However, the senior management is responsible for this through ALCO. Liquidity Risk tolerance is established at Group level and cascaded to countries to adhere to.	SP12	Refer to SP2
LM-1.2.6 The Board of Directors must delegate authority to the bank's ALCO to carry out some of its responsibilities for liquidity risk management. However, such delegation of authority does not absolve the Board and its members from their risk management responsibilities and the need to oversee the work of any such	**A Bank:** XYZ Bahrain is a branch of a foreign bank, hence there are no board of directors in Bahrain. However, the senior management is responsible to ensure the requirements. ALCO monitors this and Treasury Risk along with Treasury Markets manages this on a daily basis.	SP13	Refer to SP2

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
committee(s) exercising delegated authority.			
LM-1.2.7 For the ALCO, or any similar committee, to perform a liquidity risk governance function on behalf of the Board effectively, its membership should be extended to comprise personnel from the Treasury function, the Risk Management function, the Financial Control function and other principal business areas that affect the bank's liquidity risk profile. It should also be supported by competent risk managers with a dedicated responsibility for liquidity risk management.	**<u>A Bank:</u>** ALCO is at HO level plus we have regional ALCO comprising of XYZ Bahrain and overseas offices.	SP14	No comments
LM-1.2.10 The Board of Directors is also responsible for: **(a) Ensuring the competence of senior management and appropriate personnel in measuring, monitoring and controlling liquidity risk in terms of expertise, systems and resources, and in taking appropriate and prompt remedial actions**	**<u>A Bank:</u>** Point (c): Reviewing regular reports and stress testing results on the banks liquidity positions (done at HO level).	SP15	No comments

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
to address concerns when necessary; **(b) Reviewing and approving, on an annual basis at least, the liquidity risk strategy and other significant liquidity risk management policies and procedures (e.g. contingency funding planning and liquidity stress testing framework), and ensuring that senior management translates the Board's decisions into clear guidance and operating processes (e.g. in the form of controls) for effective implementation;** **(c) Reviewing regular reports and stress testing results on the bank's liquidity positions and becoming fully aware of the bank's performance and overall liquidity risk profile; and**			

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
(d) Understanding, supported by senior management of the bank, how other risks (e.g. credit, market, operational and reputation risks) interact with liquidity risk and affect the overall Liquidity Risk Management Strategy, ensuring that the interaction of these risks is considered and taken into account by the relevant Board-level committees and Risk Management function within the bank.			
LM-1.3.3 Senior management must appropriately incorporate liquidity costs, benefits and risks in the internal pricing, performance measurement and new product approval processes, thereby aligning the risk taking incentives of individual business lines with the liquidity risk tolerance established by the Board.	**<u>A Bank:</u>** Recommend that this is changed to: LM-1.3.3 Senior management must appropriately ***consider*** liquidity costs, benefits and risks in the internal pricing, …" While consideration of liquidity risk impact is a normal part of any product approval process, developing and calculating accurate relevant liquidity costs for all types of new products and services may not be feasible without sophisticated models, systems etc. **<u>A Bank:</u>** LM-1.3.3 of the existing Liquidity Risk Management Module prescribes limits for	SP16 SP17	Banks must use most appropriate means to achieve the result. Banks shall develop limits based on comprehensive Board approved risk appetite limits in these areas.

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
	various time buckets to be reported in the quarterly PIRI. However, there are no such limits prescribed in the consultative document. CBB may provide clarification whether the currently prescribed limits shall not be applicable going forward.		
LM-1.3.4 Senior management must ensure that the liquidity pricing framework involves the charging of a liquidity premium to activities that consume liquidity (e.g. granting new advances) and the assignment of a liquidity value to those that generate liquidity (e.g. obtaining new deposits), based on a predetermined mechanism for attributing liquidity costs, benefits and risks to these activities. The following considerations, at a minimum, must be factored into the framework: **(a) The framework must reflect the level of liquidity risk inherent in a business activity;** **(b) The framework must cover all significant business activities, including those involving the creation of contingent exposures which may not immediately have a direct balance sheet impact;** **(c) The framework must incorporate the**	**A Bank:** We believe that the requirements under 1.3.4 may not be feasible for small banks to implement and the same should be restricted to larger systemically important entities. We recommend that this should be made guidance rather than rule.	SP18	Refer to SP16

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
measurement and allocation process factors related to the anticipated holding periods of assets and liabilities, their market liquidity risk characteristics and any other relevant factors, including the benefits from having access to relatively stable sources of funding, such as some types of retail deposits; **(d) The framework must take account of both contractual maturity, as well as behavioural patterns in estimating the length of tenor of any relevant asset or liability item for the determination of the liquidity value or premium to be allocated;** **(e) The framework must provide an explicit and transparent process, at the line management level for quantifying and attributing liquidity costs, benefits and risks; and** **(f) The framework must include consideration on how liquidity would be affected under stressed conditions.**			
LM-1.3.7 Banks must conduct annual reviews of their liquidity risk management framework to ensure its integrity, accuracy and reasonableness. The reviews	**<u>A Bank:</u>** Periodic reviews are currently carried out by the independent Internal Audit function. The reviews are carried out based on the risk	SP19	Please refer to final rule in LM-1.3.7

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
must be conducted by independent parties, e.g. internal or third-party consultants, with the relevant skills and expertise, other than the bank's external auditors.	assessment. We are of the view that these reviews would suffice the requirement. Please confirm our understanding.		
	A Bank: Appointing a third-party consultant to conduct an annual assessment (presumably an AUP) will incur an on-going cost on the Bank and will add to the annual requirements that Bank needs to fulfill towards annual reporting, which in our view is an excessive requirement. We suggest the CBB to have this as a recommendation and not as a rule.	SP20	Refer to SP19
	A Bank: Conducting annual reviews of liquidity risk management framework from external parties puts undue cost pressure on the branch.	SP21	Refer to SP19
	A Bank: The Risk Management Framework (including liquidity risk) is currently part of the Internal Audit Department's Review Plan. Does this rule require any additional review other than the periodic internal audit of the Risk Management Framework.	SP22	See SP19.
		SP23	Refer to SP 19.

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
	A Bank: Please clarify the definition of internal independent parties. Does the CBB mean internal audit or other departments?		
LM-1.3.8 Such reviews must cover, but not limited to, the following areas: **(a) The adequacy of internal systems and procedures for identifying, measuring, monitoring and mitigating liquidity risk;** **(b) The appropriateness of various internal limits on liquidity metrics for controlling liquidity risk;** **(c) The suitability of the underlying scenarios and assumptions for conducting cash flow analysis;** **(d) The integrity and usefulness of management information reports on liquidity risk; and** **(e) The adherence to established liquidity risk strategy, policies and procedures.**	**A Bank:** Periodic reviews are currently carried out by the independent Internal Audit function. The reviews are carried out based on the risk assessment. We are of the view that these reviews would suffice the requirement. Please confirm our understanding.	SP24	Refer to SP19
LM-1.3.9 Any weaknesses or problems identified in the review process must be addressed and resolved by senior management and reported to the Board in a timely and effective manner.	**A Bank:** Periodic reviews are currently carried out by the independent Internal Audit function. The reviews are carried out based on the risk assessment.	SP25	Refer to SP19

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
	We are of the view that these reviews would suffice the requirement. Please confirm our understanding.		
Section LM-2.1 **Liquidity Metrics and Measurement Tools**	**<u>A Bank:</u>** Bank XYZ operates through subsidiaries in different markets and these entities operate on a self-funded basis for their domestic currency business. They comply with the local liquidity regulations as well as Group's liquidity risk appetite as it applies to them.	SP26	Noted.
LM-2.1.4 Banks must use metrics and tools that are appropriate for their business mix, complexity and risk profile. In addition to liquidity coverage ratio ('LCR') and net stable funding ratio ('NSFR'), the following liquidity indicators must be monitored: **(a) Maturity mismatch analysis, based on contractual maturities, as well as behavioural assumptions of cash inflows and outflows. Such metrics provide insight into the extent to which a bank engages in maturity transformation and identify potential funding needs that may need to be bridged;**	**<u>A Bank:</u>** The rule specifies computation of LCR in individual currency. We understand that this means individual significant currency. **<u>A Bank:</u>** Our understanding is that LCR and NSFR requirements do not apply to branches of an overseas bank. This should be specified in the regulation. **<u>A Bank:</u>** LM-2.1.4 (a) We do understand that behavioral assumptions shall depend on the nature and volume of business operations of each bank. However, it	SP27 SP28 SP29	Yes. Not applicable to branches. Behavioural analysis in the context of liquidity risk management is commonly practiced and the bank should consult experts for the development of the appropriate tool.

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
(b) Information on the level of concentration of funding from major counterparties (including retail and wholesale fund providers); **(c) Major funding instruments (e.g. by issuing various types of securities);** **(d) Information on the size, composition and characteristics of unencumbered assets included in a bank's liquidity cushion for assessing the bank's potential capacity to obtain liquidity, through sale or secured borrowing, at short notice from private markets or CBB in times of stress; and** **(e) LCR in individual currencies.**	would be in order for CBB to provide guidelines or examples on the type of assumptions to be considered for behavioral analysis. This will ensure a level playing field amongst banks.		
LM-2.1.5 In addition to the above, banks should adopt other metrics, as considered prudent or necessary to supplement their liquidity risk management, such as: (a) Medium-term funding ratio, stable or core deposit ratio, or any similar ratio that reflects the stability of a bank's funding; (b) Loan-to-deposit ratio, or any similar ratio that reflects the extent to which a major category of asset is funded by a major	<u>**A Bank:**</u> The Medium Term Funding Ratio is intended to assess the adequate availability of stable funds. We believe that this objective is better met through the proposed Net Stable Funding Ratio (NSFR) The Loan to Deposit ratio is a broad based static metric which does not contain sufficiently granular information by maturity, ignores funding sources other than deposits	SP30	This is not marked as a rule so it should be interpreted as a guideline to supplement LCR and NSFR with further indicators.

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
category of funding4; and (c) Metrics tracking intragroup lending and borrowing.	and is not sensitive to the relative liquidity characteristics of different categories of assets and liabilities. <u>XYZ recommends</u> that LM 2.1.5 be revised as follows: "In addition, banks may adopt other metrics depending on their individual liquidity risk profiles, as considered prudent or necessary to supplement their liquidity risk management, such as: (a) Medium-term funding ratio, stable or core deposit ratio, or any similar ratio that reflects the stability of a Licensee's funding; (b) Loan-to-deposit ratio, or any similar ratio that reflects the extent to which a major category of asset is funded by a major category of funding; and (c) Metrics tracking intragroup lending and borrowing (d) Other relevant liquidity measures as determined by the Licensee."		
LM-2.2.1 Banks must, where appropriate, set limits for the liquidity metrics they employ in monitoring and controlling their liquidity risk exposures. The limits	**<u>A Bank:</u>** The rule specifies to set limits for the liquidity metrics: Basel Committee on Banking Supervision (BCBS) guidelines on liquidity	SP31	Limits shall be aligned to the risk appetite and the overall impacts on liquidity including LCR and NSFR impacts.

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
set must be relevant to a bank's business activities and consistent with its liquidity risk tolerance.	risk monitoring tools does not specify application of such limits. Home regulator also has not specified such limits. XYZ Bank, Bahrain has liquidity limit framework in place as per internal policy. Clarity in the matter would be needed in case of any specific regulatory requirements. **A Bank:** CBB may clarify whether they would be prescribing any specific liquidity metrics and also any regulatory limits which shall need to be monitored and reported.	SP32	Banks must set their liquidity metrics.
LM-2.2.2 The limits must be used for managing day-to-day liquidity within and across business lines and entities. A typical example is the setting of maturity mismatch limits over different time horizons in order to ensure that a bank can continue to operate in a period of market stress.	**A Bank:** Banks must set limits for monitoring and controlling their liquidity risk exposures on a day to day basis (not feasible for our size of operations).	SP33	Refer to SP31
LM-2.2.4 Banks must consider setting stricter internal limits on intra-bank funding denominated in foreign currencies where the convertibility and transferability of such funding is not	**A Bank:** We would like to recommend that the CBB kindly provide a list for such currencies to ensure consistent implementation across banks.	SP34	Convertibility and transferability of a given currency varies from time to time, banks must conduct ongoing assessment to identify these currencies accordingly.

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
certain, particularly in stressed situations.			
Section LM-2.3 **Early Warning Indicators**	**A Bank:** This section specifies certain Early Warning Indicators (EWIs) with respect to Liquidity Risk Identification. RBI/BCBS does not highlight EWIs of this nature. XYZ Bank, Bahrain has EWIs in place as part of its Contingency Funding Plan (CFP). Clarity on EWIs would be needed in case of any specific regulatory requirements.	SP35	This has to be intended as a guideline suggesting the EWI to be considered when setting the indicators framework. Starting from that, every bank should consider the indicators that better represent the specific potential weaknesses the institution may face in a crisis situation (covering both market and idiosyncratic).
LM-2.3.1 To complement liquidity metrics, banks must adopt a set of indicators that are more readily available, either internally or from the market, to help in identifying at an early stage emerging risks in their liquidity risk positions or potential funding needs, so that management review and where necessary, mitigating measures can be undertaken promptly.	**A Bank:** We suggest that the CBB consider having the list of indicators at least partly as a recommendation rather than a rule, as the list of indicators is exhaustive and some of which may not be applicable to all Banks.	SP36	Refer to SP35
LM-2.3.2 Such early warning indicators can be qualitative or quantitative in nature and may include, at a minimum, but are not limited to, the following:	**A Bank:** The proposed rule requires banks to monitor, at a minimum, the listed 18 Early Warning Indicators (EWI). XYZ is of the opinion that	SP37	Refer to SP35

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
(a) Rapid asset growth, especially when funded with potentially volatile liabilities; (b) Growing concentrations on certain assets or liabilities or funding sources; (c) Increasing currency mismatches; (d) Increasing overall funding costs; (e) Worsening cash-flow or structural liquidity positions as evidenced by widening negative maturity mismatches, especially in the short-term time bands (e.g. up to 1 month); (f) A decrease in weighted average maturity of liabilities; (g) Repeated incidents of positions approaching or breaching internal or regulatory limits; (h) Negative trends or heightened risk, such as rising delinquencies or losses, associated with a particular business, product or activity; (i) Significant deterioration in earnings, asset quality, and overall financial condition; (j) Negative publicity; (k) A credit rating downgrade; (l) Stock price declines; (m) Widening spreads on credit default swaps or senior and subordinated debt;	banks should choose the most appropriate EWIs which are relevant for its asset/liability profile and the current and expected systemic factors. <u>XYZ recommends</u> that LM 2.3.2 be revised as follows: "Such early warning indicators can be qualitative or quantitative in nature and may include relevant indicators listed in (a) to (r) as determined by the Licensee."		
	<u>A Bank:</u> A clear definition of "rapid asset growth" is required, to allow us to monitor and report such appropriately.	SP38	There is no unique definition of rapid asset growth. It has to be compared with the funding to understand whether the growth is sustainable and financed appropriately by stable (medium-long term) funding.
	<u>A Bank:</u> We are currently covering the following in EWI through: (a) We monitor it through AD ratio and deposits quality analysis (b) We monitor it through top 10 depositor and assets concentration (c) We monitor it through the MCO, swapped funds & CWS	SP39	The bank will need to satisfy itself and CBB that this meets best practice embedded in Module LM.

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
(n) Counterparties beginning to request additional collateral for credit exposures or to resist entering into new transactions to provide unsecured or longer dated funding; (o) Reduction in available credit lines from correspondent banks; (p) Increasing trends of retail deposit withdrawals; (q) Increasing redemptions of certificates of deposit before maturity; and (r) Difficulty in accessing longer-term funding or placing short-term liabilities (e.g. commercial paper).	(d) We monitor it through MCO (e) Limits breaches are highlighted in BORF with detailed action plan (f) Annual analysis on credit lines given to XYZ from interbank counterparties and realign WB-E limit accordingly (g) various ratios like segment wise AD ratio, MCO etc. Please clarify if the above will suffice. **A Bank:** We suggest to strike out "at a minimum" from the wordings of the rule as the list is general and is not entirely applicable to XYZ Bank BSC.	 SP40	 Amended
Section LM-2.4 **Management Information Systems**	**A Bank:** MIS should be fit for purpose and complexity should be avoided where not necessary. Ref. may be made in this regard to LM-2.5.12 which states that: "Techniques employed by banks for designing cash-flow assumptions	SP41	Disagree, the defined regulations are the minimum requirements that Banks must meet.

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
	must **be** commensurate with the nature and complexity of their business activities."		
LM-2.4.1 A bank must have reliable management information systems ('MIS') that provide the Board, senior management and other appropriate personnel with timely and forward-looking information on its liquidity positions. The MIS must be appropriate for the purpose of supporting the bank's day-to-day liquidity risk management and continuous monitoring of compliance with established policies, procedures and limits. The MIS reports must be capable of supporting the Board and senior management in identifying emerging concerns on liquidity, as well as in managing liquidity stress events.	**<u>A Bank:</u>** MIS reporting to BOD is done at HO level.	SP42	Branches must demonstrate adequate oversight
LM-2.4.2 A bank's MIS must encompass information in respect of the bank's liquidity cushion, major sources of funding and all significant sources of liquidity risk, including contingent risks	**<u>A Bank:</u>** We suggest that the CBB consider the size of the Bank and it operations, as having a sophisticated ALM MIS system will incur a significant cost on the Bank and in many	SP43	These are basic principles of liquidity risk management.

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
and the related triggers and those arising from new activities. Moreover, a bank's MIS must have the ability to calculate risk measures to monitor liquidity positions: **(a) In all currencies, both individually and on an aggregate basis;** **(b) Under normal business conditions and during stress events, with the ability to deliver more granular and time-sensitive information for the latter;** **(c) For different time horizons (e.g. on an intraday basis, on a day-to-day basis for shorter time horizons (of, say, 5 to 7 days ahead), and over a series of more distant time periods thereafter); and** **(d) At appropriate intervals (in times of stress, the MIS reports must be capable of being produced at more frequent intervals such as daily, or even intraday if necessary).**	wholesale bank's the size of the Risk Management team and the size of the operations is much smaller that of a retail bank. We suggest that the CBB have some of these requirements as a recommendation and not a rule (especially stress testing automated system requirements).	SP44	Refer to SP43
	<u>A Bank:</u> LM-2.4.2 (b) While some MIS systems will have the capability to provide this information on a day to day basis for 'actual' or 'as is' situations, to require as a rule that the MIS should be able to calculate risk measures under stress events on a daily basis is a requirement that most basic MIS systems will most likely not meet. Only very sophisticated MIS systems will be able to generate such metrics daily and intraday- this will be outside the reach /budget of all but the biggest Banks in Bahrain. Adding such requirements will significantly increase the cost of monitoring for Banking entities resulting in Bahrain becoming an expensive jurisdiction for banks. The same analogy will apply for intraday	SP45	Intraday monitoring would be necessary

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
	liquidity reporting of metrics We recommend that this be made as guidance rather a rule. **A Bank:** LM-2.4.2 (c) Given the nature of business activity of XYZ, intra-day basis monitoring of liquidity is not warranted. Request to waive the requirement of intra-day limit monitoring for XYZ.		for banks with material cash flows on a daily and intraday basis.
Section LM-2.5 **Cash-flow Approach to Managing Liquidity Risk**	**A Bank:** As explained the Group operates through several subsidiaries which are self-funded for their domestic currency business. Bank XYZ BSC's Balance Sheet is predominantly denominated in US Dollars. The Bank monitors its forecasted cash flow daily. For other currencies, the respective Group entities, manage their liquidity in line with the Group's Liquidity risk appetite and liquidity risk management processes which also complies with their local regulatory requirements. The ILAAP considers liquidity support that may be required for supporting	SP46	This approach is applicable to all locally incorporated banks.

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
	rest of the Group as part of liquidity stress testing. In our opinion, this requirement should only apply to Bahrain Banks (or to a Bahrain DLG if this concept is accepted).		
LM-2.5.1 Banks must adopt a cash-flow approach to managing liquidity risk, under which they must have in place a robust framework for projecting comprehensively future cash flows arising from assets, liabilities and OBS items over an appropriate set of time horizons. The framework must be used for: **(a) monitoring on a daily basis their net funding gaps under normal business conditions; and** **(b) Conducting regular cash-flow analysis based on a range of stress scenarios.**	**A Bank:** Again not feasible to implement on day to day basis considering size of operations.	SP47	Bank specific issues for implementation of the requirements must be discussed with the CBB.
	A Bank: Given the nature of the business and volume of transaction, cash flow projection, monitoring of funding gap on a daily basis and regular scenario analysis may not be required. Banks will adopt the cash-flow approach to managing liquidity risk, however, request you to allow us to monitor the cash flow projections on a monthly basis and scenario analysis on a quarterly basis. The frequency can be increased in times of liquidity stress.	SP48	Refer to SP47
	A Bank: (a) Daily monitoring of the net funding gaps is not practical or meaningful for investment banks where volume of daily transactions is small. This should be flexible and based on the nature	SP49	Refer to SP47

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
	of activities and size of bank.		
LM-2.5.4 Cash-flow projections must address a variety of factors over different time horizons, including: **(a) Vulnerabilities to changes in liquidity needs and funding capacity on an intraday basis;** **(b) Day-to-day liquidity needs in the 5 to 7 days ahead, and funding capacity over short and medium-term horizons (14 day, 1, 2, 3, 6 and 9 months) of up to 1 year;** **(c) Longer-term liquidity needs over 1, 2, 3, 5 and beyond 5 years; and** **(d) Vulnerabilities to events, activities and strategies that can put a significant strain on a bank's capacity for generating liquidity.**	**<u>A Bank:</u>** LM-2.5.4 (b) & (c) We believe that Banks should be given the discretion of deciding the timing 'buckets'/windows for cash flow and liquidity needs projections and reporting. We recommend that this should be made as a guidance rather than a rule and should be based on their size, scale of the bank's activities. **<u>A Bank:</u>** (a) Given the nature of business activity of the Bank, intra-day basis monitoring is not warranted. Request to waive the requirement of intra-day limit monitoring for the Bank.	SP50 SP51	The rules set out the minimum buckets. Banks may use other maturities. Refer to SP45
LM-2.5.5 Cash-flow projections must cover positions in Bahraini Dinar (BHD), where appropriate and in all significant currencies in aggregate. Separate cash-flow projections must also be performed for individual foreign currencies in which	**<u>A Bank:</u>** We believe that such operational aspects should be provided as guidance rather than rules which the bank can implement based on the size and complexity of its operations.	SP52	No changes required the regulation is mandatory for all banks.

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
a bank has significant positions. Please refer to LM-3: Foreign currency liquidity management for the identification of significant positions in other currencies.	**A Bank:** The reporting currency of the Bank is USD and it does not have any significant liability in BHD. In addition, BHD is pegged with USD. Request to waive this mandatory requirement of reporting in Bahraini Dinar (BHD). Also, we recommend not to have a separate reporting in the currencies which are pegged with US dollar. All currencies pegged to US Dollar should be allowed to club together with USD (The Bank's reporting currency).	SP53	Rule has been amended to include USD.
LM 2.5.9 Banks must set internal limits to control the size of their cumulative net mismatch positions (i.e. where cumulative cash inflows are exceeded by cumulative cash outflows), at least for the shorter-term time bands (e.g. next day, 5 to 7 days ahead, 14 days, 1, 2, 3, 6 and 9 months). Such limits must be in line with the established liquidity risk tolerance, and must take into account the potential impact of adverse market conditions on the bank's funding capacity. Maturity mismatch limits must also be imposed for individual foreign currencies in which a bank has significant positions.	**A Bank:** Limits on the cumulative net mismatch can be set up to 6 months maximum. There is no added value for setting limits up to 9 months. **A Bank:** We understand that the time bands mentioned in the regulation are suggestive and if for example the bank has internal limits in place for either of these time bands, it will be in compliance. Please clarify.	SP54 SP55	The time bands are illustrative, however, they must be aligned to the business model or other relevant risk management requirements. Yes.

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
LM-2.5.12 Techniques employed by banks for designing cash-flow assumptions must commensurate with the nature and complexity of their business activities.	**A Bank:** It would be in order for CBB to provide minimum guidelines on the historical data that would need to be analysed, this will not only provide a level playing field but also ensure that periods of economic booms and recession are covered in the analysis.	SP56	LM-2.5.13 provides Guidance.
	A Bank: (Note that the word "be" is missing from LM-2.5.12).	SP57	Rulebook amended
LM-2.5.14 Banks must document in their Liquidity Risk Management Policy statement, the underlying assumptions used for estimating cash flow projections and the rationale behind them. The assumptions and their justifications must be approved, and subject to regular review, by the ALCO to take account of available statistical evidence and changing business environment.	**A Bank:** The relevant assumptions are documented in liquidity risk procedural documents, which we consider as sufficient for the purpose of this requirement, however, there is no single policy document which covers these assumptions.	SP58	Noted.
	A Bank: For investment banking business, from time to time there will be non-standardised balance sheet items which may need specific assumptions. So, documenting all assumptions in Liquidity Risk Policy may be challenging. It is recommended that the Liquidity Risk Management Policy should set a generic guideline and approval process for estimating	SP59	It is important to document the assumptions. Documentation must include the key policies, guidelines, procedures and the basis for assumptions.

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
	cash flow projections. The ALCO on a regular basis should review these assumptions and prescribe if any modification if required.		
Section LM-3.1 **Foreign Currency Liquidity Management**	**A Bank:** Not relevant. The Bank balance sheet is denominated in US Dollar and all other currency positions are fully hedged.	SP60	Noted.
	A Bank: As explained the Group operates through several subsidiaries which are self-funded for their domestic currency business. Bank XYZ BSC's Balance Sheet is predominantly denominated in US Dollars. The Bank monitors its forecasted cashflow daily. For other currencies, the respective Group entities, manage their liquidity in line with the Group's Liquidity risk appetite and liquidity risk management processes which also complies with their local regulatory requirements. The ILAAP considers liquidity support that may be required for supporting rest of the Group as part of liquidity stress testing. In our opinion, this requirement should only apply to Bahrain Banks (or to a Bahrain DLG	SP61	The revised rule provides references to USD. They apply to all locally incorporated banks regardless of their business model type or structure.

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
	if this concept is accepted).		
LM-3.1.1 At a minimum, a currency must be regarded as 'significant' if the bank's liabilities, denominated in that currency, account for 5 percent or more of its total liabilities (including shareholders' funds).	**A Bank:** We are of the view that the CBB should provide adequate timeline (up to 3 months) to implement this requirement to ensure compliance. **A Bank:** We believe that the threshold of 5% is too conservative to consider a currency as significant and would urge CBB to increase the same to above 10%.	SP62 SP63	Refer to GR-2(a) The requirement is in-line with Basel principles.
LM-3.1.2 Banks must formulate, and review regularly, strategies and policies for the management of liquidity risks with respect to BHD, if relevant, and each significant foreign currency respectively, taking into account the potential market conditions and potential constraints in times of stress. If a bank has assets or liabilities denominated in a significant foreign currency, and that currency is not freely convertible, more prudent management of liquidity risk must be adopted, such as more conservative limits	**A Bank:** Our Bank's base currency is USD and therefore we suggest that the CBB should not restrict the Foreign Currency Liquidity Management framework against BHD, but also consider pegged currencies as base currencies.	SP64	Refer to SP61

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
on funding gaps in respect of that currency vis-à-vis other currencies, as liquidity may not be easily transferred into or out of that currency, particularly in times of stress.			
LM-3.1.3 Banks must assess their foreign currency liquidity funding gaps under both normal and stressed conditions, and control currency mismatches within acceptable levels.	**A Bank:** The bank monitors its currency exposures under major currency gap and minor currency gap limits framework. XYZ Bank, Bahrain also submits its outstanding asset-liability structure, including forex positions, in BHD currency as part of monthly statistical return to CBB. Clarity would be needed in case of any specific regulatory requirements for individual currencies.	SP65	The rule is aimed at prudent risk management practice. Banks must operate within its approved risk appetite and limits which shall take into consideration relevant risk management considerations.
	A Bank: Define acceptable levels. A soft guidance might be required here. **A Bank:** We recommend that this be made mandatory only for 'significant' currencies and also propose that GCC currencies and USD be	SP66 SP67	SP66: a specific definition of "acceptable" levels can't be provided as this depend from the balance sheet structure of the bank and from the volume of foreign currency activities. As a guideline, same logic used to manage funding gap for local currency should be considered and applied.

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
	exempted from the definition of foreign currencies as these currencies are integral to the operation of many banks and setting limits on them may hinder their operations.		SP67: all currencies must be considered.
LM-3.1.5 Such limits must cover the bank's maturity mismatch position in BHD, if relevant, and each significant foreign currency over various specific time-bands (e.g. next day, 5 to 7 days ahead, 14 days, 1, 2, 3, 6, 9 months and 1, 2, 3, 5 and beyond 5 years).	**A Bank:** The proposed rules require the monitoring and management of liquidity for each significant currency which accounts for 5% or more of the total liabilities. As some currencies have very similar liquidity risk profiles in terms of ease of convertibility eg: GCC currencies, the liquidity management of these currencies on a collective basis is more efficient than their management on an individual basis. The proposed rules have also prescribed the monitoring of foreign currency maturity mismatches over various time-bands ranging from next day to 5 years. While the bank notes that the suggested time-bands are only illustrative, the liquidity risk management at currency level is critical in the short-term and may not be appropriate for terms beyond 1 year. The Bank recommends that the LRM Module be revised as follows: "The foreign currency maturity mismatch	SP68	Refer to SP65-67.

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
	limits must cover the Licensee's maturity mismatch in each significant foreign currency or combination of foreign currencies with similar liquidity risk profiles in terms of ease of convertibility such as the GCC currencies and G7 currencies. The mismatch must be measured over various specific time-bands (eg. next day, 5-7 days ahead, 14 days, 1, 2, 3, 6 months)."	SP69	Refer to SP65
	A Bank: Limits on the cumulative net mismatch in foreign currencies can be set up to 6 months maximum. There is no added value for setting limits beyond 5 years.	SP70	This would depend on the composition of assets and liabilities.
	A Bank: Need clarity on the time bands. The bank for liquidity management, sets internal limits for tenors up to 90 days.	SP71	Refer to SP61
	A Bank: Our Bank's base currency is USD and therefore we suggest that the CBB should not restrict the Foreign Currency Liquidity Management framework against BHD, but also consider pegged currencies as base currencies		

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
LM-4.2.1 Banks must establish an effective funding strategy to achieve sufficient diversification, both of their funding sources and in the composition of their liquid assets. A bank's funding strategy must consider correlations between sources of funds and market conditions.	**<u>A Bank:</u>** The clause is not self-explanatory. It needs to be elaborated.	SP72	SP72: We believe the clause clearly states that diversification is to be obtained by looking at both funding side (e.g. retail vs wholesale or term deposits vs secured financing transaction) and liquidity side (in terms of asset market illiquidity and erosion in the value of liquid assets) when considering funding strategy, in order to mitigate potential risks arising from sources of funds and market conditions
LM-4.2.2 Banks must put in place concentration limits on liquid assets and funding sources, as appropriate, with reference to such characteristics as the type of asset, product, market or instrument; nature of issuer, counterparty or fund provider; maturity; currency; geographical location and economic sector.	**<u>A Bank:</u>** XYZ Bank Bahrain is a branch of a foreign bank and major funding might originate from group entities where concentration would be large and setting a limit on that should not be made mandatory. **<u>A Bank:</u>** We are of the view that the CBB should provide adequate timeline (up to 3 months) to implement this requirement to ensure compliance.	SP73 SP74	Noted. Refer to final rules

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
LM-4.2.4 Banks must assess their exposure to significant funding providers (or depositors) on an ongoing basis. For this purpose, banks must have in place, as part of their MIS, regular reports on the funding received from significant funding providers to facilitate monitoring. Such reports must consolidate all funding that a bank obtains from each significant funding provider (including a group of related funding providers which, when aggregated, amount to a significant funding provider). The historical amount of funds provided by these funding providers, e.g. in terms of the maximum, minimum and average balances over the previous 12 months, must also be monitored. Trigger ratios must be established to identify any funding concentration for management review. In the case of a retail bank, a funding concentration may exist if a significant percentage of its total deposit base is from a limited number of the top-ranking	**A Bank:** It is recommended that the CBB provide a suggested reference rate (soft target) that is to be maintained in the case of a significant percentage of total deposits being from a limited number of top-ranking depositors, instead of leaving it open to the market's interpretation.	SP75	Banks must develop their thresholds on risks associated with such concentrations.

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
depositors or a single depositor (or group of related depositors). Banks must consider appropriate actions to diversify the deposit base.			
LM-4.2.5 Banks must avoid any potential concentration in their reliance on particular funding markets and sources. Banks must take into account the following major factors in assessing the degree of funding concentration: **(a) The maturity profile and credit-sensitivity of the liabilities;** **(b) The mix of secured funding and unsecured funding;** **(c) The extent of reliance on a single fund provider or a group of related fund providers; particular markets, instruments or products (e.g. interbank borrowing, retail versus wholesale deposits, and repo agreements and swaps); and intragroup funding;** **(d) Geographical location, industry or economic sector of fund providers; and** **(e) The currency of funding sources.**	**A Bank:** With regards to deposits that are not from the bank's home country, a recommended percentage of total deposits limit should be suggested by the CBB to each of the below: • To a single entity, • To a country, • To a region. **A Bank:** We are of the view that the CBB should provide adequate timeline (up to 3 months) to implement this requirement to ensure compliance.	SP76 SP77	Refer to SP75 Refer to final rules.
LM-4.3.2 The ability to obtain funds in the interbank market is an important source of	**A Bank:** Given the nature of business, on standalone	SP78	Limits must be set up based on the business model type.

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
liquidity for banks. Banks should be in a position to estimate their "normal" borrowing capacity based on past experience and aim to limit their wholesale funding needs for both local and foreign currencies.	level the Bank's main funding source is wholesale deposits and bank borrowings. Putting limit on wholesale funding may not be a prudent decision for the Bank.		
LM-4.3.3 Banks must identify and build strong relationships with funding providers. In particular, banks must maintain a solid and close relationship with its 25 largest depositors on an ongoing basis, to ensure that the bank has the ability to obtain funds in case of need (e.g. during events of stress), to prevent and/or limit a bank run-off and to safeguard its major sources of funding. Nevertheless, banks must take a prudent view of how such relationships may be strained in times of stress. In the formulation of stress scenarios and contingency funding plans, banks must take into account possible situations where funding sources, including its 10 largest depositors, may dry up and markets may close, and where market perceptions of a bank's financial position may change.	**<u>A Bank:</u>** Licensees have differing funding bases and setting an arbitrary figure of 25 relationships to maintain may not be particularly useful for all. The number 25 should be used as an example and the CBB should allow Banks to identify themselves whom they believe their key funding providers are whether it is a figure lower than 25 or higher. Therefore, we recommend that the CBB does not impose a minimum or maximum number of relationships for funding as rule but can maintain this as a recommendation.	SP79	Disagree.

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
LM-5.1.1 Banks must maintain an adequate cushion of unencumbered liquid assets that can be readily sold or used as collateral in private markets by a bank to obtain funds to meet the liquidity needs at all times, even in periods of severe idiosyncratic and market stress.	**A Bank:** There are no USD denominated T-Bills issued by CBB. We maintain a USD book.	SP80	Noted
LM-5.1.4 In addition, the liquidity cushion must at least be sufficient to enable a bank to reach its regulatory LCR.	**A Bank:** We understand that LCR is not applicable to the branches of an overseas bank. Please confirm this understanding.	SP81	Yes, LCR is presently not applicable.
LM-5.2.1 The liquidity cushion must be largely made up of High Quality Liquid Assets (the most liquid, unencumbered and readily marketable assets such as cash, other high quality government debt securities, etc.) or similar instruments, that can be easily or immediately monetised with little or no loss or discount at all times, irrespective of the bank's own condition.	**A Bank:** Clear definition of what qualifies as High Quality Government Debt securities is requested.	SP82	SP82: A definition of what can be considered as HQLA (including Government debt securities) is provided in LM-11. LCR is presently not applicable.
LM-6.2.3 A bank that has entered into 'back-to-back' transactions5 with its group entities must exclude such transactions from cash flow or liquidity calculations, as such transactions usually	**A Bank:** Clarification is required on the types of back to back transactions.	SP83	SP83: As specified in the note 5 of the same paragraph, these transactions refer to interoffice or intragroup transactions which typically involve two legs, one borrowing long (say, with maturity of

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
involve no actual movement of funds and, as such, cannot effectively improve the bank's liquidity.			more than 1 month) and the other lending short (say, with maturity of 1 month or less). Both legs are for the same or similar amount and at the same or similar rate of interest, and are, in most cases, rolled forward continuously.
LM-6.3.1 Banks must establish internal limits on intragroup liquidity risk to mitigate the risk of contagion from other group entities when those entities are under liquidity stress. Moreover, banks must consider setting stricter internal limits on intragroup funding denominated in foreign currencies where the convertibility and transferability of such funding is not certain, particularly in stressed situations.	**<u>A Bank:</u>** We recommend that this be considered as a guidance rather than a rule based on the size and scale of group entities.	SP84	This is a standard requirement and important to achieve the intended supervisory objective
LM-7.2.1 Banks must have effective policies, procedures, systems and controls for managing their intraday liquidity risks in all of the financial markets and currencies in which they have significant payment and settlement activities. Such systems and controls must, among other things, ensure a bank's capacity to:	**<u>A Bank:</u>** The rule specifies to formulate intraday liquidity management policies, procedures, systems and controls for managing intraday liquidity risks in all of the financial markets and currencies in which banks have significant payment and settlement activities. BCBS and Home regulator, in their respective guidelines,	SP85	This rule has relevance to banks with significant payment and settlement activities.

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
(a) Measure expected daily gross cash inflows and outflows, anticipate the intraday timing of these cash flows where possible, and, as such, forecast the range of potential net funding shortfalls at different time points during the day; **(b) Monitor intraday liquidity positions against expected activities and available resources (including liquidity balances, remaining intraday credit capacity, and available collateral) and prioritise payments, if necessary; and** **(c) Manage intraday liquidity positions so that there is always sufficient intraday funding to meet the bank's intraday liquidity needs.** **(d) Manage and mobilise collateral as necessary to obtain intraday funds. A bank must have sufficient collateral available to acquire the level of intraday liquidity needed to meet its intraday objectives.** **(e) Manage the timing of its liquidity outflows in line with its intraday objectives. A bank must have the ability to manage the payment outflows of key customers and, if customers are provided**	have specified that banks should maintain intraday liquidity management framework in case banks are part of large value payment and settlement services (LVPS). Since XTZ Bank, Bahrain is not part of any LVPS in the geography, we understand that this is not applicable to us. **A Bank:** We are of the view that the CBB should provide adequate timeline (up to 3 months) to implement this requirement to ensure compliance. **A Bank:** While we appreciate the need to have this in place, small banks would find it difficult to have systems to monitor intra-day liquidity risks, which is generally monitored by Treasury units manually. We recommend that this be considered as a guidance rather than a rule based on the size and scale of group entities. Small banks would find such rules very taxing to adhere in the absence of a full scale liquidity risk management system or a Treasury front office	SP86 SP87 ~~SP88~~ ~~SP89~~	Banks to discuss implementation plans and any constraints with CBB. Refer to final rules. The reference numbers SP 88 and SP89 are redundant.

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
with intraday credit, that credit procedures must be capable of supporting timely decisions. **(f) Manage unexpected disruptions to its intraday liquidity flows. A bank's stress testing and contingency funding plans must reflect intraday considerations. A bank also must understand the level and timing of liquidity needs that may arise as a result of the failure-to settle procedures of payment and settlement systems in which it is a direct participant. Robust operational risk management and business continuity arrangements are also critical to the effectiveness of a bank's intraday liquidity management.**	system.		
Section LM-8.3 **Operational Issues**	**A Bank:** It is recommended to have a clause that requires banks to have in place all documentation/agreements with their counterparties in relation to collateralized borrowing.	SP90	Rulebook amended to add the requirement
LM-8.1.2 Collateral management must aim at optimising the allocation of collateral available for different operational needs, across products,	**A Bank:** The clause is not self-explanatory. It needs to be elaborated.	SP91	This is elaborated in section LM-8.2 It is self-explanatory.

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
business units, locations and currencies. It must be based on a prioritisation of needs and an awareness of the opportunity cost of its use, in both normal and stressed times.			
LM-8.2.1 Banks must have the ability to calculate all of their collateral positions, including assets currently deployed for use as collateral relative to amount of collateral required, and unencumbered assets available to be used as collateral.	**A Bank:** The clause is not self-explanatory. It needs to be elaborated.	SP92	SP92: Banks should be able to monitor its collateral positions, identifying what are the assets that can be collateralized and how much of those are encumbered. The amount of assets that can be used as collateral should also compared to operations that require collateralization to assess whether the assets need to be adjusted accordingly
LM-8.2.2 Bank's level of available collateral must be monitored by legal entity, jurisdiction and currency exposure. Banks must be able to track precisely the legal entity and the physical location (i.e. the custodian or securities settlement system) at which each of the assets is held, and monitor how such assets may be mobilised in a timely manner in case of need.	**A Bank:** The clause is not self-explanatory. It needs to be elaborated.	SP93	SP93: Banks should be able to identify whether assets that can be used as collateral may have operational impediments to their transfer (e.g. particular rules in the jurisdiction where the asset is located which might prevent free transfer of the asset to another country)
LM-8.3.2 Banks must test on a regular basis, and at least annually, the ability to	**A Bank:** We recommend that this be made as a	SP94	The requirement is only applicable where relevant/appropriate, or where

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
use its source of collateral in repo operations, to ensure its capability of using the securities to obtain the required liquidity, if needed, and assess the market appetite for a particular security, including the related haircut applied to put the operation in place. Banks must also ensure that there are no operational issues that could have an impact on the timing and the feasibility of the operation (e.g. limits to the transferability of the security, in case this is held in a local and foreign branch portfolio).	guidance and not mandatory as not all banks would be interested in tapping the repo markets to source liquidity.		such arrangements are in place.
LM-9.1.1 In addition to conducting cash-flow projections to monitor its liquidity positions under normal business conditions, a bank must regularly perform stress tests based on sufficiently severe but plausible scenarios to identify potential sources of liquidity strain under stressed conditions.	**A Bank:** Stress testing is carried out at HO level and is not feasible considering our book size.	SP95	SP95: In the case of branches, it is expected that the stress tests cover overseas branches and the CBB may need evidence of such HO level exercise.
LM-9.1.3 Stress tests must enable a bank to analyse the impact of stress scenarios on its consolidated group-wide liquidity position as well as on the liquidity position of individual entities and business lines in	**A Bank:** As the Bank does not have a direct access to the liquidity of XYZ, it is recommended that the Bank exclude XYZ from its stress test framework.	SP96	SP96: All subsidiaries of banks are covered by this rule, except non financial subsidiaries.

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
order to understand where risks could arise.	As this liquidity risk management framework is for banks, all other non-bank subsidiaries should be excluded from this requirement. However, any funding support that the Bank may be required to provide to these subsidiaries from time to time, will be considered in the stress test scenario building. Request to exclude the below subsidiaries from consolidated stress test framework. 1. XYZ Bank 2. Other non – banking/ non-finance subsidiaries **<u>A Bank:</u>** Our stress testing approach under ILAAP is carried out at an entity level and on a consolidated basis. We note the CP proposes a potential requirement to also perform stress tests by business line. However, the business model of the Bank is such that funding is managed centrally for all business lines within an entity basis. We would propose this section is clarified to allow an **appropriate and proportionate approach** to a bank's business model.	SP97	Rules amended to: "For the purposes of consolidated liquidity positions, the licensees may use a proportionate or component approach."

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
LM-9.1.4 Stress tests must be performed for all significant currencies in aggregate and, separately, for positions in BHD, if relevant, and individual foreign currencies in which banks have significant positions.	**A Bank:** Our Bank's base currency is USD and therefore we suggest that the CBB should not restrict the Foreign Currency Liquidity Management framework against BHD, but also consider other base currencies.	SP98	Refer to SP61
LM-9.2.1 It is important for banks to construct sufficiently severe, but plausible stress scenarios and examine the resultant cash flow needs. While banks should aim to cover different stress events and levels of adversity, they must, at a minimum, include the following types of scenarios in their stress testing exercise: **(a) An institution-specific stress scenario;** **(b) A general market stress scenario; and** **(c) A combination of both, including possible interaction with other risks.**	**A Bank:** We are of the view that the CBB should provide adequate timeline (up to 6 months) to implement this requirement to ensure compliance.	SP99	Refer to GR-2(a)
LM-9.2.9 Banks must incorporate a stress scenario into their stress test framework that has the key characteristics of both an institution-specific stress scenario and a general market stress scenario combined ('combined stress scenario'), with appropriate modulations of the underlying assumptions, as necessary, to reflect a set	**A Bank:** We are of the view that the CBB should provide adequate timeline (up to 6 months) to implement this requirement to ensure compliance.	SP100	Refer to GR-2(a)

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
of adverse circumstances that could plausibly happen.			
LM-9.2.10 The following are some relevant factors that could be considered in formulating a bank's 'combined stress scenario': (a) As a greater number of financial institutions in the market will be affected under a combined stress scenario, this may change the way in which some institution-specific stress elements are to be structured. For example, instead of a quick but severe bank run, there may be a less acute, but more persistent and protracted run-off of customer deposits; and (b) Even lower realizable values of assets may result as the bank concerned seeks to sell or repo large quantities of assets when the relevant asset markets become less liquid and market participants are generally in need of liquidity.	**A Bank:** We are of the view that the CBB should provide adequate timeline (up to 6 months) to implement this requirement to ensure compliance.	SP101	Refer to GR-2(a)
Section LM-9.3 **Utilization of Stress Test Results**	**A Bank:** The mitigating actions are usually included in the CFP and are taken in case of actual or potential stress conditions. The guidelines should clarify the cases where the bank should	SP102	The rule is not prescriptive with regards to what mitigating actions are relevant and how they may be addressed or for that matter where they must be documented.

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
	undertake mitigating actions based on stress testing results only.		
LM-10.3.1 The CFP must be subject to regular testing to ensure its effectiveness and operational feasibility, particularly in respect of the availability of the contingency sources of funding listed in it.	**A Bank:** This is complex and may not be effective.	SP103	These are new concepts for many banks and the regulatory expectations are onerous. For some banks, it is understandably onerous in terms of initial implementation of such policies, but nonetheless exposes the vulnerabilities if any. For large banks that must have recovery and resolution plans under the DSIB framework, this expectation however is routine.
LM-11.1.1 The content of this section is applicable to all locally incorporated conventional banks licensed by the Central Bank of Bahrain.	**A Bank:** Since XYZ Bank, Bahrain is a branch of a foreign bank and not a locally incorporated conventional bank, LCR requirement seems not applicable to us. Further clarity is needed in the matter.	SP104	Not applicable
LM-11.1.4 Banks must maintain, an LCR of not less than 100 percent at all times.	**A Bank:** The implementation of minimum 100% LCR should be gradual consistent with Basel Committee practice. **A Bank:** We would appreciate if CBB can clarify if	SP105 SP106	Refer to GR-2(a) Daily computation is mandatory

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
	daily computation of LCR will be mandatory under this point. We believe that bank's with healthy liquidity position (eg: those having LCR above 200%) would be reasonably confident that their LCR will not fall below 100% at any time, without having to calculate the same on a daily basis. Therefore, we recommend that bank's with LCR above a threshold (say 200%) be exempted from daily LCR calculation.		
LM-11.1.5 Banks must calculate the LCR for the following: **(a) LCR for the bank on a standalone basis; and** **(b) LCR for the bank on a consolidated basis.**	**A Bank:** Appreciate kindly clarifying the meaning of "Standalone". Is it the same as Solo as defined by the capital adequacy module of the rulebook?	SP107	SP107: Yes, this refers to "Solo" as defined by the capital adequacy module of the rulebook
	A Bank: In case the Bank has independent subsidiary which manages its own liquidity with its own Board of directors, including it in the calculation will not be useful. Although LM-11.1.8 specifies to exclude any surplus liquidity which cannot be repatriated, it is suggested to exclude independent subsidiaries from the calculation of LCR.	SP108	The rules are consistent with Basel Committee.
	A Bank:	SP109	This cannot be a reason to change the rule, but a matter that the bank should consider in light of its impact.

Specific Comments:

Reference to the draft Directive:	Comments	REF	CBB Response
	As the Bank does not have a direct access to the liquidity of XYZ, it is recommended that the Bank exclude XYZ from its stress test framework. As this liquidity risk management framework is for banks, all other non-bank subsidiaries should be excluded from this requirement. However, any funding support that the Bank may be required to provide to these subsidiaries from time to time, will be considered in the stress test scenario building. Request to exclude the below subsidiaries from consolidated stress test framework. 1. XYZ Bank 2. Other non – banking/ non-finance subsidiaries		
LM-11.1.8 Liquidity transfer restrictions: In cases of restrictions or reasonable doubt about the capability of banks with foreign branches and subsidiaries to transfer surplus liquidity from these branches and subsidiaries to the parent entity, the banks must exclude this surplus liquidity from the calculation of the LCR on a consolidated basis.	**A Bank:** **Treatment of trapped liquidity for consolidated LCR computation:** Paragraph LM-11.1.8, which addresses the calculation of the LCR, specifies that "In cases of restrictions or reasonable doubt about the capability of banks with foreign branches and subsidiaries to transfer surplus liquidity from these branches and subsidiaries to the parent entity, the banks must exclude this surplus liquidity from the calculation of the LCR on a	SP110	Refer to GR 3

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
	consolidated basis." While we agree in principle with this requirement, we would recommend that the CBB provides an example on how the surplus liquidity of subsidiaries should be removed from the consolidated LCR calculation.		
LM-11.1.9 LCR in significant currencies: A currency is considered significant if the aggregate liabilities (both on and off-balance sheet) in that currency amount to 5 percent or more of the bank's aggregate liabilities (both on and off-balance sheet) in all currencies. Banks must prepare the LCR for all significant currencies for the bank and its branches/subsidiaries, inside and outside Bahrain.	**A Bank:** While the requirement for computing LCR by significant currency is noted, we wish to highlight that it would be more appropriate from a prudential perspective to hold HQLA in currencies that are easily convertible and transferable even under stressful situations. It should also be noted that maintaining HQLA in each significant currency would be inefficient and costly and is further constrained by the limited supply of eligible securities as raised in our earlier comments. The Bank recommends that LM 11.1.9 be revised as follows: "Banks must prepare the LCR for all significant currencies other than the GCC and G-7 currencies for the bank and its branches, inside and outside Bahrain."	SP111	The 100% LCR requirement is on aggregate basis; however, banks shall monitor ratios for other currencies.

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
	A Bank: How frequently should banks assess the significance of currencies?	SP112	Please see the 5% threshold.
	A Bank: As requested above, we propose to exclude USD and GCC currencies from the definition of foreign currencies. Also, we would appreciate if CBB could clarify that LCR requirement of 100% is only on aggregate basis (for all currencies) and not for individual currencies, as meeting 100% LCR threshold in each currency on each day may be operationally difficult. Finally, the requirement also requires calculation of LCR for subsidiaries, which we do not think is practical and request CBB clarification on the same.	SP113	The 100% LCR requirement is on aggregate basis.
	A Bank: For major overseas subsidiaries which manages their own liquidity with its own Board of directors, although the local currency may be greater than 5% of the Bank's total liabilities but the liquidity may not be repatriated without central bank approval and is managed locally by the subsidiary. Hence in	SP114	should be considered under the consolidated reporting

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
	these cases the currency should be excluded from reporting. **A Bank:** We request the CBB to treat pegged currencies (e.g. BHD and USD) as single currency for the purpose of calculating LCR in significant currencies.	SP115	SP115: The 100% LCR requirement is on aggregate basis.
	A Bank: Therefore, LCR by significant currency for monitoring should only apply to Bahrain Banks (or a Bahrain DLG, assuming the DLG regime is included in the LM) that are closely regulated by the CBB and should be provided as of month end for significant currencies (currently noting that for Bank XYZ only US Dollars is significant). We would however note that instituting daily monitoring of LCR by significant currency for a Bahrain DLG will require further enhancements to our IT systems, and this underpins the point about allowing sufficient implementation time for systems enhancements. For the Consolidated Group, Bank XYZ	SP116	SP116: LCR must be computed and monitored on a daily basis. Specific implementation issues relating to DLG application must be discussed with CBB.

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
	proposes that LCR be reported at an aggregated currency level as at month end (net of trapped liquidity) together with other monthly regulatory reports. In line with Basel guidelines, we presume that the LCR by currency is for monitoring purposes only.		
LM-11.1.10 **Banks must meet the LCR requirement on an ongoing basis.**	**A Bank:** What is definition of "ongoing"? **A Bank:** It is suggested for the reporting to be made quarterly basis as the Bank should internally monitor this ratio and update ALCO and also report to CBB on quarterly basis.	SP117 SP118	Refer to LM-11.1.4 Refer to LM-11.1.9
LM-11.1.11 **Banks are required to submit their LCR to the CBB on a monthly basis, on the fourth working day of the month.**	**A Bank:** The deadline is extremely tight and challenging. The LM requirements are very detailed, demanding and would require inputs from multiple systems and group entities which makes the 4th working day deadline almost impossible. We would like to kindly suggest the following: 1- Amending the reporting frequency from monthly to quarterly to be consistent with the	SP119	SP119: Refer to GR-1

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
	existing Capital Adequacy and Prudential reporting norms; 2- Amending the deadline to the 20th calendar day following each quarter (i.e. in line with prudential reporting and the practice followed in other GCC countries - for example KSA within 30 days).		
LM-11.1.12 Banks must immediately notify the CBB if their LCR has fallen, or is expected to fall, below 100 percent and provide the CBB with the reasons for non-compliance with the required average ratios. Licensees must report, each day, where the concerned LCR at the close of business is below 100 percent.	**A Bank:** **Daily calculation of Consolidated LCR:** Paragraph LM-11.1.12 infers that the LCR calculation at the consolidated level needs to be calculated daily. This would require intra-group consolidation adjustments and adjustments related to trapped liquidity to be prepared on a daily basis. While the consolidated LCR ratio may be considered a useful tool for parent entities that provide liquidity to their subsidiaries, the usefulness of the consolidated LCR calculation diminishes if the liquidity of each entity within a Group is managed independently and subsidiaries are not reliant on the parent entity for liquidity. We would accordingly recommend: (i) the CBB provides an exemption from the daily reporting requirement for the consolidated LCR for banks that manage their entity specific liquidity requirements independently	SP120	This is when LCR falls below 100%. Banks must notify the CBB and report even if there is a lag in the case of consolidated LCR. Solo must be reported daily.

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
	from the parent entity, (ii) the consolidated LCR ratios of the exempt banks should be calculated on a monthly, rather than daily, basis, and (iii) the parent entity LCR be calculated and monitored on a daily basis in accordance with the rules prescribed in the consultation paper.	SP121	SP121: Access to HQLA is available.
	A Bank: We recommend the CBB to reconsider the some of the parameters for liquid assets. We understand that the rules are based on the Basel standards which may have been written with different markets in mind that have a larger breadth of assets that qualify as liquid assets. We recommend that a consensus is reached between the CBB and its licensees and what constitutes liquid assets that is in line with their experiences both locally and internationally. We request that this rule is explained further regarding the consequences of falling short of the required ratio in line with the explanations provided for falling below the capital adequacy thresholds.	SP122	See GR 2 (a).
	A Bank: Given the nature and volume of transactions,		

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
	request for waiver of calculation of daily data for reporting. Request to allow the Bank to calculate and report LCR on a monthly basis.		
LM-11.2.3 Banks must ensure that no operational requirements exist that can prevent timely monetisation of HQLA during a stress period. Banks also have to demonstrate that they can immediately use the stock of HQLA as a source of available liquidity that can be converted into cash (either through outright sale or repo) to fill funding gaps between cash inflows and outflows at any time during stress periods.	**A Bank:** This statement is vague and therefore more clarification should be provided on what the CBB considers as constituting as operational requirements that would prevent timely monetization of HQLA during a stress period.	SP123	SP123: Operational requirements to be fulfilled in order to guarantee timely monetization of HQLA during a stress period are the one listed under paragraph LM-11.2.5 (points a) to n)). Rulebook amended to *"Banks must ensure that no operational* ***impediments*** *exist that might prevent timely monetisation of HQLA during a stress period. Banks also have to demonstrate that they can immediately use the stock of HQLA as a source of available liquidity that can be converted into cash (either through outright sale or repo) to fill funding gaps between cash inflows and outflows at any time during stress periods."*
LM-11.2.4 The stock of HQLA must be well diversified within the asset classes themselves (except for sovereign debt of Bahrain, central bank reserves, central	**A Bank:** Due to the strict criteria for HQLAs, the current difficult operating conditions and the upward trend in cost of fund for Bahraini	SP124	Rulebook amended to include GCC sovereign securities and placements, cash and Bahrain central bank reserves.

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
bank debt securities and cash). Banks must have policies and limits in place in order to avoid concentration with respect to asset types, issue and issuer types, and currency (consistent with the distribution of net cash outflows by currency) within asset classes.	banks due to the sub-investment grade rating, it's very challenging to achieve such diversification. For example, the return offered by non-GGC investment grade securities might not be attractive and fall short from covering banks' cost of fund. Accordingly, most of the HQLAs would be Kingdom of Bahrain and GCC government securities, placements, and cash & central bank reserves.		
LM-11.2.5 Banks must ensure that they have internal policies and measures in place, in line with the following operational requirements: **(a) Banks must periodically monetise a representative proportion of the assets in its stock of HQLA through outright sale or repos, in order to test access to the market, the effectiveness of its process of monetisation, and to minimise the risk of negative signaling during a period of actual stress;** **(b) All assets in the stock must be unencumbered, meaning free of legal, regulatory, contractual or other restrictions on the ability of the bank to liquidate, sell or transfer these assets;** **(c) Assets received in reverse repos and**	<u>**A Bank:**</u> LM-11.2.5 (a): The requirement to monetize assets could probably affect the business of the bank, hence we kindly request if it is possible to test the liquidity of a specific asset only through placing of the assets into the market and checking the response, then documenting the result, rather than actual sale. LM-11.2.5 (f): Some of the requirements, such as "specific custodian or bank account", might not be easily identifiable for banks as part of the HQLA would be securities trading across a number of secondary markets and over the counter. <u>**A Bank:**</u> Some of these requirements are very thorough	SP125 SP126 SP127	SP125: Yes, the requirement is to test and not necessarily to perform the actual sale. SP126: Must be performed. SP127: The requirements are applicable to all banks regardless of size.

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
securities financing transactions that are held at the bank, which have not been re-hypothecated, and which are legally available for the bank's use, can be considered as part of the stock of HQLA; **(d) Assets which qualify for HQLA that have been deposited with the central bank but have not been used to generate liquidity may also be included in the stock of HQLA; and** **(e) A bank must exclude from the stock those assets that, although meeting with the definition of 'unencumbered', the bank would not have the operational capability to monetise them for whatever reasons.** **(f) The bank must have a policy in place that identifies legal entities, geographical locations, currencies and specific custodial or bank accounts where HQLA are held;** **(g) The bank must identify whether there are any regulatory, legal or accounting impediments to the transfer of these assets to the banking group level, and only include within its stock of HQLA the assets that are freely transferable;** **(h) The bank must exclude from the stock**	and require systems to maintain HQLA and to monitor potential risks, such as market and credit risk which the banks may face while maintaining these assets. We suggest that the CBB consider the size of the Bank and it operations, as having a sophisticated ALM MIS system will incur a significant cost on the Bank and in many wholesale bank's the size of the Risk Management team and the size of the operations is much smaller than that of a retail bank. **A Bank** (h): Current economic conditions can render otherwise attractive assets to discounts and hence these should not be excluded from the calculation.	SP128	SP128: For the purposes of HQLA assets that are subject to impediments to sale, such as large fire-sale discounts should be excluded.

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
of HQLA, those assets where there are impediments to sale, such as large fire-sale discounts; **(i) Banks must not include, in the stock of HQLA, any assets, or liquidity generated from assets, they have received under right of hypothecation, if the beneficial owner has the contractual right to withdraw those assets during the 30-day stress period;** **(j) Banks must include within the stock of HQLA the assets held during the reporting period, irrespective of the residual maturity of these assets. The two categories of assets that can be included in the stock of HQLA are 'Level 1' and 'Level 2'. Level 1 assets can be included without any limit, whereas Level 2 assets can only comprise up to 40 percent of total HQLA;** **(k) Level 2 assets are divided into two categories; level 2A and level 2B, according to the qualifying conditions identified in these requirements;** **(l) As part of level 2, banks may include level 2B assets up to 15 percent of total HQLA. However, level 2 assets must not**			

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
exceed a cap of 40 percent of total HQLA assets; **(m) The cap on level 2 and level 2B assets must be determined after the application of required haircuts and after taking into account the unwinding of short-term securities financing transactions maturing within 30 calendar days that involve the exchange of HQLA; and** **(n) Banks must ensure that they maintain appropriate systems and policies to control and monitor potential risks, such as market and credit risk which the banks may face while maintaining these assets.**			
LM 11.2.5 **Level 1 Assets** **Level 1 assets comprise of an unlimited share of the total pool and are not subject to haircuts.** **Level 1 assets are limited to:** **(i) Coins and banknotes;** **(ii) Assets with central banks in countries in which the LCR is being calculated, including cash reserves, to the extent that the CBB allows banks to draw-down these assets in times of stress;**	**A Bank:** Part of level 1 assets is (iii) "*Debt Securities/Sukuk issued by Gov. of Bahrain*". Does that include debt securities issued in local and foreign currencies? **A Bank:** (ii): Appreciate kindly clarifying the CBB's policy in this regard. (iii) & (iv): The treatment of GCC Government securities is not clear. Since they are assigned 0% risk weight under the CA module of the	SP129 SP130	SP129: Yes, it should also include securities issued in foreign currencies. SP130: - **(ii)** *"assets with central banks in countries in which LCR is being calculated"* this would include banks' overnight deposits with the central bank, and term deposits with the central bank that: (a) are explicitly and contractually

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
(iii) Debt securities/Sukuk issued by Government of Bahrain; **(iv) Debt securities/Sukuk issued or guaranteed by sovereigns, central banks, Public Sector Entities ('PSE'), the International Monetary Fund ('IMF'), the Bank for International Settlements ('BIS'), the Islamic Development Bank ('IDB') or its subsidiaries, the European Central Bank ('ECB') and European Commission ('EC'), or Multilateral Development Banks ('MDB') satisfying the following conditions:** **a) Assigned a 0 percent risk weight as shown in Annexure (A);** **b) Traded in large, deep and active repo or cash markets and characterized by a low level of concentration;** **c) Have a proven track record of reliable liquidity in the cash or repo market even during stressed market conditions;** **d) Not an obligation of a financial institution or any of its subsidiaries.** **(v) Where the sovereign has a non-0 percent risk weight, debt securities/Sukuk issued in domestic currency by the**	CBB rulebook, would they be treated in the same manner for LCR in order to achieve regulatory consistency? (v) & (vi): Appreciate kindly clarifying the meaning/ providing interpretation for the following: 1. "the country in which the liquidity risk is being taken", and 2. "up to the amount of the bank's stressed net cash outflows in that specific foreign currency arising from the bank's operations in that jurisdiction". We kindly recommend to the CBB issuing further guidance in line with paragraph 3 (b) of the BCBS "Frequently Asked Questions on Basel III's January 2013 Liquidity Coverage Ratio framework" which states "Sovereign and central bank debt securities, even with a rating below AA–, should be considered eligible as Level 1 assets only when these assets are issued by the sovereign or central bank ***in the bank's home country or in host countries where the bank has a presence via a subsidiary or branch. Therefore, paragraphs 50(d) and (e) do not apply to a country in***		repayable on notice from the depositing bank; or (b) that constitute a loan against which the bank can borrow on a term basis or on an overnight but automatically renewable basis (only where the bank has an existing deposit with the central bank) - **(iii) & (iv)** Yes. - **(v) & (vi):** 1. The definition refers to countries where the security was issued (and hence countries towards which there is an exposure represented by the security itself); 2. If the bank holds debt securities issued by central bank or sovereign, in a country where the sovereign is non-0% RW according to the CBB rules, the maximum amount allowed is equal to cash net outflows in that specific currency resulting after the application of stress.

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
sovereign or central bank of the country in which the liquidity risk is being taken, or in the bank's home country; and **(vi) Where the sovereign has a non-0 percent risk weight, debt securities/Sukuk in foreign currencies issued by the sovereign or central bank up to the amount of the bank's stressed net cash outflows in that specific foreign currency arising from the bank's operations in that jurisdiction.**	***which the bank's only presence is liquidity risk exposures denominated in the currency of that country".***		
LM 11.2.5 **Level 2 Assets** **Level 2 assets are subject to a 40 percent cap of the overall stock of HQLA assets after haircuts have been applied.** ***A. Level 2A assets*** **A 15 % haircut is applied to the current market value of each level 2A asset held in the stock of HQLA.** **Level 2A assets are limited to the following;** **(i) Debt securities/Sukuk issued or guaranteed by sovereigns, central banks, PSEs or multilateral development banks that satisfy all the following conditions:**	**A Bank:** (ii) (a): Reference to "Islamic" might need to be amended. **A Bank:** Regarding the rule "Level 2 assets are subject to a 40 percent cap of the overall stock of HQLA assets after haircuts have been applied.", We suggest the CBB to raise the cap on level 2A assets to above 40% of total HQLA, as Level 1 assets are very limited and will have banks focus on Bahrain sovereign debt only as other Level 1 assets are not easily available for wholesale banks.	SP131 SP132	SP131: Rulebook amended SP132: Cap for Level 2 is in line with Basel requirements.

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
a. Assigned a 20 percent risk weight, as per Annexure (A;) **b. Traded in large deep and active repo or cash markets and characterised by low level of concentration;** **c. Have a proven track record of reliable source of liquidity in the markets (sale or repo) even during stressed market conditions (i.e. maximum price decline not exceeding 10 percent or the increase in haircut not exceeding 10 percent over a 30-day period during a relevant significant stress period); and** **d. Not an obligation of a financial institution, or any of its affiliated entities.** **(ii) Debt securities (including commercial paper)/Sukuk that can be monetised, and covered bonds that satisfy all of the following conditions:** **a. Not issued by an Islamic financial institution or any of its affiliated entities;** **b. In the case of covered bonds, not issued by the bank itself or any of its affiliated entities;** **c. Either have a long-term credit rating from a recognized external credit**			

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
assessment institution ('ECAI') of at least AA- or, in the absence of a long term rating, a short-term rating equivalent in quality to the long-term rating; **d. Traded in large, deep and active cash or repo markets and characterized by a low level of concentration; and** **e. Have a proven track record of reliable liquidity in the markets, even during stressed market conditions (i.e. maximum price decline not exceeding 10 percent, or the increase in haircut not exceeding 10 percent over a 30-day period during a relevant period of significant liquidity stress).**			
LM 11.2.5 **Level 2 Assets** ***B. Level 2B assets*** **Level 2B assets are limited to the following;** **(i) Debt securities (including commercial paper)/Sukuk issued by non-financial institutions, subject to a 50 percent haircut, that satisfy all of the following conditions:**	**A Bank:** Level 2B assets. Clarity is required as to if equities listed in the Bahrain Bourse be acceptable to the criteria, especially with regards to point "e"?	SP133	Equity in Bahrain Bourse is not considered in (e).

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
a. Debt securities/Sukuk issued by non-financial institutions, or one of their subsidiaries, and have a long-term credit rating between A+ and BBB- or equivalent, or in the absence of a long-term rating, a short-term rating equivalent to the long-term rating; **b. Traded in large deep and active repo, or cash markets characterized by a low level of concentration; and** **c. Have a proven track record as a reliable source of liquidity in the markets even during stressed market conditions (i.e. maximum price decline not exceeding 20 percent. or the increase in haircut not exceeding 20 percent over a 30-day period during a relevant period of significant liquidity stress);** **(ii) Common equity shares subject to a 50 percent haircut that satisfy all of the following conditions:** **a. Not issued by a financial institution or any of its affiliated entities;** **b. Exchange traded and centrally cleared;** **c. A constituent of the stock index in Bahrain or where the liquidity risk is**			

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
being taken; **d. Denominated in BHD, US$ or in the currency of the jurisdiction where the liquidity risk is being taken;** **e. Traded in large, deep and active repo or cash markets characterized by a low level of concentration; and** **f. Have a proven track record as a reliable source of liquidity in the markets, even during stressed market conditions (i.e. maximum price decline of not exceeding 40 percent, or increase in haircut not exceeding 40 percent over a 30-day period during a relevant period of significant liquidity stress).**			
LM-11.2.7 Banks must demonstrate their ability to monitor the concentration of the assets in their stock of HQLA, and they must have adequate policies in place for monitoring asset concentration and granular distribution.	**A Bank:** HQLA are not easily available and therefore having to monitor the concentration of the assets in HQLA is further restricting. We suggest the CBB to have this as a recommendation and not a rule.	SP134	SP134: The rules must be complied with
LM 11.3.5 **Retail deposits are divided into 'stable' and 'less stable' categories as described below:**	**A Bank:** The criteria for Retail stable/less stable deposits does not include a category mentioned in Annex (A). "Fully insured accounts that are	SP135	SP135: One of the conditions of Stable deposits, is that the deposit should be in a transactional account, in case the deposit is fully insured but not in a

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
A. Stable Deposits **B. Less Stable Deposits** **C. Unsecured Wholesale Funding** **D. Unsecured Wholesale Funding Provided by Small Business Customers** **E. Operational Deposits Generated by Clearing, Custody and Cash Management Activities** **F. Unsecured Wholesale Funding Provided by Non-financial Corporates and Sovereigns, Central Banks, Multilateral Development Banks and PSEs** **G. Unsecured Wholesale Funding Provided by Other Legal Entity Customers** **H. Secured Funding** **I. Other Cash Outflows** **J. Asset Backed Securities, Covered Bonds and Other Structured Financing Instruments** **K. Asset-backed Commercial Paper, Securities Investment Vehicles and Other Financing Facilities** **L. Drawdowns on Committed Credit and Liquidity Facilities** **M. Contractual Obligations To Extend**	non-transactional". **A Bank:** A, F and G This should follow the Basel definition for small business and not based on a deposit cap of BD 500,000 which is lower than a typical private banking client deposit. Further, more clarity is required for: i) "This category comprises all deposits and other funding from companies" Clarification if this applies only to operational account balances and not to "all deposit".	 SP136	transactional account banks may apply 8% run-off rate. SP136: Rules consistent with Basel III definition

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
Funds Within a 30-day Period **N. Other Contingent Funding Obligations**			
LM-11.3.5 (A) **A. Stable Deposits** **A deposit must be considered as stable if the following conditions are fulfilled:** **(i) The depositors have other established relationships with the bank that make deposit withdrawal highly unlikely; or** **(ii) The deposits are in transactional accounts (e.g. accounts where salaries are automatically deposited).** **Stable deposits and accounts are subject to a run-off rate of 5 percent. All other deposits and accounts that do not satisfy these criteria shall be treated as less stable deposits.**	**A Bank:** We suggest the CBB to treat deposits that are insured by the Deposit Protection Scheme as “Stable” deposits and to allow a 3% run off rate for such deposits in line with Basel Committee of Banking Supervision (BCBS) Basel III The Liquidity Coverage Ratio and Liquidity Risk Monitoring tools guidelines. The same definition of stable deposits should apply for the NSFR as well. Reference is below from Basel Committee of Banking Supervision (BCBS) Basel III The Liquidity Coverage Ratio and Liquidity Risk Monitoring tools guidelines: 75. Stable deposits, which usually receive a run-off factor of 5%, are the amount of the deposits that are fully insured34 by an effective deposit insurance scheme or by a public guarantee that provides equivalent protection and where: • the depositors have other established relationships with the bank that make deposit withdrawal highly unlikely; or	SP137	SP137: See final rules.

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
	• the deposits are in transactional accounts (e.g. accounts where salaries are automatically deposited). 76. For the purposes of this standard, an "effective deposit insurance scheme" refers to a scheme (i) that guarantees that it has the ability to make prompt payouts, (ii) for which the coverage is clearly defined and (iii) of which public awareness is high. The deposit insurer in an effective deposit insurance scheme has formal legal powers to fulfil its mandate and is operationally independent, transparent and accountable. A jurisdiction with an explicit and legally binding sovereign deposit guarantee that effectively functions as deposit insurance can be regarded as having an effective deposit insurance scheme. 77. The presence of deposit insurance alone is not sufficient to consider a deposit "stable". 78. Jurisdictions may choose to apply a run-off rate of 3% to stable deposits in their jurisdiction, if they meet the above stable deposit criteria and the following additional criteria for deposit insurance schemes:35 • the insurance scheme is based on a system of		

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
	prefunding via the periodic collection of levies on banks with insured deposits;[36] •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 authority to borrow from the government; •access to insured deposits is available to depositors in a short period of time once the deposit insurance scheme is triggered.[37] Jurisdictions applying the 3% run-off rate to stable deposits with deposit insurance arrangements that meet the above criteria should be able to provide evidence of run-off rates for stable deposits within the banking system below 3% during any periods of stress experienced that are consistent with the conditions within the LCR.		
LM 11.3.5 (D) **D. Unsecured Wholesale Funding Provided by Small Business Customers** **(i) This category includes deposits and other funds provided by small business**	**A Bank:** It is mentioned that the SME criteria for stable/less stable deposits is similar to the Retail deposit, however the criteria mentioned in Annex (A) is not similar "It includes fully	SP138	Refer to SP136

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
customers (other than financial institutions). For the purpose of these requirements, small business customer deposits are defined as deposits which have the same characteristics of retail accounts, provided that total aggregate funding raised from one small business customer is less than BHD 500,000 (on a consolidated basis where applicable); and **(ii) Term deposits provided by small business customers are treated the same way as retail deposits.**	insured transactional accounts in the stable" criteria. **A Bank:** We suggest that the CBB should kindly define "Small business customers". The definition should preferably be consistent across various modules of the CBB rulebook including CA module. A suggestion is to have the definition as per the Ministry of Commerce definition. Moreover, the limit on size of such deposits should be clarified (BD 500,000 in LM-11.3 D i vs BD 250,000 in Annexure 12.6 A point 16). **A Bank:** We note inconsistency in the definition of small business deposits for the purpose of the calculation of LCR and NSFR. The LCR guidelines suggested a total aggregate funding to be less than BD 500,000 whereas the NSFR suggested a total aggregate funding to be less than BD 250,000. We suggest both definitions to be consistent at BD 500,000.	SP139 SP140	SP139: The definition of SME for the purposes of LCR differs from CBB's definition of SME to determine company size. SP140: Rulebook amended
LM 11.3.5 (E) **E. Operational Deposits Generated by Clearing, Custody and Cash Management**	**A Bank:** As per the stated criteria, it seems that the Bank does not have such deposits. However, we would like inquire if nostro/ vostro	SP141	SP141: Yes

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
Activities **(i) Certain banking activities that lead to financial and non-financial customers needing to place, or leave deposits with a bank in order to facilitate their access and ability to use payment and settlement systems and otherwise make payments. These funds may receive a 25 percent run-off factor, only if the customer has a substantive dependency with the bank and the deposit is required for such activities. Banks must seek the CBB's prior approval on such accounts and the CBB may choose not to allow the banks to use operational deposit run-off rates in certain cases;** **(ii) Qualifying activities in this context refer to clearing, custody or cash management activities that meet the following criteria;** **a. The customer is reliant on the bank to perform these services as an independent third-party intermediary over the next 30 days. For example, this condition would not be met if the customer has alternative back-up arrangements;**	relationships could be considered as Operational deposits. **<u>A Bank:</u>** LM-11.3.5 (E) (ii) We recommend that the various other factors already indicate the operational nature of such deposits, accordingly we feel that the condition for 30 days' notice period or switching costs should be removed and not made mandatory.	SP142	SP142: This would be inconsistent with BCBS.

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
b. These services must be provided under a legally binding agreement; and **c. The termination of such arrangements shall be subject either to a notice period of at least 30 days, or significant switching costs to be borne by the customer if the operational deposits are moved before 30 days.** **(iii) Qualifying operational deposits generated by such activities are ones where:** **a. The deposits are held in specifically designated accounts and priced without giving an economic incentive to the customer for maintaining such deposits; and** **b. The deposits are by-products of the underlying services and not solicited in bulk in the wholesale market.** **(iv) Any excess balances that could be withdrawn, leaving enough funds to fulfil the clearing, custody and cash management activities, do not qualify for the 25 percent run-off rate. Only that portion of the deposit which is proven to meet the customer's needs can qualify as**			

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
stable. Excess balances must be treated in the category for non-operational deposits; **(v) Banks must determine methodology for identifying excess balances in operational accounts;** **(vi) If the deposit arises out of correspondent banking, or from the provision of prime brokerage services, it will be treated as if there were no operational activities for the purpose of determining run-off factors; and** **(vii) That portion of the operational deposits generated by clearing, custody and cash management activities that is fully covered by deposit insurance can receive the same treatment as 'stable' retail deposits and, as such, can be subject to the 5 percent run-off rate factor.**			
LM-11.3.5 (F) **F. Unsecured Wholesale Funding Provided by Non-financial Corporates and Sovereigns, Central Banks, Multilateral Development Banks and PSEs** **This category comprises all deposits and other extensions of unsecured funding from non-financial corporate customers**	**A Bank:** This is requested to consider that there may be cases where a standard 40% run off factor may not be applicable and allow management to apply their judgement to derive the outflow for such cases. The Bank Request you to add the below	SP143	SP143: In line with BCBS requirements

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
(that are not categorized as small business customers) and both domestic and foreign sovereign, central bank, multilateral development bank and PSE customers that are not held for operational purposes. The run-off factor for these funds is 40 percent and, in cases where the deposit is fully insured, the run-off factor shall be 20 percent.	treatment for specific fundings: If a deposit/funding is under negotiation/dispute/sanction, management should be allowed to apply a run-off factor for those funding/deposits based on its expectation of outflow for next 30 days.		
LM 11.3.5 (G) **G. Unsecured Wholesale Funding Provided by Other Legal Entity Customers** **(i) This category comprise all deposits and other funding from other institutions (including banks, securities firms, insurance companies, etc.), fiduciaries, beneficiaries, special purpose vehicles, affiliated entities of the bank and other entities that are not specifically held for operational purposes and included in the prior categories. The run-off factor for these funds is 100 percent:** **(ii) All notes, bonds and other debt securities issued by the bank are included in this category regardless of the holder, unless the bond is sold exclusively in the**	<u>**A Bank:**</u> (i): The CBB didn't define what should be considered as fiduciaries. Footnote 43 of the BCBS paper states "Fiduciary is defined in this context as a legal entity that is authorised to manage assets on behalf of a third party. Fiduciaries include asset management entities such as pension funds and other collective investment vehicles". We kindly suggest to the CBB defining "fiduciaries" and "financial institutions" due to the importance of correct classification as it will affect the run-off factors applied. Moreover, since most banks in Bahrain have huge deposits from GCC pension funds, we urge the CBB to consider applying an exemption to these pension funds inline with other GCC counties (e.g. Kuwait exempted	SP144	SP144: See final rules.

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
retail market and held in retail accounts (including small business customer accounts treated as retail, as per LM-11.3.5 D) in which the instruments can be treated in the appropriate retail or small business customer deposit category. To be treated as such, it is not sufficient that the debt instruments are specifically designed and marketed to retail or small business customers, but rather there must be limitations placed such that those instruments cannot be bought and held by parties other than retail or small business customers; and **(iii) Customer cash balances arising from the provision of prime brokerage services must be considered separate from any balances related to client protection regimes imposed by the regulatory authorities, and must not be netted against other customer exposures included in this Module.**	KIA and PIFSS and being treated as corporate customers rather than financial institutions). The fifth line might need to be revised to "not specifically held for operational purposes and **not** included in the prior categories". **A Bank:** We would like to have a clarification whether the below understanding is correct : As per our understanding, this 100% run-off factor is to be considered only for the funding which will become due in next 30 days. In case there is no clause under which the funding can be withdrawn/called within 30 days, it should not form a part of outflow.	SP145	SP145: Yes, the interpretation is correct
LM-11.3.5 (H) **H. Secured Funding** **Secured funding is defined as those liabilities and general obligations that are collateralised by legal rights to specifically**	**A Bank:** We would like to have a clarification whether the below understanding is correct : As per our understanding, the 100% run-off factor is to be considered only for the funding	SP146	SP146: Yes, the interpretation is correct

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
designated assets owned by the bank in the case of bankruptcy, insolvency, liquidation or resolution.	which will become due in next 30 days. In case there is no clause under which the funding can be withdrawn/called within 30 days, it should not form a part of outflow.		
LM 11.3.5 (I) **I.Other Cash Outflows** **(i) Derivatives cash outflows: The sum of all net cash outflows will receive a 100 percent factor. Banks must calculate, in accordance with their existing valuation methodologies, expected contractual derivative cash inflows and outflows. Cash flows must be calculated on a net basis (i.e. inflows can offset outflows) by counterparty, only where a valid master netting agreement exists. The banks must exclude from such calculations, those liquidity requirements that would result from increased collateral needs due to market value movements or falls in value of collateral posted. Options must be assumed to be exercised when they are in the money to the option buyer;** **(ii) Where derivative payments are collateralized by HQLA, cash outflows must be calculated net of any**	**<u>A Bank:</u>** (iii) b.: For the sake of clarity, we recommend amending/ clarifying this paragraph in line with paragraph 119 of the BCBS paper (i.e. 20% of the value of the posted collateral, not the notional amount of the underlying).	SP147	SP147: Both are consistent.

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
corresponding cash inflows arising from collateral received for derivatives, or that would result from contractual obligations for cash or collateral to be provided to the bank, if the bank is entitled to re-use the collateral in new transactions; and **(iii) Below run-off rates apply in the following cases:** **a. Increased liquidity needs related to downgrade triggers embedded in financing transactions, derivatives and other contracts. Banks must review those contracts in detail and identify the clauses that require the posting of additional collateral or early repayment upon the ratings downgrades, by and up to three notches. A 100 percent run-off rate will be applied to the amount of collateral that would be posted for, or contractual cash outflows associated with, the credit rating downgrades;** **b. Increased liquidity needs related to the changes in the market value of the bank's posted collateral. A run-off rate of 20 percent must apply to cover the possibility of changes in value of the collateral posted**			

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
by the bank in the derivatives contract, as well as other transactions. This rate must apply to all collateral, excluding level 1 assets after offsetting the collateral posted by the same counterparty, which can be used again without any restrictions. This rate will be calculated based on the notional amount of the asset after any other applicable haircuts; **c. A run-off rate of 100 percent will apply to non-segregated collateral that could contractually be recalled by the counterparty because the collateral is in excess of the counterparty's current collateral requirements;** **d. A run-off rate of 100 percent will apply to the collateral that is contractually due, but where the counterparty has not yet demanded the posting of such collateral;** **e. A run-off rate of 100 percent will apply to the amount of HQLA collateral that can be substituted for non-HQLA assets without the bank's consent; and** **f. Banks must calculate the liquidity needs to face potentially substantial liquidity risk exposures, to valuation changes of**			

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
derivative contracts. This must be calculated by identifying the largest absolute net 30-day collateral flow realized during the preceding 24 months. The net flows of collateral must be calculated by offsetting the collateral inflows and outflows. This must be executed using the same Master Netting Agreement ('MNA').			
LM 11.3.5 (M) **M. Contractual Obligations To Extend Funds Within a 30-day Period** **Any contractual lending obligations to financial institutions not captured elsewhere in the requirements must be captured here at a 100 percent run-off rate.** **(i) If the total of all contractual obligations to extend funds to retail and non-financial corporate clients within the next 30 calendar days (not captured in the prior categories) exceeds 50 percent of the total contractual inflows due in the next 30 calendar days from these clients, the difference must be reported as a 100 percent outflow (i.e. the excess above 50**	<u>**A Bank:**</u> (i): The requirements are not clear. The rule refers to contractual lending obligations to Financial Institutions whereas paragraph (i) below it refers to Retail and non-financial corporates. We recommend kindly clarifying the requirements.	SP148	SP148: Rulebook amended

<table>
<tr><th colspan="2">Specific Comments:</th><th></th><th></th></tr>
<tr><th>Reference to the draft Directive:</th><th>Comments</th><th>REF</th><th>CBB Response</th></tr>
<tr><td>percent of the total inflow of these clients within a period of 30 days).</td><td></td><td></td><td></td></tr>
<tr><td>LM 11.3.5 (N)
N. Other Contingent Funding Obligations
The table below shows the cash outflow run-off rates for other contingent funding obligations:
<table>
<tr><th colspan="2">Table: Run-off rates for Other Contingent Funding Obligations</th></tr>
<tr><th>Type of Contingent Funding</th><th>Run-off Rates (%)</th></tr>
<tr><td>Revocable and unconditional financing and liquidity facilities 'uncommitted'.</td><td>5%</td></tr>
<tr><td>Non-contractual contingent funding obligations related to potential liquidity draws from joint venture or minority investments in entities.</td><td>5%</td></tr>
<tr><td>Obligations related to trade financing (including letters of guarantee and letters of credit).</td><td>5%</td></tr>
<tr><td>Guarantees and letters of credit unrelated to trade finance obligations.</td><td>5%</td></tr>
<tr><td>Non-contractual commitments related to customers' short positions covered by other customers' collateral.</td><td>50%</td></tr>
<tr><td>Outstanding debt securities/Sukuk (more than 30 days maturity).</td><td>5%</td></tr>
<tr><td>Any other non-contractual obligations not captured above.</td><td>5%</td></tr>
</table>
(i) Lending commitments, such as direct import or export financing for non-financial corporate firms are excluded</td>
<td><u>A Bank:</u>
In the table
<u>Non-contractual contingent funding obligations related to potential liquidity draws from joint venture or minority investments in entities:</u> We recommend kindly clarifying the requirements in line with paragraph 137 of the BCBS paper.

<u>Outstanding debt securities/Sukuk (more than 30 days maturity):</u> We recommend kindly clarifying the requirements in line with paragraph 140 of BCBS paper which states that this is applicable to certain issuers only "For issuers with an affiliated dealer or market maker, there may be a need to include an amount of the outstanding debt securities (unsecured and secured, term as well as short-term) having maturities greater than 30 calendar days, to cover the potential repurchase of such outstanding securities."

<u>Any other non-contractual obligations not captured above:</u> We suggest kindly adding</td>
<td>SP149</td>
<td>SP149:
Non-contractual contingent funding obligations related to potential liquidity draws from joint venture or minority investments in entities: is already aligned to BCBS paper. The run-off decision is based on national discretion;

Outstanding debt securities/Sukuk (more than 30 days maturity):

Non-contractual contingent funding obligations include associations with, or sponsorship of, products sold or services provided that may require the support or extension of funds in the future under stressed conditions. Non-contractual obligations may be embedded in financial products and instruments sold, sponsored, or originated by the institution that can give rise to</td></tr>
</table>

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
from this treatment and banks will apply the run-off rates specified in Annexure A; and **(ii) A 100 percent run-off rate must apply for any other contractual cash outflows within the next 30 calendar days, not captured above, other than operational expenses (which are not covered by this Module).**	further guidance/ clarifications. What does non-contractual obligations mean?		unplanned balance sheet growth arising from support given for reputational risk considerations. These include products and instruments for which the customer or holder has specific expectations regarding the liquidity and marketability of the product or instrument and for which failure to satisfy customer expectations in a commercially reasonable manner would likely cause material reputational damage to the institution or otherwise impair ongoing viability. Some examples of non-contractual obligations are provided below: – potential requests for debt repurchases of the bank's own debt or that of related conduits, securities investment vehicles and other such financing facilities; – structured products where customers anticipate ready marketability, such as adjustable rate notes and variable rate demand notes (VRDNs); and

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
			– managed funds that are marketed with the objective of maintaining a stable value such as money market mutual funds or other types of stable value collective investment funds etc.
LM-11.4.11 **Inflows from loans that have no specific maturity (i.e. have non-defined or open maturity) must not be included; therefore, no assumptions must be applied as to when maturity of such loans would occur. An exception to this would be minimum payments of principal, commission or interest associated with an open maturity financing transactions, provided that such payments are contractually due within 30 days. These minimum payment amounts must be captured as inflows at the rates prescribed in the paragraphs below (articles a and b).**	**A Bank:** The treatment for revolving facilities is not clear. The last sentence of rule LM-11.4.11 states "These minimum payment amounts must be captured as inflows at the rates prescribed in the paragraphs below (articles a and b). There are no further paragraphs under rule LM-11.4.11. Kindly clarify the treatment.	SP150	SP150: The treatment is specified at articles a) and b) under LM-11.4.12.
LM-11.4.13 **Inflows from securities maturing within 30 days not included in the stock of HQLA must be treated in the same category as inflows from financial institutions (i.e. 100**	**A Bank:** The second sentence is not clear. What is the definition of segregated accounts?	SP151	SP151: Segregated custody accounts can be established to hold cash and securities pledged as margin collateral, for example in transactions where the bank acts as an intermediary between

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
percent inflow). Banks may also recognize in this category inflows from the release of balances held in segregated accounts in accordance with regulatory requirements for the protection of customer trading assets, provided that these segregated balances are maintained in HQLA. Liquid assets from level 1 and level 2 securities maturing within 30 days must be included as HQLA, provided that they meet all operational and definitional requirements, as laid out in LM- 11.2.			the pledger and the secured party, holding collateral in the name of the pledger for the benefit of the secured party in a segregated custody account.
LM-12.2.1 Banks shall calculate the NSFR separately for each of the following levels: **(a) Level (A): The NSFR for the bank on standalone basis; and** **(b) Level (B): The NSFR for the bank on a consolidated basis.**	**<u>A Bank:</u>** In case the Bank has independent subsidiary which manages its own liquidity with its own Board of directors, including it in the calculation will not be useful. Hence it is suggested to exclude independent subsidiaries from the calculation of NSFR. **<u>A Bank:</u>** As the Bank does not have a direct access to the liquidity of XYZ, it is recommended that the Bank exclude XYZ from consolidated NSFR calculation. As this liquidity risk management framework is for banks, all other non-bank subsidiaries	SP152	Exclusion will not be considered. See SP152

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
	should be excluded from this requirement. However, any funding support that the Bank may be required to provide to these subsidiaries from time to time, will be considered in the LCR calculation. XYZ Bank requests to exclude the below subsidiaries from consolidated NSFR reporting. 1. XYZ Bank 2. Other non – banking/ non-finance subsidiaries		
LM-12.3.2 The NSFR (as a percentage) must be calculated as follows: **Available amount of stable funding ≥ 100** **Required amount of stable funding**	**A Bank:** The implementation of the minimum 100% LCR should be gradual consistent with Basel Committee practice.	SP153	SP153: Refer to GR-2(a)
LM-12.4.4 In calculating NSFR derivative liabilities, collateral posted in the form of variation margin in connection with derivative contracts, regardless of the asset type, must be deducted from the negative replacement cost amount.6,2 6 NSFR derivative liabilities = (derivative liabilities) – (total collateral posted as variation margin on derivative liabilities).	**A Bank:** Collateral should include initial and variation margin, given the imminent changes in clearing regulations.	SP154	SP154: Considered in the ASF factor.

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
2 To the extent that the bank's accounting framework reflects on the balance sheet, in connection with a derivative contract, an asset associated with collateral posted as variation margin that is deducted from the replacement cost amount for purposes of the NSFR, that asset should not be included in the calculation of a bank's required stable funding ('RSF') to avoid any double-counting.			
LM-12.4.7 Stable deposits are the amount of the deposits that are fully insured8 by a deposit insurance scheme, and where: (a) The depositors have other established relationships with the bank that make deposit withdrawal highly unlikely; or (b) The deposits are in transactional accounts (e.g. accounts where salaries are automatically deposited). All other deposits and accounts that do not satisfy these criteria shall be treated as less stable deposits.	**A Bank:** The criteria for Stable/Less stable deposits (Retail and SME) mentioned in NSFR is also different than the criteria mentioned in LCR. From our experience the two should be the same and the criteria included in NSFR is more consistent with Basel Committee guidelines.	SP155	SP155: Rulebook amended.
LM-12.4.11 **Liabilities receiving a 0 percent ASF factor comprise:** **(a) All other liability categories not**	**A Bank:** (c): The reference for NSFR derivative liabilities might need to be change to LM-12.4.3 & LM-12.4.4 instead of LM-12.4.2 &	SP156	SP156: Rulebook amended

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
included in the above categories, including other funding with residual maturity of less than 6 months from the central bank and financial institutions; **(b) Other liabilities without a stated maturity. This category may include short positions and open maturity positions. Two exceptions can be recognized for liabilities without a stated maturity:** **i. First, deferred tax liabilities, which must be treated according to the nearest possible date on which such liabilities could be realized; and** **ii. Second, minority interest, which must be treated according to the term of the instrument, usually in perpetuity.** **These exceptions would then be assigned either a 100 percent ASF factor if the effective maturity is 1 year or greater, or 50 percent, if the effective maturity is between 6 months and less than 1 year.** **(c) NSFR derivative liabilities, as calculated according to LM-12.4.2 and LM-12.4.3, and NSFR derivative assets, as calculated according to LM-12.4.21 and LM-12.4.22, if the NSFR derivative**	LM-12.4.3.		

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
liabilities are greater than NSFR derivative assets; 9and **(d) 'Trade date' payables arising from purchases of financial instruments, foreign currencies and commodities that (i) are expected to settle within the standard settlement cycle or period that is customary for the relevant exchange or type of transaction, or (ii) have failed to, but are still expected to, settle.**			
2) Assets Assigned a 5 Percent RSF Factor **LM-12.4.24** **Assets assigned a 5 percent RSF factor comprise unencumbered level 1 HQLA, as defined in Annexure E, excluding assets receiving a 0 percent RSF factor as specified above, and including:** **(a) Marketable securities representing claims on or guaranteed by sovereigns, central banks, PSEs and MDBs that are assigned a 0 percent risk weight under Annexure F, Government of Bahrain, the CBB, the BIS, the IMG, the ECB and the EC; and** **(b) Marketable securities representing claims on, or guaranteed by, certain non-0**	<u>**A Bank:**</u> The treatment of GCC Government securities is not clear. Since they are assigned 0% risk weight under the CA module of the CBB rulebook, would they be treated in the same manner for NSFR in order to achieve regulatory consistency?	SP157	SP157: Revisions made.

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
percent risk-weighted sovereign or central bank debt securities, as specified in Annexure F.			
LM-12.4.23 & LM-12.4.24 **LM-12.4.23: Assets assigned a 0 percent RSF factor comprise:** **(c) All claims on central banks with residual maturities of less than 6 months;** **LM-12.4.24: Assets assigned a 5 percent RSF factor comprise unencumbered level 1 HQLA, as defined in Annexure E, excluding assets receiving a 0 percent RSF factor as specified above, and including:** **(a)Marketable securities representing claims on or guaranteed by sovereigns, central banks, PSEs and MDBs that are assigned a 0 percent risk weight under Annexure F, Government of Bahrain, the CBB, the BIS, the IMG, the ECB and the EC;**	<u>**A Bank:**</u> How should securities representing claims on CBB, such as CBB international Sukuk, with residual maturity of less than 6 months be treated? Should it be treated according to LM-12.4.23 c or LM -12.4.24 a?	SP158	If the residual maturity is less than 6 months, it will be treated as LM-12.4.23
LM-12.5.1 **Banks shall provide the CBB with the NSFR report on a monthly basis, based on the position at the end of the month and on the average of daily data for all**	<u>**A Bank:**</u> What is the purpose of reporting NSFR on the average of daily data for all business days during the month? NSFR is a structural ratio and is not a volatile ratio so there is no added	SP159	SP159: Month end numbers could reflect a position that is different from daily average.

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
business days during the month for which the data is reported, as per the attached template for the levels detailed in Section LM-12.2.1.	value from reporting the ratio based on average daily positions.		
	A Bank: The requirement for monthly reporting based on end of month and daily average for NSFR could be meaningless as the NSFR is a long term measure, and no major movement should happened over shorter time horizon. Moreover, the reporting timeline and reporting basis (Consolidated and/or standalone) should be specified. We suggest the same reporting deadline suggested above for the LCR (i.e. quarterly on 20th of the following month).	SP160	SP160: See SP159.
	A Bank: **Daily calculation of Consolidated and Solo NSFR ratios:** Paragraph LM-12.5.1 requires the NSFR ratio to be calculated on a daily basis. As the NSFR is based on the structural asset-liability profile of the bank, the ratio should be stable over the short term and would not be expected to change materially over a one month period. Hence, we would request the CBB to consider the calculation of the NSFR ratio on a monthly, rather than daily, basis.	SP161	SP161: See SP159.
		SP162	SP162: See SP159

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
	A Bank: We believe that calculation of NSFR based on average of daily data would not serve much purpose as the ratio is geared towards assessing the longer term liquidity risk of the bank. Accordingly, we feel it can be restricted to only calculating it based on month-end positions.	SP163	SP163: See SP159
	A Bank: It is suggested for the reporting to be made quarterly basis as the Bank should internally monitor this ratio and update ALCO and also report to CBB on quarterly basis. Regarding calculating NSFR on daily average balances besides month-end balances, the requirement should be restricted to month-end balances as Bank's use own tools to monitor daily liquidity.	SP164	SP164: See SP159
	A Bank: Given the nature and volume of transactions, request for waiver of calculation of daily data for reporting. To meet the minimum NSFR criteria, the Bank will proactively explore opportunities to		

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
	change its funding mix to have more long term source of funds and exit some of its long gestation investments. However, the same may need some time. The Bank requests to waive the requirement to calculation of average monthly NSFR based on daily data. To allow some time to comply with minimum NSFR requirement		
LM-12.5.2 Banks shall disclose the NSFR on a consolidated basis, as per the below common template (Table 4).	**A Bank:** It is not clear where to disclose the quarterly NSFR template. Should it be on the website only as currently being done for some of the information related to capital? **A Bank:** Request to exclude the below subsidiaries from consolidated NSFR reporting. 1. XYZ Bank 2. Other non – banking/ non-finance subsidiaries **A Bank:** We recommend that the requirement to disclose detailed components of NSFR should be removed as asset profile can then be tracked by competitors. CBB could consider the	SP165 SP166 SP167	SP165: Both SP166: Disagree SP167: This is a mandatory requirement.

Specific Comments:

Reference to the draft Directive:	Comments	REF	CBB Response
	template for regulatory reporting but not for public disclosure.		
LM-12.5.3 Banks must disclose the information on the NSFR quarterly, and concurrently with, the publication of their quarterly and year-end financial statements, based on the figures as at the end of the period. Banks must also make previous NSFR reports available on their websites.	**A Bank:** Not relevant. The Bank is exempt from the publication of its quarterly financial information. **A Bank:** We recommend that the requirement to disclose detailed components of NSFR should be removed as asset profile can then be tracked by competitors. CBB could consider the template for regulatory reporting but not for public disclosure.	SP168 SP169	SP168: Bank specific issues must be discussed with the CBB directly. SP169: This is the very purpose of disclosure.
LM-12.5.4 Both unweighted and weighted values of the NSFR components must be disclosed.	**A Bank:** We recommend that the requirement to disclose detailed components of NSFR should be removed as asset profile can then be tracked by competitors. CBB could consider the template for regulatory reporting but not for public disclosure.	SP170	SP170: Refer to SP167
LM-12.5.5 **In addition to the disclosure template (Table 4), banks must provide sufficient qualitative discussion relevant to the NSFR to facilitate understanding of the results and data disclosed. This may**	**A Bank:** Our understanding that the required qualitative discussion and analysis is to be done and sent to CBB rather than published? Please confirm.	SP171	SP171: Must be published.

Specific Comments:			
Reference to the draft Directive:	**Comments**	**REF**	**CBB Response**
include analysis of the main drivers of the NSFR results, changes during the period for which the data is prepared or compared to the date of the last disclosure (such as changes to the bank's strategy, funding structure or any other circumstances).			
LM-12.6 Annexures			
Annexure (E) **B. Level 2 B Assets**	**A Bank:** To include RMBS as an eligible asset class.	SP172	SP172: Not consistent with BCBS
NSFR template	**A Bank:** To be customised for Bahrain as some of the assets references to Kuwait. d) should read 'Loans and advances' instead of loans and deposits While the LM 12.4.10 (d) allows 50% ASF factor for all kinds of liabilities between 6 months to 1 year, the NSFR template is inconsistent when it specifies 0% ASF for Tier 2 capital with maturity between 6 months to 12 months. **A Bank:** Due to business model of the Bank, there will be real estate assets and other assets without a	SP173 SP174	SP 173: See final rules. SP174: Discuss business model specific issues with CBB

<table>
<tr><th colspan="2">Specific Comments:</th><th></th><th></th></tr>
<tr><th>Reference to the draft Directive:</th><th>Comments</th><th>REF</th><th>CBB Response</th></tr>
<tr><td>
<table>
<tr><th></th><th colspan="4">Stable Funding Factors</th></tr>
<tr><th></th><th>No specified maturity</th><th>Less than 6 months</th><th>More than 6 months and less than one year</th><th>Over one year</th></tr>
<tr><td>Investments in real estate</td><td>100%</td><td>–</td><td>–</td><td>–</td></tr>
<tr><td>All other assets</td><td>100%</td><td>50%</td><td>50%</td><td>100%</td></tr>
</table>
</td><td>specific maturity which the management expects to exit within a year. Management should be allowed to select the appropriate time bucket for those assets to reflect the proper assessment of required stable funds.
The Bank requests the CBB to allow them to decide on a time bucket based on expected maturity for the real estate and other investments which do not have a specific maturity.</td><td></td><td></td></tr>
<tr><td>LCR template</td><td><u>A Bank:</u>
Need a reporting template for LCR similar to NSFR template.</td><td>SP175</td><td>SP175:
The template will be the same as the LCR illustrative summary, Annexure A of Chapter 11.</td></tr>
</table>