



**Reserve Bank of Fiji  
Banking Supervision Policy Statement No: 9A**

**LIQUIDITY RISK MANAGEMENT REQUIREMENTS  
FOR BANKS**

**NOTICE TO LICENSED COMMERCIAL BANKS**

**Reserve Bank of Fiji  
June 2023**

## **PART 1: PRELIMINARY**

### **1.0 Introduction**

- 1.1 This Policy is issued pursuant to Section 14(3) of the Banking Act 1995, as part of the Reserve Bank of Fiji's (Reserve Bank) standards governing the conduct of banking business in Fiji and applies to all licensed commercial banks in Fiji. This policy supersedes the *Banking Supervision Policy Statement No.9A* issued in 2005.
- 1.2 The Policy requires banks to adopt prudent practices in managing its liquidity risk and to maintain an adequate level of liquid assets as specified in this Policy, to meet their obligations as they fall due.

### **2.0 Background**

- 2.1 Liquidity risk involves the inability of banking entities to fund increases in assets, manage unplanned changes in funding sources and to meet obligations when required, without incurring additional costs or inducing a cash flow crisis. Primarily, an effective and strong liquidity risk management framework will ensure that a bank has sufficient liquid assets to meet its liabilities that fall due in the short term, as well as meet unexpected demands for funds by its depositors or creditors. The effectiveness of a bank's liquidity risk management framework will determine the extent to which the institution may be subject to cash flow crisis and additional costs.
- 2.2 The Reserve Bank has set out requirements in this Policy to ensure that each bank has in place sound liquidity management practices to be able to fully meet its contractual obligations.

### **3.0 Objectives of the Policy**

- 3.1 The objectives of the Policy are to ensure that commercial banks:
- a) have an effective risk management framework to identify, measure, monitor and control liquidity risk, commensurate with the nature, size, complexity and risk profile of the bank; and
  - b) maintain a sufficient stock of liquid assets that can be readily monetised without incurring significant loss to allow banks to withstand liquidity stress.
- 3.2 Furthermore in acknowledgement of the local banking environment, the policy requirements have been designed to reaffirm the need for commercial banks licensed to conduct business in Fiji, to be fully aware of the ongoing developments to policy decisions and market developments unique to the Fijian financial system that could have an impact on the effectiveness of their liquidity management framework, and the adequacy of their liquidity positions.

## PART 2: REQUIREMENTS OF THE POLICY

### 4.0 Qualitative Requirements and Guidelines

#### 4.1 Liquidity Risk Management Framework

4.1.1 Each bank's board of directors (board) or its proxy<sup>1</sup> is ultimately responsible for the sound and prudent management of the institution's liquidity risk. Each bank must establish and maintain an effective liquidity risk management framework that is well integrated into the enterprise-wide risk management framework; for identifying, measuring, monitoring and controlling liquidity risk; commensurate with the level and complexity of liquidity risk to which the bank is exposed.

4.1.2 The liquidity risk management framework must include, at a minimum:

- a) liquidity risk tolerance as established by the board;
- b) liquidity risk management strategy, policies and procedures including:
  - (i) the goals and objectives underlying the strategy;
  - (ii) the composition and maturity of assets and liabilities;
  - (iii) the level of diversity and stability of funding sources targeted by the bank;
  - (iv) the approach to manage liquidity in different currencies, across borders, and across business lines and legal entities, where applicable, taking into consideration the home and host regulatory requirements in the jurisdictions which the bank operates;
  - (v) the approach to intraday liquidity management; and
  - (vi) the assumptions on the liquidity and marketability of assets.
- c) liquidity risk management responsibilities, with clearly defined lines of authority, responsibilities and reporting structure;
- d) liquidity risk management systems and tools for identifying, measuring, monitoring, controlling and reporting liquidity risk, including:
  - (i) the setting of various liquidity limits and ratios (eg. LCR, maturity mismatch limits, loan to deposit ratio, liquid assets to total deposit ratio, liquid assets to total asset ratio, etc.);
  - (ii) the framework for conducting cash-flow projections and liquidity stress-testing, including the techniques, scenarios and assumptions used;
  - (ii) the management reporting system for liquidity risk; and
- e) contingency funding plan which should describe the approaches and strategies for dealing with various types of liquidity stress.

4.1.3 In setting the liquidity risk tolerance level, each bank must ensure that the approved tolerance level allows the bank to effectively manage its liquidity position in such a way that it is able to withstand a prolonged period of stress.

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<sup>1</sup> For branch banks, the responsibilities of the Board in this Policy are to be fulfilled by its Proxy (a director or senior executive or a committee) outside the Fiji operations, with delegated authority from the Board who is responsible for overseeing the Fiji branch operations.

- 4.1.4 The liquidity risk tolerance level should be articulated in such a way that all levels of management clearly understand the trade-off between risks and profits.
- 4.1.5 A bank's liquidity risk management framework must clearly set out the organisational structure as it relates to liquidity risk for the bank, and defines the responsibilities and roles of management involved in managing liquidity risk.
- 4.1.6 A bank's liquidity risk management framework must be formulated to ensure that the bank maintains sufficient liquidity, including a cushion of unencumbered liquid assets, to withstand a range of stress events.
- 4.1.7 A bank's liquidity risk management framework must be well integrated into the bank's overall risk management process.

## **4.2 Roles and Responsibilities of the Board and Senior Management**

- 4.2.1 The board and senior management of a commercial bank have their own distinct responsibilities in the governance and management of liquidity risk; whereby:
  - a) the board should be responsible for determining the types and magnitude of liquidity risk that the bank can tolerate, and ensuring that there is an appropriate organisation structure for managing liquidity risk; and
  - b) senior management should be responsible for setting and implementing the liquidity strategy, policies and procedures; and ensuring that the liquidity risk tolerance set by the Board is adhered to.
- 4.2.2 To ensure effective governance and management of liquidity risk, the board and senior management should have an adequate understanding of the close links between funding liquidity risk and market liquidity risk, as well as how other risks (such as credit, market, operational and reputational risks) interact with liquidity risk and affect the bank's overall liquidity risk strategy. The board and senior management must also ensure that the interaction of these risks is considered and taken into account by relevant board-level committees and risk management functions within the bank.
- 4.2.3 Therefore, a bank's board must ensure at a minimum:
  - a) to establish the bank's liquidity risk tolerance level and ensure that this is clearly articulated and communicated to all levels of management;
  - b) that the bank's liquidity risk management framework is documented, and reviewed at least annually;
  - c) to put in place a sound liquidity risk management structure, with proper delineation of powers and responsibilities; and should review the appropriateness of the liquidity risk management structure periodically to address any business developments and changes in market circumstances;
  - d) the competency of senior management and appropriate personnel in identifying, measuring, monitoring and controlling liquidity risk in terms of expertise, resources and systems, and in taking appropriate and prompt remedial actions to address concerns when necessary;

- e) the review and approval, at least annually, of the liquidity risk strategies, policies and systems;
- f) the regular review of reports and stress-testing results on the bank's liquidity positions and ensuring the continued awareness of the bank's performance and overall liquidity risk profile.

4.2.4 Responsibilities of senior management include, but are not limited to:

- a) developing and implementing the bank's liquidity risk management strategy, policies and procedures; properly documented in the form of a policy statement, in accordance with the tolerance levels established by the board. The policy statement must be approved by the board, and subject to annual review, to ensure that it remains relevant under changing circumstances;
- b) appropriately incorporate liquidity costs, benefits and risks in the internal pricing, performance measurement and new product approval processes, thereby aligning risk-taking incentives of individual business lines with the liquidity tolerance levels established by the board;
- c) communicating the liquidity risk management strategy, key policies and procedures and liquidity risk management structure to all relevant business units and personnel throughout the bank that conduct activities with an impact on the bank's liquidity position;
- d) ensuring that there are close communication links between treasury, liquidity risk managers and other business and risk managers having access to critical information that affects liquidity;
- e) ensuring that adequate internal controls are executed by independent personnel with the necessary skills and competence to safeguard the integrity of the bank's liquidity risk management process;
- f) monitoring closely the current trends and potential market developments that may require timely changes or updates to the liquidity risk management strategy, systems and internal controls to address any significant challenges;
- g) defining the specific process for handling exceptions to policies and limits, including the procedures for escalation, reporting and consideration of follow-up actions (eg. whether exceptional approval could be granted at an appropriate level of authority, what remedial actions should be taken and where necessary, who should be held accountable);
- h) ensuring the effectiveness of stress tests and contingency funding plans as well as the appropriateness of the liquidity cushion maintained;
- i) through regular and ad hoc submission of risk management reports and risk analyses, informing the board of any new and emerging liquidity concerns in a timely manner;
- j) ensuring that any weaknesses or problem identified in internal reviews and audits should be addressed in a timely and effectively manner; and,
- k) ensuring to identify and quantify climate-related financial risk and incorporate those assessed as material over relevant time horizons into the bank's liquidity adequacy assessment, processes, and stress testing programmes where appropriate.

### **4.3 Independent Reviews and Audits**

4.3.1 Banks should conduct periodic reviews of their liquidity risk management processes to ensure their integrity, accuracy and reasonableness. The reviews should be conducted by independent parties such as internal or external auditors, with relevant skills and expertise.

4.3.2 Such reviews should, among other things, cover 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 for monitoring and controlling liquidity risk;
- c) the suitability of the underlying scenarios and assumptions for conducting cash-flow analyses;
- d) the integrity and usefulness of management information reports on liquidity risk; and
- e) the adherence to established liquidity policies and procedures.

### **4.4 Liquidity Risk Identification, Measurement, Monitoring and Control**

#### **(a) Measurement Tools**

4.4.1 Banks must employ a range of customised measurement tools, or metrics for the measurement and analysis of their liquidity risk. These metrics should enable management to understand the day-to-day liquidity positions and structural liquidity mismatches, as well as the institution's resilience level under stressed conditions. In particular, these metrics should perform the function of:

- a) ensuring compliance with statutory liquidity requirements (ie. LCR);
- b) projecting the bank's future cash flows and identifying potential funding gaps and mismatches under both normal and stressed conditions over different time horizons;
- c) evaluating potential liquidity risks inherent in the bank's balance sheet structure and business activities, including those that may arise from any embedded options and other contingent exposures or events;
- d) assessing the bank's capability to generate funding, as well as its vulnerability to, or concentration on, any major source of funding; and,
- e) identifying the bank's vulnerabilities to foreign currency movements.

4.4.2 The above should take into account all assets, liabilities and off-balance sheet positions and significant activities, across business lines, legal entities and overseas operations (if applicable).

4.4.3 Banks should use metrics and tools that are appropriate for their business mix, complexity and risk profile. Some key information to consider include:

- a) information on the level of concentration of funding from major counterparties (include retail and wholesale fund providers);
- b) 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 market or the Reserve Bank in times of stress;
- c) information on committed facilities granted or received by a bank, where the drawdown on such facility may have implications for the bank's liquidity position;
  - d) maturity mismatch analyses, 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;
  - e) stable or core deposit ratios or any similar ratio that reflects the stability of the bank's funding;
  - f) 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;
  - g) metrics tracking intra-group lending and borrowing; and
  - h) swapped fund ratio or any other type of metric that can portray how a bank uses specific types of financial instruments (eg currency swaps) to bridge funding needs in individual currencies.

**(b) Risk Control Limits**

4.4.4 Banks must set in-house limits for the liquidity metrics it employ in monitoring and controlling its liquidity risk exposures and use these limits for managing day-to-day liquidity within and across business lines and entities. The limits set should be relevant to the bank's business activities and consistent with its liquidity risk tolerance.

4.4.5 Banks should ensure compliance with the established limits, and define the procedures for escalation and reporting of exceptions or breaches, which can be early indicators of excessive risk or inadequate liquidity risk management. The in-house limits and the corresponding escalation and reporting procedures should be reviewed regularly.

**(c) Early Warning Indicators**

4.4.6 To complement measurement tools, banks must design a set of indicators to identify the emergence of increased risk or vulnerabilities in its liquidity risk position or potential funding needs; to support management reviews and where necessary, mitigating measures that can be undertaken promptly.

4.4.7 Early warning indicators can be qualitative or quantitative in nature and may include, but are not limited to:

- a) rapid asset growth, especially when funded with potential volatile liabilities;
- b) growing concentrations in assets or liabilities;
- c) increases in currency mismatches;
- d) increasing overall funding costs<sup>22</sup>;
- e) a decrease of weighted average maturity of liabilities;

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<sup>22</sup> For example, interbank funding market interest rates are increasing because of market-wide liquidity stress, or a bank's borrowing premium is rising due to adverse institution-specific reasons.

- f) repeated incidents of positions approaching or breaching internal or regulatory limits;
- g) negative trends or heightened risk, such as rising delinquencies or losses associated with a particular business, product or activity;
- h) significant deterioration in the bank's earnings, asset quality, and overall financial condition;
- i) negative publicity;
- j) a credit rating downgrade (if applicable);
- k) stock price declines (if applicable);
- l) counterparties beginning to request additional collateral for credit exposures or to resist entering into new transactions;
- m) elimination or reduction in available credit lines from correspondent banks;
- n) increasing retail deposit outflows; and
- o) difficulty in accessing longer-term funding.

**(d) Monitoring System**

- 4.4.8 Banks must have a reliable management information system (MIS) that provides the board, senior management and other appropriate personnel with timely and forward-looking information on its liquidity position.
- 4.4.9 The MIS should be 'fit 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.
- 4.4.10 Banks must ensure that the MIS reports contain sufficient information to assist the board and senior management in identifying emerging concerns on liquidity as well as in managing liquidity stress events.
- 4.4.11 The MIS should encompass information in respect of the bank's liquidity buffers, major sources of funding and all significant sources of liquidity risk, including contingent risks and the related triggers and those arising from new activities.
- 4.4.12 The MIS reports should be designed to adequately support the functioning of a bank's liquidity risk management tools for measuring liquidity needs and controlling different aspects of liquidity risk. In particular, the reporting should compare current liquidity exposures to established limits (both for internal liquidity risk management and statutory compliance purposes) to identify any limit breaches. Breaches in liquidity risk limits should be reported to the appropriate level of management and the Board.

**4.5 Cash Flow Approach of Managing Liquidity Risk**

- 4.5.1 Cash flow projections involve the estimation of a bank's cash inflows against its outflows and the liquidity value of its assets to identify the potential for future net funding shortfalls.
- 4.5.2 Banks are expected to adopt a cash-flow approach to manage liquidity risk, under which they should have in place a robust framework for measuring and forecasting prospective cash flows for their assets, liabilities and off-balance



sheet commitments and derivatives, over a variety of time horizon. The framework should be used for:

- a) monitoring on a daily basis their net funding gaps under normal business conditions; and
- b) conducting regular cash-flow analyses based on a range of stress scenarios.

4.5.3 Cash-flow projections should be forward-looking and based on reasonable assumptions and techniques, covering liquidity risk stemming from:

- a) on-balance sheet assets and liabilities;
- b) off-balance sheet positions and derivative transactions; and,
- c) core business lines and activities (for example, correspondent, custodian and settlement activities).

4.5.4 Cash-flow projections should 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 funding capacity over short and medium-term horizons up to one year;
- c) longer-term liquidity needs over one year; and
- d) vulnerabilities to events, activities and strategies that can put a significant strain on a bank's capacity for generating liquidity.

4.5.5 Banks' cash-flow projections should cover positions in FJD and in all currencies in aggregate. Separate cash-flow projections should also be performed for individual foreign currencies in which a bank has significant positions. (Refer to Section 4.7 for more details).

4.5.6 Banks must ensure a positive cash-flow position is maintained or otherwise sufficient cash can be generated from its assets or funding sources to cover its funding gaps promptly.

4.5.7 Net funding gaps can be assessed through the construction of a maturity profile (supplemented where relevant with additional analysis of the funding capacity of specific on-balance or off-balance items), refer to **Annex 1 - Reporting Form and Report Completion Instructions**, which banks can use to construct its maturity profile. Banks are required to submit this maturity profile Return to the Reserve Bank on a monthly basis. In addition, banks should develop, as appropriate, internal methodologies to project their maturity profiles taking into account any special characteristics of its operations, if not already captured by the Return.

4.5.8 Banks must set internal limits to control the size of the cumulative net mismatch positions (ie. where cumulative cash inflows are exceeded by cumulative cash outflows). Such limits should be in line with the established liquidity risk tolerance, and should take into account the potential impact of adverse market conditions on a bank's funding capacity. Maturity mismatch should also be imposed for individual foreign currency in which a bank has significant positions.

- 4.5.9 The maturity mismatch limits should be properly documented in the liquidity risk management policy statement, and should be reviewed regularly.
- 4.5.10 In terms of cash-flow projection assumptions and techniques, banks must make realistic assumptions (with a reasonable degree of prudence) to reflect the characteristics of the businesses and products as well as economic and market conditions.
- 4.5.11 Techniques employed by banks for designing cash flow-assumptions should be commensurate with the nature and complexity of its business activities. These may range from historical experience and static simulations based on current holdings to sophisticated modelling, taking into account ongoing market developments.
- 4.5.12 Banks may take into account the following factors in setting assumptions for cash-flow projections:
- a) expected future growth or contraction of the balance sheet;
  - b) the proportion of maturing assets and liabilities that banks reasonably expect to roll over or renew;
  - c) the quality and proportion of liquid assets or other marketable securities that can be used as collateral to obtain secured funding;
  - d) the behaviour of assets and liabilities with no clearly specified maturity dates, such as repayment of overdrafts and demand deposits;
  - e) the potential cash flows arising from off-balance sheet activities;
  - f) the behaviour of cash flows under different service delivery channels (eg. branches vs e-banking channels);
  - g) the convertibility of foreign currencies; and
  - h) access to wholesale markets, standby facilities and intragroup funding.
- 4.5.13 Banks should also assess whether climate-related financial risks could cause net cash outflows or depletion of liquidity buffers, assuming both business-as-usual and stressed conditions. Each bank should include climate-related financial risks assessed as material over relevant time horizons that may impair its liquidity positions in its internal liquidity adequacy assessment process.

## **4.6 Stress Testing and Scenario Analysis**

- 4.6.1 Banks should conduct stress tests on a regular basis for a variety of short-term and protracted institution-specific and market-wide stress scenarios (individually and combination) to identify sources of potential liquidity strain and to ensure that current exposures remain in accordance with the bank's established liquidity risk tolerance. Banks should use stress test outcomes to adjust their liquidity risk management strategies, policies and positions and to develop effective contingency plans.
- 4.6.2 Stress tests should enable a bank to assess its ability to generate sufficient liquidity from both sides of the balance sheet to meet funding needs under adverse conditions. Potential sources of demand for liquidity arising from off-balance sheet commitments and other contingent liabilities should be also addressed. The tests should consider the implications of the stress scenarios across different time horizons, including on an intraday basis.

- 4.6.3 When conducting stress tests on liquidity positions, banks should also consider the insights and results of stress tests conducted for other risks, including the possible interaction with these risks.
- 4.6.4 The extent and frequency of stress testing should be commensurate with the size of the bank and its liquidity risk exposures, as well as with the relative importance of the bank within the financial system. Banks should build in the capability to increase the frequency of tests in special circumstances, such as in volatile market conditions or at the request of the Reserve Bank.
- 4.6.5 In terms of scenarios and assumptions, it is important that banks construct 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, banks should, at a minimum, include the following types of scenarios in stress testing exercise:
- a) an institution-specific stress scenario;
  - b) a general market stress scenario; and
  - c) a combination of both.

#### **Institution-specific stress scenario**

- 4.6.6 An institution-specific stress scenario should cover situations that could arise from a bank experiencing either real or perceived problems (eg. asset quality problems, solvency concerns, credit rating downgrade, rumours on the bank which affect public confidence in the bank and its firm-wide or group-wide operations). It should represent the bank's view of the behaviour of its cash flows in a severe stress scenario.

#### **General market stress scenarios**

- 4.6.7 A general market stress scenario is one where liquidity at a large number of financial institutions is affected. Characteristics of this scenario may include:
- a) a market-wide liquidity squeeze, with severe contraction in the availability of secured and unsecured funding sources, and a simultaneous drying up of market liquidity in some previously highly liquid markets;
  - b) counterparty defaults;
  - c) substantial discounts needed to sell assets and wide differences in funding access among banks due to the occurrence of a severe tiering of their perceived credit quality;
  - d) restrictions on currency convertibility; and
  - e) severe operational or settlement disruptions affecting one or more payment or settlement systems.
- 4.6.8 Banks should be aware that cash-flow patterns of certain assets and liabilities may change in the case of a general market stress scenario as compared with an institution-specific stress scenario. Therefore, banks should assign appropriate discount factors to such assets to reflect the price risk associated with different stress scenarios.

#### **Combined stress scenarios**

- 4.6.9 Banks should incorporate a scenario into its stress test framework that has the key characteristics of both an institute-specific stress scenario and a

general market stress scenario combined (combined stress scenario), with appropriate modulation of the underlying assumptions as necessary, to reflect a set of adverse circumstances that could possibly happen.

- 4.6.10 In designing stress scenarios, a bank should take into account specific risks associated with its business activities, products or funding sources and take a reasonable conservative approach when setting stress testing assumptions. There are a number of possible areas that the assumptions should cover. The list below is for illustrative purpose, and banks should use assumptions which are relevant to its business:
- a) asset market illiquidity and erosion in the value of liquid assets;
  - b) the run-off of retail funding;
  - c) the (un)availability of secured and unsecured wholesale funding sources;
  - d) the correlation between funding sourced and effectiveness of diversification across available sources of funding;
  - e) the availability of contingent lines extended to the bank;
  - f) contingent claims and more specifically, potential draws on committed lines extended to third parties or the bank's related entities (such as its subsidiaries, overseas branches, associated entities in its consolidated group and head office);
  - g) availability of funding in different tenors;
  - h) liquidity absorbed by off-balance sheet activities;
  - i) the operational ability of the bank to monetise assets;
  - j) the impact of credit rating triggers;
  - k) currency convertibility and access to foreign exchange markets;
  - l) the ability to transfer liquidity across entities, sectors and borders taking into account legal, regulatory, operational and time zone restrictions and constraints;
  - m) access to Reserve Bank facilities (banks should not however base their scenarios on the availability of the Reserve Bank's lender of last resort facilities, given that such facilities are not automatically available during a stress situation);
  - n) access to payment and settlement systems on which the bank relies; and,
  - o) estimates of future balance sheet growth.
- 4.6.11 During a period of liquidity stress (particularly in the initial stage), the ability of a bank to honour its immediate commitments is crucial for its survival. Therefore, a bank should have sufficient funds to cover its liquidity needs and to enable it to continue its business for a certain minimum stress period under each stress scenarios, without resorting to liquidity assistance from the Reserve Bank. Banks must establish its internal benchmark for its survival period under stress for each stress scenarios.
- 4.6.12 Banks must ensure to link the stress-testing results to its overall liquidity risk management process, and to ensure proper documentation of the stress scenarios and related assumptions.
- 4.6.13 Banks must evaluate the stress-testing results and consider any possible need for remedial or mitigating actions. Remedial or mitigating actions may include actions to limit the bank's liquidity risk exposures, obtain more long-

term funding, restructure the composition of the bank's assets, increase the size of the bank's liquidity cushion or to adopt any other measures to adjust the bank's liquidity profile to fit its risk tolerance.

- 4.6.14 Banks must report the stress-testing results and the identified vulnerabilities to the Board (or its relevant delegated board committees), with recommendations for any resulting actions. Banks must inform the Reserve Bank of the stress-testing results and the anticipated actions if these are material to the bank.

#### **4.7 Foreign Currency Liquidity Management**

- 4.7.1 Each bank must have adequate systems in place for measuring, monitoring and controlling its liquidity position in each currency which is significant to the purposes of its liquidity risk management. These systems should be integrated into various aspects of the bank's overall liquidity risk management framework.
- 4.7.2 Banks must formulate and review regularly, strategies and policies for the management of liquidity risk with respect to its FJD holdings and each significant foreign currency, taking into account the potential market conditions and potential constraints in times of stress.
- 4.7.3 Banks must regularly assess the convertibility of foreign currencies and its capacity to access relevant foreign exchange markets.

#### **4.8 Funding Diversification**

- 4.8.1 To ensure a reliable supply of funds, both in normal times and during stressed situations, banks should maintain a range of diversified and stable funding sources (including liquid assets held) to meet their liquidity needs for various time horizons. Therefore, banks must establish an effective funding strategy to achieve sufficient diversification both of the funding sources and in the composition of the liquid assets. Banks should consider the correlations between sources of funds and market conditions when developing their funding strategies.
- 4.8.2 The funding strategy must be reviewed and approved by the board, at least annually, and supported by robust assumptions in line with the liquidity risk management strategies and business objectives of the bank.
- 4.8.3 Banks must maintain an ongoing presence in their chosen funding markets and strong relationships with significant funding providers.
- 4.8.4 Each bank must regularly gauge its capacity to raise funds quickly. It must identify the key factors that impact its ability to raise funds and monitor those factors closely to ensure that estimates of fund-raising capacity remain valid.
- 4.8.5 Banks must put in place concentration limits on liquid assets and funding sources as appropriate, and have systems for monitoring compliance with these limits.

4.8.6 Senior management should be aware of the composition, characteristics and level of diversification of the bank's liquid assets and funding sources, and regularly review the funding strategy to address any significant changes in the market environment.

4.8.7 Banks must maintain an appropriate mix of liquid assets (including the type and quality of assets and level of such holding) as a source of liquidity for day-to-day operational needs as well as for meeting emergency funding purposes.

#### **4.9 Intra-group Liquidity Risk Management**

4.9.1 Where a bank is part of a banking group (local or foreign), it should be able to monitor and control liquidity risks arising from intragroup transactions with other legal entities within the group, taking into account any legal, regulatory, operational or other constraints on the transferability of liquidity to and from those entities.

4.9.2 A bank must specify as part of its liquidity risk management strategy the treatment of intra-group liquidity and assumptions on intragroup dependencies for the purpose of cash-flow projections.

4.9.3 Banks should treat intra-group transactions (ie intragroup placements and borrowings transacted at arm's length) in the same way as other third party transactions for the purposes of cash-flow projections under normal business conditions.

4.9.4 Banks must analyse how the liquidity positions of the group entities may affect their own liquidity, either through direct financial impact or through contagion when those entities encounter liquidity strain; and must establish internal limits on intragroup liquidity risk to mitigate the risk of contagion from group entities.

#### **4.10 Intra-day Liquidity Risk Management**

4.10.1 Banks must have effective policies, procedures, systems and controls to manage their intra-day liquidity risk with all funding sources and currencies in which it has significant payment and settlement activities. Such systems and controls should, among other things, enable the bank to:

a) **Measure** expected daily gross cash inflows and outflows, anticipate the intraday timing of these cash flows where possible, and forecast the range of potential net funding shortfalls at different time points during the day;

b) **Monitor** intra-day liquidity positions against expected activities and available resources and prioritise payments if necessary. Such monitoring should be frequent enough to enable the bank to assess the need for obtaining additional intraday liquidity or restricting liquidity outflows in order to meet critical payments; to allocate intraday liquidity efficiently among its own needs and those of its customers, and to promptly address unexpected payment flows and adjust overnight funding positions; and

- c) **Manage** intra-day liquidity position to ensure that the bank has sufficient intra-day funding to meet intra-day day liquidity needs.

#### **4.11 Collateral Management**

- 4.11.1 The ready availability of assets that banks can use as collateral to obtain funding by means of secured borrowing mitigates liquidity risk. Therefore, banks should allocate sufficient resources to the efficient management of collateral in their liquidity risk management process.
- 4.11.2 Banks should have the ability to calculate all their collateral positions, including assets currently pledged relative to the amount of security required; and the unencumbered assets available to be used as collateral for secured borrowing.
- 4.11.3 The bank's level of available collateral should be monitored by legal entity, jurisdiction and currency exposure. Bank should be able to track precisely the legal entity and the physical location with each of the assets held and monitor how such assets may be mobilised in a timely manner in case of need.
- 4.11.4 Banks must assess the eligibility of each of their major asset class for pledging as collateral with the Reserve Bank and the acceptability of assets to major counterparties, and should diversify their sources of collateral to avoid excessive concentration on any particular funding provider.

#### **4.12 Contingency Funding Plan**

- 4.12.1 Banks must have a formal contingency funding plan (CFP) that sets out clearly strategies for addressing stressed situations. The CFP must outline clear policies to manage a range of stress environments, establish clear lines of responsibilities and include clear invocation and escalation procedures.
- 4.12.2 To achieve this, the role and responsibilities and internal procedures for liquidity stress management should be clearly defined, and should cover:
  - a) the authority to invoke the CFP and the establishment of a formal 'liquidity crisis management team' to facilitate internal coordination and communication across different business lines and locations, and decision-making by senior management in a stressed situation;
  - b) clear escalation and prioritisation procedures detailing what actions to take, who are responsible, and when and how each of these actions can be and should be activated;
  - c) names and contact details of members of the team responsible for implementing the CFP and the locations of team members; and,
  - d) the designation of alternates for the key roles.
- 4.12.3 A bank's CFP must be commensurate with the complexity of its size and risk profile, scope of operations and role in the financial system. The design of the CFP, including action plans and procedures, should be closely integrated with the bank's ongoing management of liquidity risk. The CFP should address liquidity issues over a range of different time horizons, including intra-day.

- 4.12.4 The CFP should provide senior management with a diversified set of viable, readily deployable potential contingency funding measures for preserving liquidity and making up liquidity shortfalls in emergency situations.
- 4.12.5 A bank's CFP (as well as the bank's day-to-day liquidity risk management) should reflect Reserve Bank's lending facilities and collateral requirements. The inclusion of Reserve Bank lending in the CFP should consider the type of lending facilities, acceptable collateral, operational procedures to access Reserve Bank funds and potential reputational issues involved in accessing such facilities.
- 4.12.6 As part of the CFP, banks should develop a communication plan to deliver on a timely basis, clear and consistent communication to internal parties, and external parties such as the Reserve Bank, customers, creditors and other counterparties in times of stress to support general confidence in the bank. An appropriate strategy should also be formulated for managing media relationships, making public announcements and dealing with enquiries during stressed situations to help reduce uncertainty or speculation about the bank in the financial system.
- 4.12.7 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 the CFP.
- 4.12.8 Senior management should review all aspects of the CFP following each testing exercise and ensure that follow-up actions are delivered. Senior management should also review and update the CFP at least annually, or more often as warranted by changes in business or market circumstances, to ensure that the CFP remains robust over time.
- 4.12.9 The CFP should be consistent with the bank's business continuity plans and should be operational under situations where business continuity arrangements have been invoked. Therefore, banks should ensure effective coordination between teams managing issues surrounding liquidity crises and business continuity. The liquidity crisis team members and alternates should have ready access to the CFP on-site and off-site.
- 4.12.10 The CFP should be maintained in a corporate central repository as well as at locations that would facilitate quick implementation by responsible parties under emergency situations.

## **5.0 Quantitative Requirement – Liquidity Coverage Ratio**

- 5.1 The Basel III Liquidity Coverage Ratio (LCR) intends to:
- promote short-term resilience of the liquidity risk profile of banks, ensuring that banks have adequate stock of unencumbered high-quality liquid assets (HQLA) that consist of cash or assets that can be converted into cash at little or no loss of value in private markets, to meet their liquidity needs for a 30 calendar day liquidity stress scenario; and



- improve the ability of the banking sector to absorb shocks arising from financial and/or economic stress, to reduce the risk of spill over from the financial sector to the real economy.

5.2 A bank must maintain an adequate level of HQLA to meet its liquidity needs for a **30 calendar day** period under a severe stress scenario, in accordance with the computation of the LCR in Appendix 1

5.3 Banks are required to submit its LCR calculation to the Reserve Bank on a monthly basis; refer Annex 2 - Reporting Form and Report Completion Instructions.

5.4 **Scope of application**

- The LCR framework is applicable to banks on a (i) standalone (“entity”) level, including overseas incorporated banks operating in Fiji as a branch; and (ii) consolidated (group) level, which include all subsidiaries.
- The Reserve Bank of Fiji will determine which investments of a banking group that are not consolidated should be considered significant, taking into account the liquidity impact of such investments on the group under the LCR standard.
- Where a bank has banking presence (branch or subsidiary) in other jurisdictions, the bank in calculating its consolidated LCR must apply the requirements outline in this guideline to such branch or subsidiary, except for retail and small business deposits, where the host supervisors’ outflow assumptions must be applied.
- However, where a bank has banking presence (branch or subsidiary) in jurisdictions that do not apply the Basel LCR framework, the cash flow assumptions outlined in this policy must be applied in calculating the consolidated LCR.
- Regardless of the scope of application of the LCR, a bank should actively monitor and control liquidity exposures and funding needs at the level of individual legal entities, foreign branches and subsidiaries, and the group as a whole, taking into account legal, regulatory and operational limitations to the transferability of liquidity.

5.5 **Transitional Arrangement**

5.5.1 The transitional arrangements are detailed as follows:

Year	1 Jan 2024	1 Jan 2025	1 Jan 2026	1 Jan 2027	1 Jan 2028 onwards
LCR % (minimum)	<b>60%</b>	<b>70%</b>	<b>80%</b>	<b>90%</b>	<b>100%</b>
Reporting timeframe	<b>(1) Jan – June:</b> Last working day of the month from month end  <b>(2) July – Dec:</b> 15 <sup>th</sup> working days from month end		10 <sup>th</sup> working days from month end		

## **6.0 Public Disclosure**

6.1 Public disclosure improves transparency, reduces uncertainty in the financial system, and strengthens market discipline. Therefore, banks should disclose<sup>3</sup> sufficient information regarding their liquidity risk management to enable relevant stakeholders to make an informed judgement on the ability to meet its liquidity needs. Such disclosure includes information on organisational structure and framework for the management of liquidity risk. In particular, disclosure should explain the role and responsibilities of the relevant committees, and the different functional and business units with regard to liquidity risk management and its intra-group lending strategies.

6.2 A bank should also provide quantitative information regarding its liquidity position that enables market participants to form a view of its liquidity risk. Sufficient qualitative discussion around its metrics to be provided to enable market participants to understand them.

6.3 The list below provides some examples of qualitative disclosures as guidance for banks:

- the aspects of liquidity risk to which the bank is exposed and that it monitors;
- the diversification of the bank's funding sources;
- other techniques used to mitigate liquidity risk;
- the concepts utilised in measuring its liquidity position and liquidity risk;
- an explanation of how asset market liquidity risk is reflected in the bank's framework for managing funding;
- an explanation of how stress testing is used;
- a description of the stress testing scenarios modelled;
- an outline of the bank's contingency funding plans and an indication of how the plan relates to stress testing;
- the bank's policy on maintaining liquidity reserves; and,
- the frequency and type of internal liquidity reporting.

## **7.0 Reporting to the Reserve Bank of Fiji**

7.1 Banks are required to compute and submit the following prudential reporting returns to the Reserve Bank by the 10<sup>th</sup> working day after each calendar month:

- a) ML-1: Contractual Maturity Profile; and
- b) ML-2: Liquidity Coverage Ratio

## **PART 3: OVERSIGHT AND IMPLEMENTATION ARRANGEMENTS**

### **8.0 Oversight by the Reserve Bank of Fiji**

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<sup>3</sup> Banks may provide disclosure in its annual report (if applicable) and/or on its official website.

- 8.1 Each bank must provide to the Reserve Bank its initial Liquidity Risk Management Policy within 90 days after the implementation of this Policy. In the event of major changes made to the requirements of the bank's Liquidity Risk Management Policy, a copy of the revised policy must be submitted to the Reserve Bank within 30 days after changes have been approved by the bank's board.
- 8.2 The Reserve Bank will assess the compliance of each bank with the requirements of this Policy in the normal course of its supervision.
- 8.3 A bank that fails to comply with the requirements of this Policy will be subject to sanctions under section 15 of the Banking Act 1995.
- 8.4 The Reserve Bank may adjust or exclude a specific requirement in this Policy by providing a written notice.

## **9.0 Implementation Arrangements**

- 9.1 This Policy applies to all commercial banks licensed under the Banking Act 1995; and becomes effective from 01 October 2023. Full compliance<sup>4</sup> is required within 12 months from the effective date, and will be reviewed as deemed necessary.

**Reserve Bank of Fiji  
June 2023**

### **Annexure:**

- Schedule
- Appendix 1 - Liquidity Coverage Ratio
- Annex 1 – Contractual Maturity Profile Reporting Form and Report Completion Instructions
- Annex 2 - Liquidity Coverage Ratio and Report Completion Instructions

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<sup>4</sup> Refer to Paragraph 5.5 on transitional arrangement for the LCR requirement.

## SCHEDULE

### Interpretation –

- (1) Any term or expression used in this Policy that is not defined in this Policy”
- a) which is defined in the Banking Act 1995, unless the context otherwise requires, have the meaning to it by the said Act; and,
  - b) which is not defined in the Act and which is defined in any of the Reserve Bank of Fiji Policy Statements shall, unless the context otherwise requires, have the meaning given to it by those policy statements.

(2) In this Notice, unless the context otherwise requires:

**‘Act’** means the Banking Act 1995

**‘Bank’** means the bank with the meaning given to it in the Banking Act 1995.

**‘Board’** means the board of directors of the licensed bank.

**‘HQLA’** means the eligible stock of high quality liquid assets defined in Appendix 1. All assets in the stock should be unencumbered.

**‘Net Cash Outflow’** means the total expected cash outflows minus total expected cash inflows as per the prescribed calculation method outline in Appendix 1.

**‘Small Business Customer’** means the total aggregated funding raised from a small business customer is less than FJ\$0.5m (on a consolidated basis where applicable); or loans extended to a small business customers is less than FJ\$0.5m<sup>5</sup>.

**‘Stress Scenario/Situation’** means the run off rates on cash outflows and rates on cash inflows prescribed in this Appendix 1 are representative of these stress scenario to be applied for the calculation of LCR.

**‘Unencumbered’** means free of legal, regulatory, contractual or other restrictions on the ability of the bank to liquidate, sell or transfer, or assign the asset.

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<sup>5</sup> This definition is designed solely for the purpose of LCR calculation.

**Appendix 1**

**Liquidity Coverage Ratio**

Objective of the Liquidity Coverage Ratio

- 1. The objective of the LCR is to ensure that banks maintain an adequate stock of unencumbered high quality liquid assets (HQLA) that consist of cash or assets that can be converted into cash at little or no loss of value, to meet its liquidity needs for a 30 calendar day time period under a severe liquidity stress scenario.
- 2. The LCR has two components:
  - a) The value of stock of HQLA in stressed conditions; and
  - b) Total net cash outflows, calculated according to the scenario parameters outline below.
- 3. The LCR is the percentage ratio:

$\frac{\text{Stock of HQLA}}{\text{Total net cash outflows over the next 30 calendar days}} \geq 100\%$
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- 4. A bank must include an appropriate buffer of HQLA over the LCR requirement in line with its liquidity risk tolerance.
- 5. During a period of financial stress, a bank may need to liquidate part of its stock of HQLA to cover cash outflows, as a consequence of which the LCR may fall below the minimum requirement of 100 percent. In such instances, the bank must notify the Reserve Bank of Fiji immediately in the event of a breach of its LCR requirement or if it becomes aware of circumstances that may result in a breach of its LCR requirement, and:
  - a) Provide its justification for the utilisation of the HQLA;
  - b) Set out the cause of the liquidity stress situation with supporting documents, as necessary; and
  - c) Detail the steps which it has taken and/or is going to take to resolve the liquidity stress situation.

**A. Eligible stock of high-quality liquid assets (HQLA)**

- 6. There are two categories of assets that can be included in the stock of HQLA. Assets to be included in each category are those that the bank is holding on the first day of the stress period, irrespective of their residual maturity. The highest-quality liquid asset (HQLA 1) may be included without limit, while other high-quality liquid assets (HQLA 2) may only comprise up to 40 percent of the total stock of HQLA.

### **HQLA 1**

7. HQLA 1 can comprise an unlimited share of stock of eligible HQLA. HQLA 1 are included at market value and are not subject to a haircut under the LCR. These assets are limited to:
- a) Coins and banknotes;
  - b) Central bank reserves (excluding the required SRD), ie ESA and the excess amount of the required SRD; and
  - c) Fiji Government issued securities, Fiji Government guaranteed securities and Reserve Bank of Fiji securities not exceeding 12 months to maturity:

### **HQLA 2**

8. A bank may include the following as HQLA 2 assets. A 15 percent haircut is applied to the current value of each HQLA 2 held in the stock of eligible HQLA. HQLA 2 are limited to the following securities with maturity of more than 12 months:
- a) Fiji Government issued securities;
  - b) Fiji Government guaranteed securities; and,
  - c) Reserve Bank of Fiji securities

### **Operational Requirements**

9. All assets in the stock of eligible HQLA must be managed as part of the that stock and are subject to the following operational requirements:
- a) The assets must be available for the bank to convert into cash at any time;
  - b) The assets must be unencumbered and be under the control of the specific function or functions charged with managing the liquidity risk of the bank. This would typically be the treasurer who must have the continuous authority, and legal and operational capacity, to monetise any asset in the stock; and
  - c) Control must be evidenced either by maintaining assets in a separate pool managed by the function with the sole intent to use as a source of contingent funds, or by demonstrating that the function can monetise the asset at any point in the 30-day stress period and that the proceeds of doing so are available to the function throughout the 30-day stress period without directly conflicting with a stated business or risk management strategy.
10. The assets must not be pledged to secure, collateralise or credit enhance any transactions or be designed to cover operational cost (such as rents and salaries).
11. For the purpose of calculating the LCR, if an eligible HQLA becomes ineligible, a bank may keep the asset in its stock of liquid assets for an additional 30 days. This allows the bank time to adjust its stock as needed to replace the asset.

### **B. Total Net Cash Outflows**

12. Total net cash outflows represent the total expected cash outflows minus total expected cash inflows in the specified stress scenario for the subsequent 30 calendar days. Total expected cash outflows are calculated by multiplying the

outstanding balances of various categories or types of liabilities and off-balance sheet commitments by the rates at which they are expected to run off or be drawn down. Total expected cash inflows are calculated by multiplying the outstanding balances of various categories of contractual receivables by the rates at which they are expected to flow in under the scenario, up to an aggregate cap of 75 percent of the total expected cash outflows.

13. The run off rates on cash outflows and rates on cash inflows prescribed in this Appendix are representative of these stress scenario to be applied for the calculation of LCR. Banks should validate these assumptions with their internal data and apply the most conservative rates.
14. A bank must not double-count items. That is, if assets are included as part of the stock of HQLA, the associated cash inflows cannot also be counted as cash inflows.

## **Expected Cash Outflows**

### **(i) Retail deposit outflows**

15. For the purposes of the LCR, 'retail deposits' are defined as deposits placed with a bank by a natural person<sup>6</sup>. Retail deposits include demand deposits and term deposits.
16. Retail deposits are divided into 'stable' and 'less stable' portion of funds, as described below.
17. Stable deposits are the amount of the deposits that are fully insured by an effective deposit insurance scheme or by a public guarantee that provides equivalent protection and where:
  - a) The depositor has other established relationships with the bank that make deposit withdrawal highly unlikely; or
  - b) The deposits are in transactional accounts (eg accounts where salaries are automatically credited).
18. Run-off rate for stable deposits is 8%.
19. Less stable deposits are the portion of deposits that do not meet the requirements of stable deposits. They receive run-off rate of 15%.
20. If a bank is not able to readily identify which retail deposits would qualify as 'stable' according to the above definition, it should place the full amount in the 'less stable' buckets.

### **Retail fixed-term deposits**

21. Cash outflow related to retail fixed or term deposits with a residual maturity or withdrawal notice period of greater than 30 days are subject to a run off rate of 3 percent.

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<sup>6</sup> Sole proprietorship or partnerships are captured in wholesale deposit categories.

**(ii) Unsecured wholesale funding run-off**

22. For the purpose of the LCR, 'unsecured wholesale funding' is defined as those liabilities and general obligations that are raised from non-natural persons (ie legal entities including sole proprietorships and partnerships) and are not collateralised by legal rights to specifically designated assets owned by the borrowing institution in the case of bankruptcy, insolvency, liquidation or resolution.
23. The wholesale funding included in the LCR is defined as all funding that is callable within the LCR's horizon of 30 days or that has its earliest possible contractual maturity date within this horizon, as well as funding with an undetermined maturity. This must include all funding with options that are exercisable at the investor's discretion within the 30-day horizon.
24. Wholesale funding that is callable by the funds provider subject to a contractually defined and binding notice period surpassing the 30-day horizon is not included. For the purpose of the LCR, unsecured wholesale funding is to be classified under the categories under unsecured wholesale funding in the Run-off rates table listed for each category (Refer to Illustrative Summary of the LCR in page 28 of this Policy).

**Unsecured wholesale funding provided by small business customers**

25. Unsecured wholesale funding provided by small business customer is treated the same way as retail deposits where:
  - The deposits and other extensions of funds made by small business customers are managed as retail exposures and are generally considered as having similar liquidity risk characteristics to retail accounts;
  - The total aggregated funding raised from a small business customer is less than FJ\$0.5m (on a consolidated basis where applicable).

**Operational deposit generated by clearing, custody and cash management**

26. For the purpose of the LCR, operational deposits are those where financial and non-financial customers 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. Balances can only be included if the customer has a substantive dependency on the bank and the deposit is required for such activities.
27. Qualifying activities in this context refer to clearing, custody or cash management activities whereby the customer is reliant on the bank to perform these services as an independent third-party intermediary in order to fulfil its normal banking activities over the next 30 days.
28. Qualifying operational deposits generated by such an activity are ones where the deposits are:
  - by-products of the underlying services provided by the bank;



- not offered by the bank in the wholesale market in the sole interest of offering interest income; and
- held in specifically designated accounts and priced without giving an economic incentive to the customer to leave excess funds on these accounts

29. Any excess balances that could be withdrawn without jeopardising these clearing, custody or cash management activities do not qualify as operational deposits.

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

30. A bank shall include as secured funding cash outflows any liabilities and general obligations that are collateralised by legal rights to specifically designed assets owned by the borrowing institution in the case of bankruptcy, insolvency, liquidation or resolution.

31. Cash outflow rates that apply to each category for outstanding secured funding transactions that matures within the 30-day LCR horizon are specified in the Table at the end of this Appendix (Refer to Illustrative Summary of the LCR in page 28 of this Policy).

**(iv) Additional Requirements**

Derivatives cash outflows

32. The sum of all net cash outflow should receive a 100 percent factor. Banks should calculate, in accordance with their existing valuation methodologies, expected contractual derivative cash inflows and outflows. Banks should 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.

33. Banks may calculate cash flows by counterparty on a net basis subject to the following conditions:

- There should be either be a valid master netting agreement or the agreement for each swap transaction being netted off should involve full exchange of principal on a simultaneous basis or within the same day.
- The netting off should be between major currencies which are freely convertible transferable and actively traded in global foreign exchange markets; and
- A haircut equal to higher of 8 percent or the 30-day moving volatility of the exchange rate (mean +3 standard deviations) of the currency pair over a ten-year period, whichever is the higher.

34. Where derivative payments are collateralised by HQLA, cash outflows should be calculated net of any corresponding cash or collateral inflows that would result, all other things being equal, from contractual obligations for cash or collateral to be provided to the bank, if the bank is legally entitled and operationally capable to re-use the collateral in new cash rising transactions once the collateral is received. This is in line with the principle that banks should not double count liquidity inflows and outflows.

### **Liquidity Facilities**

35. A liquidity facility is any committed, undrawn back-up facility that would be used to refinance the debt obligations of a customer in situations where such a customer is unable to rollover that debt in the financial markets. The amount of any commitment to be treated as a liquidity facility is the amount of the outstanding debt issued by the customer (or proportionate share of a syndicated facility) maturing within a 30-day period that is backstopped by the facility. Any additional capacity of the facility is to be treated as a committed credit facility. General working capital facilities for corporate entities (eg revolving credit facilities in place for general corporate or working capital purposes) must not be classified as liquidity facilities, but as credit facilities.

### **Expected Cash Inflows**

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

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

37. A bank must assume that maturing reverse repurchase or securities borrowing agreements secured by HQLA1 will be rolled over and will not give rise to any cash inflows (zero percent). Maturing reverse repurchase or securities borrowing agreements secured by other HQLA are to be modelled as cash inflows equivalent to the haircut for the specific assets, as outline in the Table at the end of this Appendix. Collateralised loan extended to customers for the purpose of taking leveraged trading positions are to be modelled with a 50 percent cash inflow from contractual inflows made against non-HQLA1 or non-HQLA2.
38. As an exception to paragraph 37 of this Appendix, if the collateral obtained through reverse repo, securities borrowing or collateral swaps, which matures within the 30-day horizon, is re-used and is tied up for 30 days or longer to cover short positions, a bank must assume that such reverse repo or securities borrowing arrangements will be rolled over and will not give rise to any cash inflows (zero percent), reflecting its need to continue to cover the short position or to re-purchase the relevant securities.

#### **(ii) Committed facilities**

39. Credit facilities, liquidity facilities and other contingent funding facilities that a bank holds at other institutions for its own purposes receive a zero percent inflow rate.
40. Subject to approval of the Reserve Bank of Fiji, a committed line of credit provided by a parent entity which is already subject to consolidated LCR requirements in its home jurisdiction may receive a 40 percent inflow rate.

### **(iii) Other inflows by counterparty**

41. All inflows in respect of loan payments must be taken only at the latest possible date, based on the contractual rights available to counterparties. Inflows from loans that have no specific maturity are not included, with the exception of minimum payments of principal, fee or interest associated with an open maturity loan provided that such payments are contractually due within 30 days.

#### Retail and small business customer inflows

42. A bank is assumed to receive all fully performing contractual inflows from retail and small business customers. At the same time, however, a bank is assumed to continue to extend loans to retail and small business customers, at a rate of 50 percent of contractual inflows. This results in a net inflow rate of 50 percent of the contractual amount.

#### Other wholesale inflows

43. A bank is assumed to receive all fully performing contractual wholesale cash inflows. In addition, a bank is assumed to continue to extend loans to wholesale clients, at a rate of zero percent of inflows for financial institutions and central banks, and 50 percent for all other including non-financial corporates, sovereigns, public sector entities (PSEs), and MDBs. This will result in an inflow rate of:

- 100 percent from financial institutions and central bank counterparties; and
- 50 percent for other entities.

44. Inflows from maturing securities not included in the stock of HQLA receive an inflow rate of 100 percent.

#### Operational deposits

45. A zero percent inflow rate applies to deposits held at other financial institutions for operational purposes.

### **(iv) Other Cash inflows**

#### Derivatives cash inflows

46. The sum of all net cash inflows should receive a 100 percent factor. The amount of derivatives cash inflows and outflows should be calculated in accordance with the methodology described in paragraph 32 and 34.
47. Other contractual cash inflows must be captured here, with explanation given as to what comprise this bucket. Cash inflows related to non-financial revenues are not taken into account in the calculation of the net cash outflows for the purposes of the LCR. These items receive an inflow rate of 50 percent.

## Illustrative Summary of the LCR

To be reported in All Currencies in Form ML-2A and in Fiji Dollar in Form ML-2B. Percentage are factors to be multiplied by the total amount of each item.

Item	Factor
<b>Stock of HQLA</b>	
<b>A. HQLA 1:</b> <ul style="list-style-type: none"> <li>• Coins and bank notes</li> <li>• Qualifying central bank reserves (reserves in excess of the Statutory Reserve Requirement) and Exchange Settlement Account balances</li> <li>• Domestic sovereign or central bank securities with maturity of not exceeding 12 months:               <ol style="list-style-type: none"> <li>i. Fiji Government issued Securities</li> <li>ii. Fiji Government guaranteed Securities</li> <li>iii. Reserve Bank of Fiji Securities</li> </ol> </li> </ul>	100%
<b>B. HQLA 2(maximum of 40% of HQLA) [Hint: HQLA=HQLA1/0.6]:</b> <ul style="list-style-type: none"> <li>• Domestic sovereign or central bank securities with residual maturity of more than 12 months:               <ol style="list-style-type: none"> <li>i. Fiji Government issued Securities</li> <li>ii. Fiji Government guaranteed Securities</li> <li>iii. Reserve Bank of Fiji Securities</li> </ol> </li> </ul>	85%
Total Value of stock of HQLA	
<b>Cash Outflow</b>	
<b>A. Retail Deposits (Demand deposits and term deposits):</b> <ul style="list-style-type: none"> <li>• Stable deposits (include term deposits of less than 30 days maturity) 8%</li> <li>• Less stable retail deposits 15%</li> <li>• Term deposits with residual maturity greater than 30 days 3%</li> </ul>	
<b>B. Unsecured wholesale funding:</b> <ul style="list-style-type: none"> <li>• Demand deposits and term deposits(less than 30 days maturity) provided by small business customers:               <ul style="list-style-type: none"> <li>➢ Stable deposits 8%</li> <li>➢ Less stable deposits 15%</li> <li>➢ Term deposits with residual maturity greater than 30 days 3%</li> </ul> </li> <li>• Operational deposits generated by clearing, custody and cash management activities 25%</li> <li>• Non-financial corporate, sovereign, central bank, and PSEs 40%</li> </ul>	

<ul style="list-style-type: none"> <li>• Other legal entity customers</li> </ul>	100%
<b>C. Secured Funding:</b> <ul style="list-style-type: none"> <li>• Secured funding transactions with a central bank counterparty or backed by HQLA 1 with any counterparty</li> <li>• Secured funding transactions backed by HQLA 2 assets, with any counterparty</li> <li>• All other secured funding transactions</li> </ul>	0%  15%  100%
<b>D. Additional Requirements:</b> <ul style="list-style-type: none"> <li>• Current undrawn committed credit and liquidity facilities provided to: <ul style="list-style-type: none"> <li>➤ Retail and small business customers</li> <li>➤ Non-financial corporates, sovereigns and PSEs</li> <li>➤ Commercial Bank</li> <li>➤ Other financial institutions (include securities firms, insurance companies and credit institutions)</li> <li>➤ Other legal entity customers, credit and liquidity facilities</li> </ul> </li> <li>• Other contingent funding liabilities (such as guarantee, letters of credit, revocable credit and liquidity facilities, etc) <ul style="list-style-type: none"> <li>➤ Revocable credit and liquidity facilities</li> <li>➤ Trade finance related obligations</li> <li>➤ Guarantees and letters of credit other than trade finance related obligations</li> </ul> </li> <li>• Any additional contractual outflows</li> <li>• Net derivatives cash outflows</li> <li>• Any other contractual cash outflows</li> </ul>	➤ 5% ➤ 10% for credit 30% for liquidity ➤ 40%  ➤ 40% for credit 100% for liquidity  ➤ 100%          ➤ 5%  ➤ Average of actual monthly net outflow in a recent 12-month period ➤ 50% of Average of actual monthly net outflow in a recent 12-month period   ➤ 100% ➤ 100% ➤ 100%
<b>Cash Inflows</b>	
<ul style="list-style-type: none"> <li>• Maturing secured lending transactions backed by the following collateral: <ul style="list-style-type: none"> <li>➤ HQLA 1</li> </ul> </li> </ul>	➤ 0%

<ul style="list-style-type: none"> <li>➤ HQLA 2</li> <li>➤ All other assets</li> </ul>	<ul style="list-style-type: none"> <li>➤ 5% (0% if collateral is used to cover short positions)</li> <li>➤ 100% (0% if collateral is used to cover short positions)</li> </ul>
<ul style="list-style-type: none"> <li>• Credit or liquidity facilities provided to the reporting bank: <ul style="list-style-type: none"> <li>➤ From parent entity</li> <li>➤ From Reserve Bank of Fiji (if relevant)</li> <li>➤ From other entities</li> </ul> </li> <li>• Operational deposits held at other financial institutions</li> <li>• Other inflows by counterparty: <ul style="list-style-type: none"> <li>➤ Retail and business customers</li> <li>➤ Other wholesale inflows: <ul style="list-style-type: none"> <li>▪ Financial institutions and central bank counterparties</li> <li>▪ Non-financial wholesale counterparties</li> </ul> </li> </ul> </li> <li>• Other contractual cash inflows: <ul style="list-style-type: none"> <li>➤ Net derivative cash inflows</li> <li>➤ Other contractual cash inflows</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>➤ 40% (subject to RBF approval)</li> <li>➤ 100%</li> <li>➤ 0%</li> <li>➤ 0%</li> <li>➤ 50%</li> <li>➤ 100%</li> <li>➤ 50%</li> <li>➤ 100%</li> <li>➤ 50%</li> </ul>
<b>CALCULATION OF THE LIQUIDITY COVERAGE RATIO</b>	
Total HQLA	
Total Cash Outflows	
Total Cash Inflow after applying the inflow cap	
Net cash outflows=Total cash outflow minus min{total cash inflow; 75% of gross outflows)	
LCR = Stock of HQLA/total net cash outflows	
Minimum LCR per the bank's liquidity management strategy	
Lowest end of day LCR during the reporting period	
Highest end of day LCR during the reporting period	
Average end of day LCR during the reporting period	