

CENTRAL BANK OF NIGERIA



GUIDELINES ON LIQUIDITY COVERAGE RATIO(LCR)

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1. Introduction

1. The objective of these Guidelines is to define the minimum requirements for Liquidity Coverage Ratio (LCR) for reporting entities operating in the Nigerian Banking Industry. The LCR aims to promote short-term resilience of the liquidity risk profile of reporting entities by ensuring that they have an adequate stock of unencumbered high-quality liquid assets (HQLA) that can be converted easily and immediately into cash in private markets to survive a significant stress scenario lasting 30 calendar days.
2. Liquidity risk is the risk that a reporting entity may not be able to meet its obligations as they fall due without incurring unacceptable losses. This could be as a result of the inability of the entity to liquidate sufficient assets in a timely fashion or to obtain funding to meet its liquidity needs due to institution-specific reasons or market-wide stress.
3. The Central Bank of Nigeria (CBN) acknowledges the importance of liquidity to the proper functioning of financial markets and the banking sector. The role of reporting entities in financial intermediation engenders maturity transformation of short-term deposits into long-term loans, which in turn makes the entities vulnerable to liquidity risk.
4. Liquidity challenges facing individual entities may have systemic knock-on effects to the banking system, affecting the smooth functioning of the payment systems and other segments of the financial markets. Sound liquidity risk management is therefore critical to the viability of every entity and the stability of the overall banking system. The LCR will improve the banking sector's ability to absorb shocks arising from financial and economic stress, thus reducing the risk of spill-over from the financial sector to the real economy.

2. Application Issues for the LCR

2.1 Objectives of the Liquidity Coverage Ratio (LCR)

5. The LCR is aimed at promoting the short-term resilience of the liquidity risk profile of reporting entities. This is achieved by ensuring that the entities have an adequate stock of unencumbered HQLAs that can easily and immediately 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 scenario¹.

¹ At a minimum, the stock of unencumbered HQLA should enable the bank to survive until day 30 of the stress scenario, by which time it is assumed that appropriate corrective actions are taken.

6. A reporting entity shall hold and maintain, at all times a stock of HQLA that is at least equal to total net cash outflows, i.e., maintain an LCR of at least 100 % on an on-going basis.

2.2 Scope of Application

7. The LCR shall apply to all commercial and merchant banks (Reporting Banks) operating in the Nigerian Financial System at both entity (stand-alone) and consolidated basis.
8. Notwithstanding the scope of application of the LCR, reporting entities should actively monitor and control their liquidity risk exposures and funding needs at the level of individual legal entities, subsidiaries, and the group as a whole, taking into consideration legal, regulatory and operational limitations to the transferability of liquidity.
9. To ensure consistency in applying the LCR, further information is provided below on two application issues.

2.2.1 Differences in home/host liquidity requirements

10. While most of the parameters in the LCR are internationally “harmonised”, national differences in liquidity treatment may occur in those items subject to national discretion (e.g. deposit run-off rates, contingent funding obligations, market valuation changes on derivative transactions, etc.) and where more stringent parameters are adopted by some supervisors.
11. When calculating the LCR on a consolidated basis, a cross-border banking group should apply the liquidity parameters adopted by the CBN to all legal entities being consolidated except for the treatment of retail / small business deposits that should follow the relevant parameters adopted in host jurisdictions in which the entities (subsidiary) operate. This approach will enable the stressed liquidity needs of legal entities of the group (including branches of those entities) operating in host jurisdictions to be more suitably reflected, given that deposit run-off rates in host jurisdictions are more influenced by jurisdiction-specific factors such as the type and effectiveness of deposit insurance schemes in place and the behaviour of local depositors.
12. The CBN requirements for retail and small business deposits should apply to the relevant legal entities (including subsidiaries of those entities) operating in host jurisdictions if:

- a) there are no host requirements for retail and small business deposits in the particular jurisdictions;
- b) those entities operate in host jurisdictions that have not implemented the LCR;
or
- c) the CBN (as the home supervisor) decides that home requirements should be used that are stricter than the host requirements.

2.2.2 Treatment of Liquidity Transfer Restrictions

13. As a general principle, no excess liquidity should be recognised by a cross-border banking group in its consolidated LCR if there is reasonable doubt about the availability of such liquidity. Liquidity transfer restrictions (e.g. ring-fencing measures, non-convertibility of local currency, foreign exchange controls etc.) in jurisdictions in which a banking group operates will affect the availability of liquidity by inhibiting the transfer of HQLA and fund flows within the group. A banking group should have processes in place to capture all liquidity transfer restrictions to the extent practicable, and to monitor the rules and regulations in the jurisdictions in which the group operates and assess their liquidity implications for the group as a whole.

2.3 Currencies

14. While the LCR is expected to be met and reported on a consolidated basis in a single currency, reporting entities should be able to meet their liquidity needs in each currency and maintain a stock of HQLA consistent with the distribution of their liquidity needs by currency. The reporting entities should be able to use the stock of HQLA to generate liquidity in the currency and jurisdiction in which the net cash outflows arise. As such, the LCR by currency is expected to be observed and reported to allow the entity and the CBN to track any potential currency mismatch issues that could arise.

15. A reporting entity with assets and liabilities denominated in foreign currencies shall therefore:

- a) Report its LCR positions for US dollars, Pound Sterling, Euro, Yuan, and other currencies in Naira equivalent separately, regardless of whether these are significant currencies for the reporting entity; and
- b) Monitor the liquidity needs in significant currencies on an ongoing basis.

16. In managing foreign exchange liquidity risk, a reporting entity should consider the risk that its ability to swap currencies and access the relevant foreign exchange

markets may erode rapidly under stressed conditions. It should be aware that sudden, adverse exchange rate movements could sharply widen existing mismatched positions and alter the effectiveness of any foreign exchange hedges in place. These considerations should be incorporated in the entity's Internal Liquidity Adequacy Assessment Process (ILAAP) report to the CBN.

2.4 Frequency of calculation and reporting

17. Reporting entities are required to comply with the minimum LCR on an on-going (daily) basis to help monitor and control their liquidity risk. However, for the purposes of supervisory oversight, reporting entities shall submit their respective LCR returns to the CBN in the manner prescribed below:

Table 1: Frequency of Reporting

Reporting Details	Solo Basis	Consolidated Basis
Reporting Frequency	Monthly	Quarterly
Reporting Date	Month-end	Quarter-end
Reporting Coverage	30 Calendar days from reporting date	30 Calendar days from reporting date
Submission Deadlines	5 days after the last day of each month.	5 days after the last day of each month.

18. Reporting entities should have the operational capability to increase the frequency of submission of returns to the CBN to weekly or even daily in stressed situations.

19. Reporting entities must notify the CBN immediately if their LCR has fallen, or is expected to fall, below 100%.

2.5 Definition of LCR

20. The LCR is a ratio, expressed as a percentage of a reporting entity's stock of HQLA to its total net cash outflows over 30 calendar days, i.e., the LCR period. It has two components:

- a) value of the stock of HQLA in stressed conditions; and
- b) total net cash outflows calculated according to the scenario parameters outlined below in **Paragraph 24**.

21. The LCR is specified as:

$$\frac{\text{Stock of HQLA}}{\text{Total net cash outflows over the next 30 calendar days}} \geq 100\%$$

22. The stock of unencumbered HQLA is intended to serve as a defence against the potential onset of liquidity stress. A reporting entity should aim to ensure on an ongoing basis that its stock of HQLA is at least equal to its total net cash outflows over the next 30 calendar days (i.e., LCR is at least 100 %). During periods of stress, however, it would be entirely appropriate for reporting entities to draw on their stock of HQLA, resulting in the LCR falling below the minimum. In such circumstance, the reporting entity shall immediately notify the CBN in writing of its intent to utilise its stock of HQLA and provide an explanation on:

- a) The factors that contributed to its LCR falling below 100%, including any supporting documentation;
- b) The measures that have been and/or will be taken to restore the LCR position; and
- c) The expectation on the length of time that the LCR position would remain below the minimum prescribed level.

23. The CBN will assess the situation where a reporting entity's reported LCR falls below 100% and could require actions by the entity to:

- a) reduce its exposure to liquidity risk;
- b) strengthen its overall liquidity risk management; and/or
- c) improve its Contingency Funding Plan (CFP).

The CBN may also require enhanced supervisory reporting of the reporting entity's LCR position.

24. The scenario parameters for the LCR are a combination of idiosyncratic and market-wide shocks that would result in:

- a) the run-off of a proportion of retail deposits;
- b) a partial loss of unsecured wholesale funding capacity;
- c) a partial loss of secured, short-term financing with certain collateral and counterparties;

- d) additional contractual outflows that would arise from a downgrade in the reporting entity's public credit rating by up to and including three notches, as well as collateral posting requirements;
- e) increases in market volatilities that impact the quality of collateral or potential future exposure of derivative positions and thus require larger collateral haircuts or additional collateral, or lead to other liquidity needs;
- f) unscheduled draws on committed but unused credit and liquidity facilities that the reporting entity has provided to its clients; and
- g) the potential need for the reporting entity to buy back debt or honour non-contractual obligations in the interest of mitigating reputational risk.

25. Reporting entities should view the above stress parameters as a minimum supervisory requirement. They are therefore expected to conduct their own stress test to assess the level of liquidity that they should hold beyond the minimum and formulate scenarios that could adversely impact on their specific business activities.

26. From time to time, the CBN reserves the right to impose stricter parameters where it deems necessary. Reporting entities should comply with any requirement to hold additional liquidity buffers that may be specified by the CBN. The additional liquidity buffers will take into consideration the entity's liquidity risk profile and the quality of its risk mitigation measures in place.

3. Stock of HQLA

27. Reporting entities must hold a stock of unencumbered HQLA to cover their total net cash outflows over a 30-day period under the prescribed stress scenarios. The CBN will assess eligibility of any assets for inclusion in the stock of HQLA on the basis of the fundamental and market-related characteristics set out below in **Paragraphs 29-35**, as well as the capacity of such assets to fulfil certain operational requirements described in Paragraphs **36-43**.

3.1. Characteristics of HQLA

28. Assets are considered to be HQLA if they can be easily and immediately converted into cash at little or no loss of value. The liquidity of an asset depends on the underlying stress scenario, the volume to be monetised and the timeframe considered. The following outlines the factors that influence whether or not the market for an asset can be relied upon to raise liquidity when considered in the context of the possible stresses.

3.1.1 Fundamental Characteristics:

29. **Low risk:** Assets that are less risky tend to have higher liquidity. High credit standing of the issuer and a low degree of subordination increase an asset's liquidity. Low sensitivity to changes in interest rate, low legal risk, low inflation risk and denomination in a convertible currency with low foreign exchange risk all enhance an asset's liquidity.
30. **Ease and certainty of valuation:** An asset's liquidity increases if market participants are more likely to agree on its valuation. Assets with more standardised, homogenous, and simple structures tend to be more fungible, promoting liquidity. The pricing formula of a HQLA must be easy to calculate and not dependent on strong assumptions. The inputs into the pricing formula must also be publicly available²;
31. **Low correlation with risky assets:** The stock of HQLA should not be subject to wrong-way (highly correlated) risk³; and
32. **Listed on a developed and recognised exchange:** Being listed increases an asset's transparency.

3.1.2 Market-Related Characteristics

33. **Active and sizeable market:** The asset should have active outright sale or repo markets at all times. This means that there should be historical evidence of market breadth and depth, and a robust market infrastructure in place.
34. **Low volatility:** Assets whose prices remain relatively stable and are less prone to sharp price declines over time will have a lower probability of triggering a forced sale to meet liquidity requirements. There should also be historical evidence of relative stability of the market in terms of prices, haircuts, and volumes during stressed periods.
35. **Flight to quality:** Historically, market had shown tendencies to move into these types of assets in a systemic crisis. The correlation between proxies of market liquidity and banking system stress is one simple measure that could be used.

3.2 Operational Requirements

36. Operational requirements are designed to ensure that the stock of HQLA is managed in such a way that the reporting entity can, and is able to demonstrate

² In practice, this should exclude most structured or exotic products.

³ For example, assets issued by financial institutions are more likely to be illiquid in times of liquidity stress in the banking sector.

that it can, immediately use the stock of assets as a source of contingent funds and that the stock of assets is available for the entity to convert into cash through outright sale or repo. The aim is to fill funding gaps between cash inflows and outflows at any time during the 30-day stress period with no restriction on the use of the liquidity generated.

37.A reporting entity shall treat an asset as HQLA only if the following operational requirements are met:

- a) a reporting entity must periodically monetise a representative proportion of the assets in the stock through repo or outright sale, in order to test its access to the market, the effectiveness of its processes for monetisation, the availability of the assets, and to minimise the risk of negative signalling during a period of actual stress;
- b) all assets in the stock should be unencumbered, i.e., free of legal, regulatory, contractual, or other restrictions on the ability of the reporting entity to liquidate, sell, transfer, or assign the asset. Pledged assets do not fulfil this requirement. An asset in the stock should not be pledged (either explicitly or implicitly) to secure, collateralise or credit-enhance any transaction, nor be designated to cover operational costs (such as rents and salaries). Assets received in reverse repo and securities financing transactions that are held by the reporting entity, have not been rehypothecated, and are legally and contractually available for the reporting entity's use can be considered as part of the stock of HQLA.
- c) a reporting entity should exclude from the stock those assets that, although meeting the definition of 'unencumbered' specified in (b) above, the entity does not have the operational capability to monetise to meet outflow during stress period. Operational capability to monetise assets requires having procedures and appropriate systems in place;
- d) monetisation of the asset must be executable from an operational perspective in the standard settlement period for the asset class in the relevant jurisdiction;
- e) a reporting entity has a policy in place that identifies the legal entities, geographical locations, currencies and specific custodial or bank accounts where HQLA are held;
- f) the stock must be under the control of the function charged with managing the liquidity of the reporting entity (e.g. the treasurer) and the function should have continuous authority, and legal and operational capability, to monetise any asset in the stock.

38.A reporting entity is permitted to hedge the market risk associated with ownership of the stock of HQLA and still include the assets in the stock. If it chooses to hedge the market risk, the reporting entity should take into account (in the market value

applied to each asset) the cash outflow that would arise if the hedge were to be closed out early (in the event of the asset being sold);

39. The function charged with managing liquidity must have access to all necessary information to execute monetisation of any asset at any time. It must also evidence control either by:
- a) maintaining assets in a separate pool managed by the function with the sole intent for use as a source of contingent funds, or
 - b) 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.
40. Assets held in legal entities without market access should only be included to the extent that they can be freely transferred to other entities that could monetise the assets.
41. The reporting entity must exclude from the stock of HQLA those assets where there are impediments to sale, such as large fire-sale discounts which would cause it to breach minimum solvency requirements, or requirements to hold such assets.
42. Reporting entities must not include in the stock of HQLA any assets, or liquidity generated from assets, they have received under right of rehypothecation if the beneficial owner has the contractual right to withdraw those assets during the 30-day stress period.
43. The reporting entity must be able to show proof of existence of policies, procedures and systems that monitor the current market value, as well as:
- a) diversification of the stock of HQLA within the asset classes themselves (except for cash, Nigerian government securities, and accounts with the CBN); and
 - b) concentration with respect to asset type, issue and issuer type, and currency (consistent with the distribution of net cash outflows by currency) within asset classes.

4. Definition of HQLA

44. The stock of HQLA should comprise assets with the characteristics outlined in **Paragraphs 28-35**. There are two categories of assets (Level 1 and Level 2) that

can be included in the stock. These are assets held by a reporting entity on the first day of the stress period, irrespective of their residual maturity.

45. Level 1 assets can be included without limit (that is, 100%), while Level 2 assets can only comprise up to 40% of the stock. Level 2 assets are further sub-divided into Level 2A and Level 2B assets on the basis of their price-volatility. Level 2B assets can comprise no more than 15% of the total stock of HQLA and must be included within the overall 40% cap on Level 2 assets.

46. The 40% cap on Level 2 assets and the 15% cap on Level 2B assets should be determined after the application of required haircuts of 15% for Level 2A and 50% for Level 2B, and after taking into account the unwind of short-term securities financing transactions and collateral swap transactions maturing within 30 calendar days that involve the exchange of HQLA.

4.1 Level 1 Assets

47. Level 1 assets can comprise an unlimited share of the stock of eligible HQLA. Level 1 assets are included at current market value and are not subject to a haircut under the LCR. They are limited to:

- a) cash and banknotes;
- b) central bank reserves (excluding Cash Reserve Requirement reserves);
- c) marketable securities representing claims on, or guaranteed by, sovereigns, central banks, Public Sector Entities (PSEs), multilateral development banks, etc., that satisfy all of the following conditions:
 - i. assigned a 0% risk-weight under the Standardised Approach (SA) to credit risk as per Guidance Notes on the Calculation of Capital Requirement for Credit Risk;
 - ii. traded in large, deep, and active repo or cash markets characterized by a low level of concentration;
 - iii. have a proven record as a reliable source of liquidity in the markets (through repo or outright sale) even during stressed market conditions; and
 - iv. not an obligation of a financial institution or any of its associated entities.
- d) where the sovereign has a non-0% risk weight, sovereign or central bank debt securities issued in domestic currencies by the sovereign or central bank in the country in which the liquidity risk is being taken or in the entity's home country; and
- e) where the sovereign has a non-0% risk weight, domestic sovereign or central bank debt securities issued in foreign currencies are eligible up to the amount

of the reporting entity's stressed net cash outflows in that specific foreign currency stemming from the entity's operations in the jurisdiction where the entity's liquidity risk is being taken.

4.2 Level 2 Assets

48. Level 2 assets (comprising Level 2A assets and Level 2B assets permitted by the CBN) are limited to 40% of the overall stock of HQLA after haircuts have been applied. The method for calculating the cap on Level 2 assets and the cap on Level 2B assets is set out in **Appendix I**

4.2.1 Level 2A Assets

49. 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:

- a) marketable securities representing claims on or guaranteed by sovereigns, central banks, PSEs, or multilateral development banks that satisfy all of the following conditions:
 - i. assigned a 20% risk weight under the Standardised Approach to credit risk;
 - ii. traded in large, deep, and active repo or cash markets characterised by a low level of concentration;
 - iii. have a proven record as a reliable source of liquidity in the markets (through repo or outright sale) even during stressed market conditions (i.e. maximum decline of price not exceeding 10% or increase in haircut not exceeding 10 percentage points over a 30-day period during a relevant period of significant liquidity stress); and
 - iv. not an obligation of a financial institution or any of its affiliated entities.
- b) Corporate debt securities (including commercial paper) that satisfy all of the following conditions:
 - i. in the case of corporate debt securities: not issued by a financial institution or any of its affiliated entities;
 - ii. the assets have a long-term credit rating from a recognized external credit 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 as per Guidance Notes on the Calculation of Capital Requirement for Credit Risk;
 - iii. traded in large, deep, and active repo or cash markets characterised by a low level of concentration; and

- iv. have a proven record as a reliable source of liquidity in the markets (through repo or outright sale) even during stressed market conditions i.e. maximum decline of price or increase in haircut over a 30-day period during a relevant period of significant liquidity stress not exceeding 10%.

4.2.2 Level 2B Assets

50. The reporting entity should be able to fully demonstrate to the CBN that it has appropriate systems and measures to monitor and control the potential risks (e.g., credit and market risks) that the entity could be exposed to in holding these assets.

51. A larger haircut is applied to the current market value of each Level 2B asset held in the stock of HQLA. Level 2B assets are limited to the following:

- a) Corporate debt securities (including commercial paper) that satisfy all of the following conditions may be included in Level 2B, subject to a 50% haircut:
 - i. not issued by a financial institution or any of its affiliated entities;
 - ii. have a long-term credit rating from a recognized ECAI between A+ and BBB- or in the absence of a long-term rating, a short-term rating equivalent in quality to the long-term rating as per Guidance Notes on the Calculation of Capital Requirement for Credit Risk;
 - iii. traded in large, deep, and active repo or cash markets characterised by a low level of concentration; and
 - iv. have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions, i.e. a maximum decline of price not exceeding 20% or increase in haircut over a 30-day period not exceeding 20 percentage points during a relevant period of significant liquidity stress.
- b) Common equity shares that satisfy all of the following conditions may be included in Level 2B, subject to a 50% haircut:
 - i. not issued by a financial institution or any of its affiliated entities;
 - ii. exchange traded and centrally cleared;
 - iii. a constituent of the major stock index in the home jurisdiction or where the liquidity risk is taken, as decided by the supervisor in the jurisdiction where the index is located;
 - iv. denominated in the domestic currency of a reporting entity's home jurisdiction or in the currency of the jurisdiction where the entity's liquidity risk is taken;
 - v. traded in large, deep, and active repo or cash markets characterised by a low level of concentration; and

- vi. have a proven record as a reliable source of liquidity in the markets (through repo or outright sale) even during stressed market conditions, i.e. a maximum decline of share price not exceeding 40% or increase in haircut not exceeding 40% over a 30-day period during a relevant period of significant liquidity stress.

5. Total Net Cash Outflows

52. Total net cash outflows⁴ is defined as 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% of total expected cash outflows.

$$\text{Total net cash outflows over the next 30 calendar days} = \text{Total expected cash outflows} - \text{Min} \{ \text{total expected cash inflows}; 75\% \text{ of total expected cash outflows} \}$$

53. Total net cash outflow over the next 30 calendar days is given by the total expected cash outflows minus the lower of:

- a) total expected cash inflows; or
- b) 75% of total expected cash outflows.

54. **Appendix 2** provides a summary of the factors that are applicable to each category.

55. A reporting entity is not allowed to double count items in the calculation of the LCR, i.e., if an asset is included as part of the stock of HQLA (i.e. the numerator), the associated cash inflows should not also be counted as cash inflows (i.e. part of the denominator). Where there is potential that an item could be counted in multiple outflow categories, (e.g. committed liquidity facilities granted to cover debt maturing within the 30-calendar day period), a reporting entity should only assume up to the maximum contractual outflow for that product.

⁴ Where applicable, cash inflows and outflows should include interest that is expected to be received and paid during the 30-day time horizon.

56. In calculating cash outflows and inflows with uncertain maturities, the reporting entity must make the most conservative assumptions for determining the maturity or transaction date for an instrument or transaction.

5.1 Cash Outflows

5.1.1 Retail Deposit Run-Off

57. Retail deposits are defined as deposits placed with a bank by a natural person. Retail deposits subject to the LCR include demand deposits and term deposits, unless otherwise excluded under the criteria set out in **Paragraph 67 and 68**. Deposits from legal entities, sole proprietorships or partnerships are captured in wholesale deposit categories.

58. Retail deposits are divided into “stable” and “less stable” deposits.

A. Stable deposit (run-off rate = 5%)

59. Stable deposits, for the purposes of the LCR, are the amount of retail deposits that are fully insured by an effective deposit insurance scheme (e.g., Nigeria Deposit Insurance Corporation (NDIC)) up to the maximum coverage limit or by a public guarantee that provides equivalent protection, 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).

60. A reporting entity shall assign a run-off rate of 5% to stable deposits.

61. An established relationship shall refer to any banking relationship excluding deposit and credit card relationships, whereby:

- a) the relationship has existed for at least 12 months; or
- b) the depositor is contractually bound to the relationship with the banking institution for at least the next 12 months.

62. Deposit balances up to the deposit insurance limit may be treated as “fully insured” even if a depositor has a balance in excess of the deposit insurance limit. However, any amount in excess of the deposit insurance limit must be treated as “less stable”.

63. An effective deposit insurance scheme refers to a scheme:

- a) that guarantees that it has the ability to make prompt pay-outs;
- b) for which the coverage is clearly defined;
- c) of which public awareness is high; and
- d) in which the deposit insurer has formal legal powers to fulfil its mandate and is operationally independent, transparent, and accountable.

64. For the avoidance of doubt, all deposits insured by NDIC shall be deemed as deposits insured by an effective deposit insurance scheme.

B. Less Stable deposit (run-off rate = 10%)

65. A reporting entity shall categorize retail deposits which do not meet the criteria set in **Paragraph 57** as less stable deposits and shall assign a run off rate of 10% to such deposits. These retail deposits shall include any amounts that are not fully covered by an effective deposit insurance scheme⁵ or sovereign deposit guarantee, high-value deposits, deposits from sophisticated or high net worth individuals, deposits that can be withdrawn quickly (e.g., internet deposits) and foreign currency deposits⁶.

66. If a reporting entity is not able to readily identify which retail deposit that would qualify as 'stable' as set in **Paragraph 57**, it should place the full amount in the 'less stable' buckets.

5.1.2 Retail term deposit

67. Cash outflows related to retail term deposits with a residual maturity or withdrawal notice period of greater than 30 days should be excluded from LCR calculations if:

- a) the depositor has no legal right to withdraw deposits within the 30-day horizon of the LCR; or
- b) if early withdrawal results in a significant penalty that is materially greater than the loss of interest.

68. If a reporting entity allows a depositor to withdraw such deposits without applying the corresponding penalty or despite a clause that says the depositor has no legal

⁵ This include deposits in excess of NDIC insurance coverage.

⁶ Foreign deposits must be considered as "less stable" if there is a reason to believe that such deposits are more volatile than domestic currency deposits.

right to withdraw, the entire category of these funds shall be treated as demand deposits.

69. A reporting entity may choose to outline exceptional circumstances that would qualify as hardship, under which the term deposit could exceptionally be withdrawn by the depositor without changing the treatment of the entire pool of deposits. This shall be subject to supervisory review and must be documented in the entity's Liquidity Management Policy (LMP).

5.1.3 Unsecured Wholesale Funding

70. For the purpose of LCR, unsecured wholesale funding is defined as those liabilities and general obligations that are raised from non-natural persons (i.e., 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. Obligations related to derivative contracts are explicitly excluded from this definition.

71. 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 situated within this horizon (such as maturing term deposits and unsecured debt securities) as well as funding with an undetermined maturity. This should include all funding with options that are exercisable at the fund provider's discretion within the 30-calendar-day horizon.

72. Wholesale funding that is callable by the fund provider subject to a contractually defined and binding notice period surpassing the 30-day horizon is not included.

73. Unsecured wholesale funding includes:

a) Unsecured wholesale funding provided by small business customers: 5%, 10% and higher

74. Unsecured wholesale funding provided by small business customers is treated the same way as retail deposits under these guidelines, effectively distinguishing between a "stable" portion of funding provided by small business customers and different buckets of less stable funding defined in these Guidelines. The same bucket definitions and associated run-off factors apply as for retail deposits. **See Appendix 2 for specific haircuts.**

75. Term deposits from small business customers must be treated in accordance with the treatment for term retail deposits as outlined in **Paragraph 67** and **68**.

b) Operational deposits generated by clearing, custody, and cash management activities: 25%

76. Operational deposits are those where financial and non-financial customers place, or leave, deposits with a bank to facilitate their access and ability to use payment and settlement systems and otherwise make payments. These funds may receive a 25% run-off factor only if the customer has a substantive dependency with the bank and the deposit is required for such activities. A run-off rate of 5% shall be applied on the portion of operational deposits which is fully covered by the Nigeria Deposit Insurance Corporation (NDIC).

77. Qualifying activities in these Guidelines refer to clearing, custody or cash management activities that meet the following criteria:

- a) the customer must be reliant on the reporting entity to perform these services as an independent third-party intermediary in order to fulfil its normal banking activities over the next 30 days⁷;
- b) these services must be provided under a legally binding agreement to institutional customers;
- c) the termination of such agreements must be subject either to a notice period of at least 30 days or significant switching costs (such as those related to transaction, information technology, early termination or legal costs) to be borne by the customer if the operational deposits are moved before 30 days.

78. The operational deposits generated by such an activity are where:

- a) the deposits are by-products of the underlying services provided by the reporting entity and not sought out in the wholesale market in the sole interest of offering interest income; and
- b) the deposits are held in specifically designated accounts and priced without giving an economic incentive to the customer to leave excess funds on these accounts.

79. Any excess balances that could be withdrawn and would still leave enough funds to fulfil these clearing, custody or cash management activities do not qualify for the 25% factor. Excess balances must be treated in the appropriate category for non-operational deposits. If reporting entities are unable to determine the amount of the excess balance, then the entire deposit must be assumed to be excess requirements and, therefore, considered non-operational.

⁷ This condition would not be met if the entity is aware that the customer has adequate backup arrangements.

80. A reporting entity must determine the methodology for identifying excess deposits that are excluded from this treatment. The assessment should be conducted at a sufficiently granular level to adequately assess the risk of withdrawal in an idiosyncratic stress scenario.
81. **Operational deposits must receive a 0% inflow assumption for the depositing bank given that these deposits are required for operational reasons and are therefore not available to the depositing bank to repay other outflows.**
82. Notwithstanding the operational categories, if the deposit under consideration arises out of correspondent banking or from the provision of prime brokerage services, it must be treated as if there were no operational activity for the purpose of determining the run-off factors.
83. A reporting entity should evaluate whether activities described in **Paragraph 84 to 86** do indeed generate an operational deposit as not all such activities qualify due to differences in customer dependency, activity and practices.
84. **A clearing relationship** refers to a service arrangement that enables customers to transfer funds (or securities) indirectly through direct participants in domestic settlement systems to final recipients. Such services are limited to the following activities:
- a) transmission, reconciliation, and confirmation of payment orders;
 - b) intra-day overdraft, overnight financing, and maintenance of post-settlement balances; and
 - c) determination of intra-day and final settlement positions.
85. **A custody relationship** refers to the provision of safekeeping, reporting, processing of assets or the facilitation of the operational and administrative elements of related activities on behalf of customers in the process of their transacting and retaining financial assets. Such services are limited to the settlement of securities transactions, the transfer of contractual payments, the processing of collateral, and the provision of custody related cash management services. Also included are the receipt of dividends and other income, client subscriptions and redemptions⁸. A custodial service is as defined by the CBN Scope, Conditions & Minimum Standards for Commercial Banks Regulations No. 01, 2010.

⁸ Custodial services can extend to asset and corporate trust servicing, treasury, escrow, funds transfer, stock transfer and agency services, including payment and settlement services, and depository receipts.

86. **A cash management relationship** refers to the provision of cash management and related services to customers. Cash management services refers to those products and services provided to a customer to manage its cash flows, assets, and liabilities, and conduct financial transactions necessary to the customer's ongoing operations. Such services are limited to payment remittance, collection and aggregation of funds, payroll administration, and control over the disbursement of funds.

87. The portion of the operational deposits generated by clearing, custody and cash management activities that are fully covered by the deposit insurance (NDIC) may receive the same treatment as "stable" retail deposits.

c) Unsecured wholesale funding provided by non-financial corporates and sovereigns, central banks, multilateral development banks, and PSEs: 20% or 40%

88. This category includes all deposits and other extensions of unsecured funding from non-financial corporate customers (that are not categorised as small business customers) and (both domestic and foreign) sovereign, central bank, multilateral development bank, and PSE customers that are not specifically held for operational purposes (as defined above). The run-off factor for these funds is 40%.

89. Unsecured wholesale funding provided by non-financial corporate customers, sovereigns, central banks, multilateral development banks, and PSEs without operational relationships should receive a 20% run-off factor only if the entire amount of the deposit is fully covered by an effective deposit insurance (NDIC) or by a public guarantee that provides equivalent protection.

d) Unsecured wholesale funding provided by other legal entity customers: 100%

90. This category consists of all deposits and other funding from other institutions (including banks, securities firms, insurance companies, etc.), fiduciaries, beneficiaries, conduits and special purpose vehicles, affiliated entities of the bank and other entities that are not specifically held for operational purposes and not included in the prior categories. The run-off factor for these funds is 100%.

91. All notes, bonds and other debt securities issued by a reporting entity must be included in this category regardless of the holder, unless the bond is sold exclusively in the retail market and held in retail accounts (including small business customer accounts treated as per **Paragraph 74 to 75** in which case the instruments may be treated in the appropriate retail or small business customer deposit category.

5.1.4 Secured funding run-off

92. For the purpose of these Guidelines, secured funding is defined as those liabilities and general obligations that are collateralised by legal rights to specifically designated assets owned by the borrowing institution in the case of bankruptcy, insolvency, liquidation, or resolution. Unless the counterparty is a central bank, secured funding does not include transactions collateralised by assets that are not tradable in financial markets such as property, plant and equipment.
93. Collateral swaps must be treated as repurchase or reverse repurchase agreements, as any other similar transaction. Additionally, collateral lent to a reporting entity's customers to effect short positions must be treated as a form of secured lending.
94. Due to the high-quality of Level 1 assets, no reduction in funding availability against these assets is assumed to occur. Moreover, no reduction in funding availability is expected for any maturing secured funding transactions with the CBN. A reduction in funding availability will be assigned to maturing transactions backed by Level 2 assets equivalent to the required haircuts. A 25% factor may be applied for maturing secured funding transactions with the bank's domestic sovereign, multilateral development banks, or domestic PSEs that have a 20% or lower risk weight, when the transactions are backed by assets other than Level 1 or Level 2A assets, in recognition that these entities are likely to withdraw secured funding from banks in time of market-wide stress. This treatment may be applied only to outstanding secured funding transactions. Unused collateral or merely the capacity to borrow, as determined at the end of the day for the reporting date, must not be given any credit in this treatment.
95. For all other maturing transactions, the run-off factor is 100%, including transactions where a reporting entity has satisfied customers' short positions with its own long inventory. All secured transactions maturing within 30 days should be reported according to the collateral actually pledged as of close of business on the LCR measurement date. If the reporting entity pledges a pool of assets and cannot determine which specific assets in the collateral pool are used to collateralise the transactions with a residual maturity greater than 30 days, it may assume that assets are encumbered to these transactions in order of increasing liquidity value, in such a way that assets with the lowest liquidity value in the LCR are assigned to the transactions with the longest residual maturities first. The table below summarises the outflow applicable to transactions maturing within 30 days.

Table 2: The table below summarises the applicable rates:

Categories for outstanding maturing secured funding transactions	Amount to add to cash outflows
Backed by Level 1 assets or with central banks	0%
Backed by Level 2A assets	15%
Secured funding transactions with domestic sovereign, PSEs or multilateral development banks that are not backed by Level 1 or 2A assets. PSEs that receive this treatment are limited to those that have a risk weight of 20% or lower	25%
Backed by other Level 2B assets	50%
All others	100%

5.1.5 Additional Required Cash Outflows:

96. The sum of all derivative net cash outflows must receive a 100% factor. A reporting entity should calculate expected contractual derivative cash inflows and outflows using their existing valuation methodologies. Cash flows may be calculated on a net basis (i.e., inflows can offset outflows) by counterparty only where a valid master netting agreement exists as defined in the CBN Guidance Notes on the Calculation of Capital Requirement for Credit Risk. A reporting entity should exclude from such calculations those liquidity requirements that would result from increased collateral needs due to market value movements or declines in value of collateral posted. Options should be assumed to be exercised when they are 'in the money' to the option buyer.
97. 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 reporting entity, if it is legally entitled and operationally capable to re-use the collateral in new cash raising transactions once the collateral is received. This is in line with the principle that a reporting entity should not double count liquidity inflows and outflows.
98. **Increased liquidity needs related to downgrade triggers embedded in financing transactions, derivatives and other contracts:** A reporting entity shall include 100% of additional collateral or cash that would be posted for, or contractual cash outflows associated with, any downgrade up to and including a 3-notch downgrade of the banking institution's long-term credit rating, where downgrade triggers are embedded in derivatives, financing transactions and other contracts. Triggers linked to the reporting entity's short-term rating shall be assumed to be triggered at the corresponding long-term rating in accordance with published rating criteria. The reporting entity shall assess the impact of its rating

downgrade on all types of margin collateral requirements and contractual triggers that may change rehypothecation rights for non-segregated collateral.

99. **Increased liquidity needs related to the potential for valuation changes on posted collateral securing derivative and other transactions:** A reporting entity posting non-Level 1 HQLA collateral to reflect potential valuation changes on collateral posted to secure against the mark-to-market valuation of derivatives positions and other transactions, shall include 20% of the notional amount required to be posted, after applying the relevant haircuts, and net of collateral received (so long as that such collateral received can be re-used or rehypothecated without limitations), in the calculation of total expected cash outflows.
100. **Increased liquidity needs related to excess non-segregated collateral held by the bank that could contractually be called at any time by the counterparty:** Where a reporting entity holds non-segregated collateral in excess of the counterparty's current collateral requirements and the collateral can be contractually called at any time by the counterparty, the banking institution shall include 100% of the excess non-segregated collateral in the calculation of total expected cash outflows.
101. **Increased liquidity needs related to contractually required collateral on transactions for which the counterparty has not yet demanded the collateral to be posted:** A reporting entity shall include 100% of the value of any collateral which is contractually due to a counterparty in the calculation of total expected cash outflows, in situations where the counterparty has not yet demanded the collateral to be posted.
102. **Increased liquidity needs related to contracts that allow collateral substitution to non-HQLA assets:** In a situation where a reporting entity enters into a contract which allows collateral received to be substituted for non-HQLA assets without the banking institution's consent, the reporting entity shall include 100% of the collateral amount received in the calculation of total expected cash outflows if the collateral received is not segregated and is used to secure another transaction.
103. **Increased liquidity needs related to market valuation changes on derivative or other transactions:** In a situation where a reporting entity has entered into collateralisation arrangements to secure against mark-to-market exposures on derivative and other transactions, it shall include any outflows related to market valuation changes in the calculation of expected cash outflows by identifying the largest absolute net 30-day collateral flow realised during the preceding 24 months. The absolute net collateral flow shall be based on both realised outflows and inflows, regardless of the direction of these flows. To the extent that these

transactions are executed under a valid and enforceable master netting agreement, the collateral inflows and outflows from the same counterparty shall be calculated by the reporting entity on a net basis

104. **Loss of funding on asset-backed securities and other structured financing instruments:** A reporting entity shall assume that a re-financing market for funding instruments issued by the entity itself and which are maturing within 30 calendar days will not exist. The reporting entity shall assign a 100% outflow rate to the total outstanding amount of these instruments maturing within 30 calendar days.
105. **Loss of funding on asset-backed commercial paper, conduits, securities investment vehicles and other such financing facilities:** Where a reporting entity has structured financing facilities which remain outstanding, such as the issuance of short-term asset-backed commercial paper, the reporting entity shall assume that it is potentially unable to refinance the maturing debt, and shall include 100% of the amount of the structured finance instrument maturing within the next 30 calendar days in its expected cash outflows.
106. In cases where derivatives or derivative-like components which may allow the **“return” of assets to a reporting entity or require the reporting entity (“asset originator”)** to provide liquidity are contractually written into the documentation associated with the structured financing facility, the reporting entity shall include 100% of the amount of assets that could potentially be returned, or the liquidity required, in its expected cash outflows.
107. In applying the requirements set out in **Paragraphs 105 to 106**, a reporting entity shall look through to the maturity of the debt instruments issued by a Special Purpose Vehicle and any embedded options in financing arrangements that may potentially trigger the “return” of assets or the need for liquidity, irrespective of whether the SPV issuing the structured finance instrument is consolidated.

Table 3: Required HQLA given the potential risk elements

Potential Risk Element	HQLA Required
Debt maturing within the calculation period	100% of maturing amount
Embedded options in financing arrangements that allow for the return of assets or potential liquidity support	100% of the amount of assets that could potentially be returned, or the liquidity required

108. **Drawdown on Committed Credit and Liquidity Facilities:** Credit and liquidity facilities are defined as explicit contractual agreements or obligations to extend funds at a future date to retail or wholesale counterparties. These facilities only

include contractually irrevocable (committed) or conditionally revocable agreements to extend funds in the future.

109. A liquidity facility is defined as any committed, undrawn back-up facility that would be utilised to refinance the debt obligations of a customer in situations where such a customer is unable to rollover that debt in financial markets (e.g. pursuant to a commercial paper programme, secured financing transactions, obligations to redeem units, etc.). This shall include any facility provided to money market funds and special purpose funding vehicles or vehicles used to finance the reporting entity's own assets, but shall exclude the portion of a liquidity facility that is backing debt that does not mature within the 30-day window. Any additional capacity of the facility (i.e., the remaining commitment) must be treated as a committed credit facility with its associated drawdown rate as specified in **Paragraph 111.**
110. Any facility provided to money market funds and special purpose funding vehicles, or other vehicles used to finance an entity's own assets, must be captured in their entirety as a liquidity facility to a financial institution.
111. Any contractual loan drawdowns from committed facilities and estimated drawdowns from revocable facilities within the 30-day period should be fully reflected as outflows.
- a) Committed credit and liquidity facilities to retail and small business customers: reporting entities should assume a 5% drawdown of the undrawn portion of these facilities;
 - b) Committed credit facilities to non-financial corporates, sovereigns and central banks, PSEs, and multilateral development banks: reporting entities should assume a 10% drawdown of the undrawn portion of these credit facilities;
 - c) Committed liquidity facilities to non-financial corporates, sovereigns and central banks, PSEs, and multilateral development banks: reporting entities should assume a 30% drawdown of the undrawn portion of these liquidity facilities;
 - d) Committed credit and liquidity facilities extended to supervised financial institutions: reporting entities should assume a 40% drawdown of the undrawn portion;
 - e) Committed credit facilities to other financial institutions including securities firms, insurance companies, fiduciaries, and beneficiaries: reporting entities should assume a 40% drawdown of the undrawn portion of these credit facilities;

- f) Committed liquidity facilities to other financial institutions including securities firms, insurance companies, fiduciaries, and beneficiaries: reporting entities should assume a 100% drawdown of the undrawn portion of these liquidity facilities; and
- g) Committed credit and liquidity facilities to other legal entities (including Special Purpose Entities (SPE), conduits, special purpose vehicles, and other entities not included in the prior categories): reporting entities should assume a 100% drawdown of the undrawn portion of these facilities.

112. A reporting entity shall calculate the expected cash outflows for liquidity calls arising from non-contractual contingent funding obligations according to the following outflow rates:

Table 4: Outflow rates for contingent funding obligations

Category	Outflow rate
Unconditionally revocable (uncommitted) credit and liquidity facilities	0%
Contingent funding obligations related to trade finance (e.g. documentary trade letters of credit, documentary, and clean collection, import bills and export bills, guarantees directly related to trade finance obligations)	5% of trade finance obligations
Non-contractual contingent funding obligations related to potential liquidity draws by consolidated joint ventures or minority investments in entities.	10% of the investment value
Guarantees and letters of credit unrelated to trade finance obligations.	10% of the amount of guarantees and letters of credit
Potential request for debt repurchases of the banking institutions own debt or that of related conduits, SIV and other such financing facilities.	10% of the total outstanding amount
Structured products where customers anticipate ready marketability, such as adjustable rate notes and variable-rate demand notes.	10% of the total outstanding amount
Managed funds that are marketed with the objective of maintaining a stable value (e.g. money market mutual funds, other types of stable collective investment funds, etc.)	10% of the total outstanding amount
Outstanding debt securities having maturities greater than 30 days whereby the banking institution or its affiliate is a dealer or market maker.	10% of the total outstanding amount.
Non-contractual obligations where customers short positions are covered by other customers' collateral, where the collateral does not qualify as Level 1 or Level 2 assets.	50% of the collateral amount used to cover customer's short position.
Any other contingent funding obligation not covered above.	10% of the total outstanding amount.

113. **Other Contractual Cash Outflows:** A reporting entity should apply a 100% run-off factor for any other contractual cash outflows maturing within the next 30 calendar days such as outflows to cover unsecured collateral borrowing, uncovered short positions, dividends, or contractual interest payment. The

reporting entity shall provide an explanation as to what comprises each bucket. However, outflows related to operating cost are excluded in these Guidelines.

5.2 Cash Inflows

114. When considering its available cash inflows, the reporting entity must only include contractual inflows (including interest payments) from outstanding exposures that are fully performing and for which the entity has no reason to expect a default within the 30-day time horizon. Contingent inflows, including facilities obtained from a central bank or other party, must not be included in total net cash inflows.
115. Reporting entities are expected to monitor the concentration of expected inflows across wholesale counterparties in the context of their liquidity management in order to ensure that their liquidity position is not overly dependent on the arrival of expected inflows from one or a limited number of wholesale counterparties.
116. In order to prevent reporting entities from relying solely on anticipated inflows to meet their liquidity requirement, and also to ensure a minimum level of HQLA holdings, the amount of inflows that can offset outflows is capped at 75% of total expected cash outflows as calculated in these Guidelines. This requires that a reporting entity must maintain a minimum amount of stock of HQLA equal to 25% of its total cash outflows.

5.2.1 Secured lending, including reverse repos and securities borrowing

117. A reporting entity shall assume that maturing reverse repurchase or securities borrowing agreements secured by Level 1 assets will be rolled over and will not give rise to any cash inflows (0%). Maturing reverse repurchase or securities lending agreements secured by Level 2 HQLA must lead to cash inflows equivalent to the relevant haircut for the specific assets. A reporting entity is assumed not to roll over maturing reverse repurchase or securities borrowing agreements secured by non-HQLA assets and may assume to receive back 100% of the cash related to those agreements.
118. As an exception to **Paragraph 117**, if the collateral obtained through reverse repo, securities borrowing, or collateral swaps, which matures within the 30-day horizon, is re-used (i.e. rehypothecated) and is used to cover short positions that could be extended beyond 30 days, a reporting entity must assume that such reverse repo or securities borrowing arrangements will be rolled-over and not give rise to any cash inflows, reflecting its need to continue to cover the short position or to repurchase the relevant securities.

119. If the collateral obtained from secured lending transactions is not used to cover the reporting entity's short position, the reporting entity shall apply the following inflow rates from maturing reverse repurchase or securities borrowing agreements based on the type of asset securing the transaction:

Table 5: Inflow Rates from Maturing Reverse Repurchase or Securities Borrowing Agreements

Maturing secured lending transactions backed by the following asset category:	Inflow rate (if collateral is not used to cover short positions)	Inflow rate (if collateral is used to cover short positions)
Level 1 assets	0%	0%
Level 2A assets	15%	0%
Level 2B assets		
Other Level 2B assets	50%	0%
Margin lending backed by all other collateral	50%	0%
Other collateral	100%	0%

5.2.2 Committed facilities

120. No credit facilities, liquidity facilities or other contingent funding facilities that the reporting entity holds at other institutions for its own purposes are assumed to be able to be drawn. Such facilities shall receive a 0% inflow rate.

5.2.3 Other Inflows by Counterparty

121. A reporting entity should include only inflows from fully performing loans and 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. Inflows from loans that have no specific maturity (i.e., have non-defined or open maturity) should be excluded.

5.2.4 Retail and small business customer inflows

122. A reporting entity is assumed to receive all payments (including interest payments and instalments) from retail and small business customers that are fully performing and contractually due within a 30-day horizon. At the same time, however, reporting entities are assumed to continue to extend loans to retail and small business customers, at a rate of 50% of contractual inflows. This results in a net inflow number of 50% of the contractual amount.

5.2.5 Other Wholesale Inflow

123. A reporting entity is assumed to receive all payments (including interest payments and instalments) from wholesale customers that are fully performing and contractually due within the 30-day horizon. In addition, reporting entities are assumed to continue to extend loans to wholesale clients, at a rate of 0% of inflows for financial institutions and central banks, and 50% for all others, including non-financial corporates, sovereigns, multilateral development banks, and PSEs. This will result in an inflow percentage of:

- a) 100% for financial institutions and central bank counterparties; and
- b) 50% for non-financial wholesale counterparties.

5.2.6 Operational Deposits

124. A reporting entity will apply 0% inflow rate for all deposits held at other financial institutions for operational purposes. It is assumed that operational deposits for activities such as clearing, custody and cash management purpose stay at those institutions and no inflow can be counted for these funds.

5.2.7 Other Cash Inflows

125. The sum of all net cash inflows should receive a 100% inflow factor. The amounts of derivatives cash inflows and outflows should be calculated in accordance with the methodology described in **Paragraph 966**.

126. **Other Contractual Cash Inflows:** Reporting entities should explain all other contractual cash flows included in this bucket to the CBN. These items receive an inflow rate of 100 per cent. Cash inflows related to non-financial revenues are not considered in the calculation of the net cash outflows for the purposes of the LCR.

6. Appendix 1 – Calculation of the Cap on Level 2 Assets

Calculation of the cap on Level 2 assets with regard to short-term securities financing transactions

1. This appendix seeks to clarify the appropriate method for the computation of the cap on Level 2 assets with regards to short-term securities financing transactions.
2. The calculation of the 40% cap on Level 2 assets should consider the impact on the stock of HQLA of the amount of Level 1 and Level 2 assets involved in secured funding, secured lending and collateral swap transactions maturing within 30 calendar days. The maximum amount of adjusted Level 2 assets in the stock of HQLA is equal to two-thirds of the adjusted amount of Level 1 assets after haircuts have been applied. The calculation of the 40% cap on Level 2 assets should consider any reduction in eligible Level 2B assets on account of the 15% cap on Level 2B assets.
3. Further, the calculation of the 15% cap on Level 2B assets should consider the impact on the stock of HQLA of the amounts of HQLA assets involved in secured funding, secured lending and collateral swap transactions maturing within 30 calendar days. The maximum amount of adjusted Level 2B assets in the stock of HQLA is equal to $\frac{15}{85}$ of the sum of the adjusted amounts of Level 1 and Level 2 assets, or, in cases where the 40% cap is binding, up to a maximum of $\frac{1}{4}$ of the adjusted amount of Level 1 assets, both after haircuts have been applied.
4. The adjusted amount of Level 1 assets is defined as the amount of Level 1 assets that would result after unwinding those short-term secured funding, secured lending and collateral swap transactions involving the exchange of any HQLA for any Level 1 assets (including cash) that meet, or would meet if held unencumbered, the operational requirements for HQLA set out in **Paragraphs 36 to 43**. The adjusted amount of Level 2A assets is defined as the amount of Level 2A assets that would result after unwinding those short-term secured funding, secured lending and collateral swap transactions involving the exchange of any HQLA for any Level 2A assets that meet, or would meet if held unencumbered, the operational requirements for HQLA set out in **Paragraphs 36 to 43**. The adjusted amount of Level 2B assets is defined as the amount of Level 2B assets that would result after unwinding those short-term secured funding, secured lending and collateral swap transactions involving the exchange of any HQLA for any Level 2B assets that meet, or would meet if held unencumbered, the operational requirements for HQLA set out in **Paragraphs 45 to 43**. In this context, short-term transactions are transactions with a maturity date up to and including 30 calendar days. Relevant haircuts would be applied prior to calculation of the respective caps.

5. As stated in the definition of LCR, it is a ratio of two factors, viz, the Stock of HQLA and the Net Cash Outflows over the next 30 calendar days. Therefore, computation of LCR of a reporting entity will require calculations of the numerator and denominator of the ratio, as detailed in subsequent paragraphs.
6. The formula for the calculation of the stock of HQLA is as follows:

$$\text{Stock of HQLA} = \text{Level 1} + \text{Level 2A} + \text{Level 2B} - \text{Adjustment for 15\% cap} - \text{Adjustment for 40\% cap}$$

Where:

$$\text{Adjustment for 15\% cap} = \text{Max} ((\text{Adjusted Level 2B} - 15/85 * (\text{Adjusted Level 1} + \text{Adjusted Level 2A}), (\text{Adjusted Level 2B} - 15/60 * \text{Adjusted Level 1}), 0)$$

$$\text{Adjustment for 40\% cap} = \text{Max} ((\text{Adjusted Level 2A} + \text{Adjusted Level 2B} - \text{Adjustment for 15\% cap}) - 2/3 * \text{Adjusted Level 1 assets}), 0)$$

7. Alternatively, the formula can be expressed as:

$$\text{Stock of HQLA} = \text{Level 1} + \text{Level 2A} + \text{Level 2B} - \text{Max} ((\text{Adjusted Level 2A} + \text{Adjusted Level 2B}) - 2/3 * \text{Adjusted Level 1}, \text{Adjusted Level 2B} - 15/85 * (\text{Adjusted Level 1} + \text{Adjusted Level 2A}), 0)$$

7. Appendix 2 – Summary of the LCR

Illustrative Summary of the Liquidity Coverage Ratio (LCR)

(Percentages are factors to be multiplied by the total amount of each item)

Item	Factor
Stock of HQLA	
A. Level 1 assets:	
<ul style="list-style-type: none"> ▪ Coins and bank notes ▪ Qualifying marketable securities from foreign, central banks, PSE, and multilateral development banks ▪ Qualifying central bank reserves (excluding cash reserve requirement) ▪ Domestic sovereign or central bank debt for non-0% risk-weighted sovereigns 	100%
B. Level 2 assets (Maximum of 40% of HQLA):	
Level 2A assets:	
<ul style="list-style-type: none"> ▪ Sovereign, central bank, multilateral development banks, and PSE assets qualifying for 20% risk weighting ▪ Qualifying corporate debt securities rated AA- or higher 	85%
Level 2B assets (maximum of 15% of HQLA)	
<ul style="list-style-type: none"> ▪ Qualifying corporate debt securities rated between A+ and BBB- ▪ Qualifying common equity shares 	50%
	50%
Total value of stock of HQLA	

Cash Outflows	
A. Retail deposits:	Run-off rates
Demand deposits and term deposits (less than 30 days maturity)	
<ul style="list-style-type: none"> ▪ Stable deposits (deposit insurance scheme meets additional criteria) ▪ Stable deposits ▪ Less stable retail deposits 	5%
	5%
	10%
Term deposits with residual maturity greater than 30 days	0%
B. Unsecured wholesale funding:	
Demand and term deposits (less than 30 days maturity) provided by small business customers:	
<ul style="list-style-type: none"> ▪ Stable deposits ▪ Less stable deposits 	5%
	10%
Operational deposits generated by clearing, custody, and cash management activities	25%
• Portion covered by deposit insurance	5%
Non-financial corporates, sovereigns, central banks, multilateral development banks, and PSEs	40%
• If the entire amount fully covered by deposit insurance scheme	20%
Other legal entity customers	100%
C. Secured funding:	

<ul style="list-style-type: none"> ▪ Secured funding transactions with central bank counterparty or backed by Level 1 assets with any counterparty. 	0%
<ul style="list-style-type: none"> ▪ Secured funding transactions backed by Level 2A assets, with any counterparty 	15%
<ul style="list-style-type: none"> ▪ Secured funding transactions backed by non-Level 1 or non-Level 2A assets, with domestic sovereigns, multilateral development banks, or domestic PSEs as a counterparty 	25%
<ul style="list-style-type: none"> ▪ Backed by other Level 2B assets 	50%
<ul style="list-style-type: none"> ▪ All other secured funding transactions 	100%
D. Additional requirements:	
Liquidity needs (e.g. collateral calls) related to financing transactions, derivatives, and other contracts	3 notch downgrade
Market valuation changes on derivatives transactions (largest absolute net 30-day collateral flows realised during the preceding 24 months)	Look back approach
Valuation changes on non-Level 1 posted collateral securing derivatives	20%
Excess collateral held by a bank related to derivative transactions that could contractually be called at any time by its counterparty	100%
Liquidity needs related to collateral contractually due from the reporting bank on derivatives transactions	100%
Increased liquidity needs related to derivative transactions that allow collateral substitution to non-HQLA assets	100%
ABCP, SIVs, conduits, SPVs, etc.:	
<ul style="list-style-type: none"> ▪ Liabilities from maturing ABCP, SIVs, SPVs, etc. (applied to maturing amounts and returnable assets) 	100%
<ul style="list-style-type: none"> ▪ Asset Backed Securities applied to maturing amounts. 	100%
Currently undrawn committed credit and liquidity facilities provided to:	
<ul style="list-style-type: none"> ▪ retail and small business clients 	5%
<ul style="list-style-type: none"> ▪ non-financial corporates, sovereigns and central banks, multilateral development banks, and PSEs 	10% for credit 30% for liquidity
<ul style="list-style-type: none"> ▪ banks subject to prudential supervision 	40%
<ul style="list-style-type: none"> ▪ other financial institutions (include securities firms, insurance companies) 	40% for credit 100% for liquidity
<ul style="list-style-type: none"> ▪ other legal entity customers, credit, and liquidity facilities 	100%
Other contingent funding liabilities (such as guarantees, letters of credit, revocable credit, and liquidity facilities, etc.)	
<ul style="list-style-type: none"> ▪ Trade finance 	5%
<ul style="list-style-type: none"> ▪ Customer short positions covered by other customers' collateral 	50%
Any additional contractual outflows	100%
Net derivative cash outflows	100%
Any other contractual cash outflows	100%
Total cash outflows	

Cash Inflows	
Maturing secured lending transactions backed by the following collateral:	
Level 1 assets	0%
Level 2A assets	15%
Level 2B assets	
▪ Other assets	50%
Margin lending backed by all other collateral	50%
All other assets	100%
Credit or liquidity facilities provided to the reporting bank	0%
Operational deposits held at other financial institutions	0%
Other inflows by counterparty:	
▪ Amounts to be received from retail counterparties	50%
▪ Amounts to be received from non-financial wholesale counterparties, from transactions other than those listed in above inflow categories	50%
▪ Amounts to be received from financial institutions and central banks, from transactions other than those listed in above inflow categories.	100%
Net derivative cash inflows	100%
Other contractual cash inflows	100%
Total cash inflows	
Total net cash outflows = Total cash outflows minus min [total cash inflows, 75% of gross outflows]	
LCR = Stock of HQLA / Total net cash outflows	

8. Appendix 3 – LCR Templates

a) High Quality Liquid Assets

(All amounts to be rounded off to the nearest Naira'000)				
High-Quality Liquid Assets	Line No.	Total	Specified factor ⁹	Weighted total (col.1 * 2)
		1	2	3
Total qualifying high-quality liquid assets (total of items 2 and 16 to 19)	1			
Total Level 1 high-quality liquidity assets (total of items 3 to 7)	2			
Coin and banknotes	3		100%	
Qualifying marketable securities representing claims on, or guaranteed by, sovereigns, central banks, Public Sector Entities (PSE), multilateral development banks, etc.	4		100%	
Qualifying central bank reserves (excluding CRR balances)	5		100%	
Qualifying sovereign or central bank debt securities issued in domestic currencies	6		100%	
Qualifying central bank debt securities issued in foreign currencies	7		100%	
Total Level 2 high-quality liquid assets (total of items 9 and 13)	8			
Total level 2A high-quality liquid assets (total of items 10 to 12)	9			
Qualifying marketable securities representing claims on or guaranteed by sovereigns, central banks, PSEs, or multilateral development banks	10		85%	
Qualifying corporate debt securities (including commercial paper)	11		85%	
Other qualifying items (please specify)	12		85%	
Total level 2B high-quality liquid assets (total of items 14 and 15)	13			
Qualifying corporate debt securities (including commercial paper)	14		50%	
Qualifying common equity shares	15		50%	
Total qualifying level two high-quality liquid assets	16			
Committed Central Bank facility	17		As specified by the Central Bank of Nigeria	
Foreign currency liquid assets	18			
Additional level two high-quality liquid assets	19			
<p>Item 12: Relates to consolidated reporting only. Where applicable, include in this line item the aggregate number of instruments qualifying as level 2A high-quality liquid assets for entities established in jurisdictions outside Nigeria.</p> <p>Item 13: This should not exceed 15% of Item 1</p> <p>Item 16: Total qualifying level two high-quality liquid assets are limited to 40% of the overall stock of HQLA after haircuts have been applied. See Appendix 1 of the Guidelines for the method for calculating the cap on Level 2 assets and the cap on Level 2B assets</p>				

⁹ The CBN may, from time to time, prescribe alternative factors.

b) Cash Outflows

(All amounts to be rounded off to the nearest Naira'000)				
Liquidity coverage ratio (LCR): Cash outflows	Line no.	Total	Specified factor ¹⁰	Weighted total (col.1 * 2)
		1	2	3
Retail deposits (total of items 21 and 26)	20			
Demand deposits and qualifying term deposits with residual maturity or notice period within 30 days (total of items 22 to 25)	21			
Qualifying stable deposits where deposit insure meets additional criteria	22		5%	
Stable deposits that do not meet the specified additional criteria	23		10%	
Less stable retail deposits	24		10%	
Other (please specify)	25		To be specified by the CBN from time to time	
Term deposits with a residual maturity or withdrawal notice period greater than 30 days where the depositor has no legal right to withdraw within the 30-day horizon or if early withdrawal result in a significant penalty	26		0%	
Unsecured wholesale funding (total of items 28 to 35)	27			
Stable demand and term deposits (less than 30 days maturity) provided by small business customers	28		5%	
Less stable demand and term deposits (less than 30 days maturity) provided by small business customers	29		10%	
Qualifying term deposits with residual maturity greater than 30 days	30		To be specified by the CBN from time to time	
Operational deposits generated by clearing, custody, and cash management activities	31		25%	
Portion of qualifying operational deposits fully covered by deposit insurance	32		5%	
Qualifying non-financial corporates, sovereigns, central banks, multilateral development banks and public-sector entities with no operational relationship	33		40%	
Specified non-financial corporates, sovereigns, central banks, multilateral development banks and public-sector entities with no operational relationship when entire amount is fully covered by deposit insurance scheme	34		20%	
Other legal entity customers	35		100%	
Secured funding (total of items 37 to 41)	36			
Secured funding transactions with central bank counterparty or backed by Level 1 assets with any counterparty	37		0%	
Secured funding transactions backed by Level 2A assets with any counterparty	38		15%	
Secured funding transactions backed by non-Level 1 or non-Level 2A assets with domestic sovereigns, multilateral development banks, or domestic PSEs as a counterparty	39		25%	
Secured funding backed by other qualifying level 2B high-quality liquid assets other than	40		50%	

¹⁰ The CBN may, from time to time, prescribe alternative factors.

Liquidity coverage ratio (LCR): Cash outflows	Line no.	Total	Specified factor ¹⁰	Weighted total (col.1 * 2)
level 2B high-quality liquid assets already specified hereinbefore				
All other secured funding transactions	41		100%	
Other expected outflows (total of items 44 to 53, 61, and 66 to 70)	43			
Net payable (cash outflows) amount related to qualifying derivative transactions	44		100%	
Liquidity needs (e.g., collateral calls) related to financing transactions, derivatives, and other contracts for any downgrade up to and including a 3 notch downgrade of banking institution's long-term credit rating	45		100%	
Valuation changes on posted collateral securing derivative and other transactions that is comprised of non-level 1 high-quality liquid assets	46		20%	
Excess collateral held by a bank related to derivative transactions that could contractually be called at any time by its counterparty	47		100%	
Liquidity needs related to contractually required collateral due from reporting bank on derivatives transactions	48		100%	
Liquidity needs related to derivative transactions that allow collateral substitution to non-high-quality liquid assets	49		100%	
Market valuation changes on derivatives or other transactions (largest absolute net 30-day collateral flows realised during the preceding 24 months)	50		100%	
Specified funding related to asset-backed securities or other structured financing instruments	51		100%	
Sum of liabilities from maturing funding related to asset-backed commercial paper, conduits, securities investment vehicles and other similar financing facilities, and required liquidity related to assets that may be returned	52		100%	
Committed undrawn credit or liquidity facilities (total of items 54 to 60)	53			
Retail and small business clients	54		5%	
Credit facilities to non-financial corporates, sovereigns or central banks, public sector entities and multilateral development banks	55		10%	
Liquidity facilities to non-financial corporates, sovereigns or central banks, public sector entities and multilateral development banks	56		30%	
Credit or liquidity facilities extended to any other bank subject to prudential supervision	57		40%	
Credit facilities extended to other financial institution other than banks subject to prudential supervision	58		40%	
Liquidity facilities extended to any financial institution other than banks subject to prudential supervision	59		100%	
credit and liquidity facilities extended to other legal entity customers	60		100%	
Uncommitted undrawn credit or liquidity facilities (total of items 62 to 65)	61			
Retail or small business clients	62			

Liquidity coverage ratio (LCR): Cash outflows	Line no.	Total	Specified factor ¹⁰	Weighted total (col.1 * 2)
Credit facilities to non-financial corporates, sovereigns and central banks, public sector entities and multilateral development banks	63		To be specified by the CBN from time to time	
Liquidity facilities to non-financial corporates, sovereigns and central banks, public sector entities and multilateral development banks	64			
Other legal entities	65			
Trade finance instruments	66		5%	
Internally matched client assets against other clients' short positions	67		To be specified by the CBN from time to time	
Specified contractual lending obligations	68		100%	
Other contractual outflows	69		100%	
Other (please specify)	70		To be specified by the CBN from time to time	
Total outflows (total of items 20, 27, 36 and 43)	71			

c) Cash Inflows

All amounts to be rounded off to the nearest Naira'000

Liquidity coverage ratio (LCR): Cash inflows	Line no.	Total	Specified factor	Weighted total (col.1 * 2)
		1	2	3
Maturing secured lending transactions backed by the following collateral: (total of items 73 to 76)	72			
Level one high-quality liquid assets as collateral	73		0%	
Level 2A high-quality liquid assets as collateral	74		15%	
Level 2B high-quality liquid assets as collateral	75		50%	
Assets other than level 1 or level 2 high-quality liquid assets as collateral	76		100%	
Margin lending transactions secured by assets other than qualifying level 1 or level 2 high-quality liquid assets as collateral	77		50%	
Credit or liquidity facilities provided to the reporting bank	78		0%	
Specified net inflows by counterparty (total of items 80 to 82)	79			
Amounts to be received from retail counterparties	80		50%	
Amounts to be received from non-financial wholesale counterparties, from transactions other than those listed in the above inflow categories	81		50%	
Amounts to be received from financial institutions and central banks, from transactions other than those listed in above inflow categories.	82		100%	
Specified operational deposits held at other financial institutions	83		0%	
Net receivable amount from derivative instruments	84		100%	
Other contractual cash inflows	85		100%	
Total inflows (total of items 72, 77 to 79, and 83 to 85)	86			

d) Calculation of LCR

(All amounts to be rounded off to the nearest Naira'000)		
Calculation of Liquidity Coverage Ratio (LCR)	Line no.	Total
		1
Total outflows (item 71, column 3)	87	
Total inflows (item 86, column 3)	88	
Total net cash outflows (item 87 minus min [item 88, 75% of item 87])	89	
		LCR
		1
Liquidity Coverage ratio (item 1 divided by item 89, multiplied with 100)	191	