



BERMUDA MONETARY AUTHORITY

CONSULTATION PAPER

AMENDMENTS TO LIQUIDITY COVERAGE RATIO OUTFLOW RATES FOR SPECIFIC FINANCIAL COUNTERPARTIES

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I. INTRODUCTION

1. As part of the process of ongoing reviews of liquidity and capital standards for local banks, the Bermuda Monetary Authority (Authority or BMA) is proposing to amend the current treatment of deposit outflows in the calculation of the liquidity coverage ratio (LCR) originating from the depositor types (**Counterparties**) listed below.

LCR Return reference and name:

- a. LCR/1220.15 Trust customers;
 - b. LCR/1220.16 Captive and inward insurance customers; and
 - c. LCR/1220.17 Fund management customers.
2. The current LCR treatment of deposits from the Counterparties aligns with the Basel III standard that allocates a 100% outflow rate in the LCR calculation.¹
 3. Industry and other stakeholders are invited to provide feedback to the proposals outlined in this paper and in its various attachments, by emailing their comments to banking@bma.bm by close of business on 31 March 2022.

II. PROPOSED CHANGES TO OUTFLOW RATES FOR SPECIFIC FINANCIAL COUNTERPARTIES

4. After review, the Authority recognises that the actual behaviour of deposits from the Counterparties is not reflective of the 100% outflow rate currently allocated to these deposit types. As such, the Authority proposes to allow banks to apply a national discretion to outflow rates for deposits from the Counterparties subject to the Authority's approval.
5. Therefore, deposits from the Counterparties, normally considered unsecured wholesale funding provided by business customers, may be subject to run-off rates applicable to more stable deposits. This treatment will be subject to meeting all necessary eligibility criteria, including ongoing validation. Any deposit outflow departures from the Basel III standard will only be considered upon the production of a deposit behavioural analysis, refreshed at least annually, with a conclusion drawn by the bank as to the appropriate outflow to be assigned to that segment. For behavioural analysis, banks are required to use a minimum of ten years of relevant data. The Authority will review the behavioural analyses, and if justified by the analyses, formally communicate to the bank an outflow rate more favourable than 100%, which will be utilised for the next 12 months until the next review period.

III. IMPLEMENTATION DATE

6. The Authority proposes to adopt the proposal in paragraph 5 effective 1 April 2022.

¹ Paragraph 109 of [Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools](#)

