Guidance for Completing the Liquidity Analysis Template (Template E)

Overview

Template E consists of: *Part A: Liquidity Flows; and Balances* and *Part B: Reported LCR*. The purpose of Part A is to report flows of cash and securities by High Quality Liquid Asset ('HQLA') level that occur within the Trading Book of the TWD firm, as well as the resulting balance of cash and unencumbered securities held by the TWD firm. This enables the amount of available liquidity through time to be understood, as well as the drivers of changes to that surplus arising from TWD. Flows and balances are projected daily for the first month, weekly for months 2-6 and then monthly for months 7-24 (the timeline of 24 months is given by way of example). In completing this Part, only flows related to Trading Book businesses should be included, but cash and HQLA balances should be reported for the whole TWD firm (i.e. for trading activities and non-trading activities). This reflects the fact that liquid assets are held at an entity level and that the liquid assets held to support Trading Book outflows would typically not themselves form part of the Trading Book.

The purpose of Part B is to project on a monthly basis the impact of the TWD on the TWD firm's reported Pillar 1 Liquidity Coverage Ratio ('LCR'). TWD firms input the balance of HQLA held and the projected LCR inflows and outflows, split into Trading Book and non-Trading Book. The firm-level LCR ratio will be impacted by the disposal of HQLA to fund the TWD, offset by a reduction in LCR net outflows reported for the Trading Book, with LCR net outflows from the TWD firm's non-Trading Book positions expected to remain constant, reflecting the assumption that the non-Trading Book balance sheet is held flat.

Where a TWD firm has no non-Trading Book or only a very small non-Trading Book, it is recognised that, in the latter stages of TWD, the residual LCR net outflow is likely to be both small and difficult to project with any degree of precision. In such cases, the liquidity surplus shown on Part A is likely to be a more useful metric and TWD firms should primarily focus on this rather than expend disproportionate effort attempting to project LCR ratios. TWD firms may wish to complete more than one instance of this template if multiple LCR ratios are reported that would be impacted by the wind-down – for example at entity and group level.

To accompany the completed template, TWD firms should provide narrative analysis explaining the drivers of significant moves in the liquidity position throughout the TWD. As noted above, TWD firms without material non-Trading Book positions should focus this narrative primarily on the evolution of their liquidity surplus. Conversely, for an entity with a material continuing non-Trading Book, we would expect a greater focus on LCR throughout the wind-down period in the narrative.

TWD firms should complete template E for the scenario chosen to test the TWD option, as set out in the main body of this document. In relation to the sensitivity analysis set out in section 4.49 of this document, we recognise that it would likely be onerous for TWD firms to complete Template E for each sensitivity listed. We would expect TWD firms to provide a narrative analysis showing at least the results of the sensitivity in terms of liquidity surplus and LCR ratio, together with the drivers of any material differences from the main scenario.

TWD firms should list and explain in their narrative all material assumptions made in their scenario and in how these differ from LCR and business as usual stress testing assumptions, but in particular:

- Where material, TWD firms should detail the liquidity flows related to the unwind of cash and synthetic prime brokerage businesses. This analysis should distinguish transactions facing prime brokerage clients from associated secured financing and collateral swap transactions.

- TWD firms may apply their own assumptions for the unwind of cash and synthetic prime brokerage businesses but should detail these assumptions in their narrative report.

- Access to the secured funding markets should be consistent with the TWD firm's chosen scenario, but TWD firms should define and explain their own interpretation in terms of acceptable collateral and associated haircuts.

- TWD firms should explain their approach to modelling the liquidity impact of Risk-Based Losses.

- As noted under 'Detailed Instructions: Part A' below, TWD firms should provide an explanation of any material amounts reported as 'other cash inflows/outflows' or 'other securities inflows/outflows' on Template E.

Detailed Template Description & Guidance

Please note: Unless otherwise stated, please enter all currency amounts in the template in: your reporting currency; the units of your internal MI (e.g. if your MI is calculated to the nearest $ then report in this unit and do <u>not</u> round to the nearest $1000 or $1million).

Detailed Instructions: Part A

Template Principles

Throughout the template, inflows and positive balances should be reported as positive numbers; outflows and shortfall balances should be reported as negative numbers.

The template consists of two sections relating respectively to *cash flows and balances* and *security flows and balances*. Each section follows a similar layout to Form PRA110, with tenor buckets shown in columns by Business Day, Week and Month, with Business Day zero reflecting the reference date. Template rows contain a breakout of liquidity flow drivers followed by rows to record the end-of-day liquidity position. Where possible, these rows have been aligned to rows used in Form PRA110 and detailed definitions of each item are provided below.

TWD firms should report their unencumbered cash and securities positions as of the reference date under 'business day zero'. For each subsequent column, firms should report the flows occurring during that period and the closing balance, such that the difference between the opening and closing balances reconciles to the sum of flows during the period. Any flows that do not fit into the provided categories should be reported under '*Other flows'* and firms should explain in their accompanying narrative any material balances in this category. Securities should be reported at their projected fair value as of the relevant time bucket.

Unless otherwise indicated, the template should be completed only in respect of trading activities in scope (including rump assets and liabilities). All non-Trading Book assets and liabilities are held constant and so should not be reported on this template, with the exception of flows related to liquidity buffer securities, which should be reported irrespective of trading/banking book classification, as set out in the liquidity definitions below.

TWD firms should not assume that any restrictions or requirements are imposed by the PRA, should the TWD firm fall below Individual Liquidity Guidance or their reported LCR fall below 100%. TWD firms are also not required to model any counterparty or market reaction to disclosure of an LCR below 100% or below market expectations.

Where cash or liquid assets are unavailable to meet required outflows, TWD firms should reflect this as a negative liquidity surplus in Part A (i.e. a deficit). If firms intend to borrow from the Bank or from other central banks, they should indicate this in their accompanying narrative, including amount and timing, but should not reflect this borrowing in template E.

Template E should be completed on a total currency basis and on a single currency basis. For single currency reporting, it should be completed for each individually significant (i.e. >5% of liabilities at the reporting date) currency, with residual currencies Grouped under 'OTH'. Flows and balances should be reported in the TWD firm's reporting currency for total currency and 'OTH' reporting, and of the relevant single currency for single currency reporting.

Part A Line item Definitions

Repo Contractual maturity: Report separately the cash amount and collateral market value (pre-haircut), returned on the maturity of a repo transaction. Report under separate line items per HQLA level and for non-HQLA collateral.

Reverse Repo Contractual maturity: Report separately the cash amount and collateral market value (pre-haircut), returned on maturity of a reverse repo transaction. Report under separate line items per HQLA level and for non-HQLA collateral.

Non-cash borrow Contractual maturity: Report the market value (pre-haircut) of securities which the firm has borrowed that must be returned on maturity of a non-cash borrow or collateral swap transaction. Report under separate line items per HQLA level and for non-HQLA collateral.

Non-cash stock loan Contractual maturity: Report the market value (pre-haircut) of securities which the firm has lent that will be returned on maturity of a non-cash stock loan or collateral swap transaction. Report under separate line items per HQLA level and for non-HQLA collateral.

New Repo: Report separately the cash flow and collateral market value (pre-haircut), on entering into a new repo transaction and the flows when such transactions are allowed to mature without replacement. Report under separate line items per HQLA level and for non-HQLA collateral.

New Reverse Repo: Report separately the cash flow and collateral market value (pre-haircut), on entering into a new reverse repo transaction and the flows when such transactions are allowed to mature without replacement. Report under separate line items per HQLA level and for non-HQLA collateral.

New non-cash borrow: Report the market value (pre-haircut) of securities borrowed under a new non-cash borrow or collateral swap transaction and the security flow when such transactions are allowed to mature without replacement. Report under separate line items per HQLA level and for non-HQLA collateral.

New non-cash stock loan: Report the market value (pre-haircut) of securities lent under a new non-cash stock loan or collateral swap transaction and the return of securities when such transactions are allowed to mature without replacement. Report under separate line items per HQLA level and for non-HQLA collateral.

Asset Sales: Report cash and securities flows resulting from asset sales, on a settlement date basis. Report under separate line items per HQLA level and for non-HQLA collateral.

Asset Purchases: Report cash and securities flows resulting from asset purchases, on a settlement date basis (for example a security purchased to close out an open short position). Report under separate line items per HQLA level and for non-HQLA collateral.

Other Securities flows: Report any securities flows by HQLA level which are not captured in another template row. Firms should explain the nature of any material flows included in this category in their report.

Intraday liquidity requirement: TWD Firms should report their estimated intraday liquidity requirement as a liquidity outflow on day 1, reflecting that a portion of the firm's liquidity resources will need to be ring-fenced to meet intraday liquidity needs. This may be reported as a security flow to the extent the firm believes it could retain access to intraday credit by posting HQLA securities as collateral. Firms should report the full intraday requirement rather than just the portion they attribute to the Trading Book, as high payment volumes would be expected in an environment of market stress. As the wind-down progresses and the size of the Trading Book reduces, firms may assume that the intraday requirement reduces and should report any reduction as an inflow of cash or securities. Firms should provide an accompanying narrative explaining the assumptions used.

Prime Brokerage Free Credits: TWD firms should assume an immediate outflow of all prime brokerage client cash that can be withdrawn on demand based on the clients current risk position, regardless of whether this is legally a deposit or another form of liability.

Committed Facilities: TWD firms should report outflows from drawdowns of committed facilities. Inflows may be assumed where a borrower would be contractually obliged to repay an amount they have drawn or where the firm believes borrowers would refinance a drawn facility with another lender during the wind-down.

Securities Issued – Unsecured: TWD firms should report flows arising from unsecured bonds and similar securities.

Securities Issued - Covered bonds: TWD firms should report flows arising from covered bonds.

Securities Issued - Securitisations: TWD firms should report flows arising from securitisations.

Securities Issued – Other: TWD firms should report flows arising from securities issued not included in the above categories. Firms should explain the nature of these securities in their accompanying narrative if material.

Borrowing - Credit institutions: TWD firms should report flows arising from unsecured borrowing from credit institutions.

Borrowing - Other Financial Counterparties: TWD firms should report flows arising from unsecured borrowing from Other Financial Counterparties.

Borrowing - Non-Financial Corporates: TWD firms should report flows arising from unsecured borrowing from Non-Financial Corporates.

Borrowing - Central banks: TWD firms should report flows arising from unsecured borrowing from Central Banks. Firms should not assume any new use of central bank facilities through the wind-down.

Borrowing - Retail Customers: TWD firms should report flows arising from unsecured borrowing from retail customers.

Borrowing - Other counterparties: TWD firms should report flows arising from unsecured borrowing from other counterparties.

Other cash outflows: TWD firms should report cash outflows not captured in another category. Where material firms should provide an explanation in their accompanying narrative.

Lending - Credit institutions: TWD firms should report flows arising from unsecured lending to credit institutions, other than drawdowns of committed facilities and repayments of such drawdowns, and excluding deposits placed with other credit institutions.

Lending - Other Financial Counterparties: TWD firms should report flows arising from unsecured lending to Other Financial Counterparties, other than drawdowns of committed facilities and subsequent repayments of such drawdowns.

Lending - Non-Financial Corporates: TWD firms should report flows arising from unsecured lending to Non-Financial Corporates, other than drawdowns of committed facilities and subsequent repayments of such drawdowns.

Lending - Central banks: TWD firms should report flows arising from unsecured lending to Central Banks, other than drawdowns of committed facilities and subsequent repayments of such drawdowns.

Lending - Retail Customers: TWD firms should report flows arising from unsecured lending to Retail Customers, other than drawdowns of committed facilities and subsequent repayments of such drawdowns.

Lending - Other counterparties: TWD firms should report flows arising from unsecured lending to Other Counterparties, other than drawdowns of committed facilities and subsequent repayments of such drawdowns.

Cash on deposit /segregated cash: TWD firms should report inflows from deposits placed with other credit institutions, including those required for the purposes of client asset segregation under applicable regulations.

Other cash inflows: TWD firms should report cash inflows not captured in another category. Where material firms should provide a narrative explanation in their report.

Contractual FX flows: TWD firms should report flows by currency, which arise from contractual maturity of existing FX trades. This line should be reported on a single currency basis only.

New FX Trades: TWD firms should assume they enter into spot FX trades as necessary in order to avoid a shortfall in any individual currency. Immaterial currencies grouped together under 'OTH' may be ignored.

Derivative Flows (pre-maturity): TWD firms should report contractual flows arising on derivatives prior to exit, such as coupons or other periodic settlement amounts. Flows relating to final maturity or exit should be reported under 'trade exit flows'.

Trade Exit Flows: TWD firms should report flows relating to trade exits. On a total currency basis this should reconcile to the 3A template. TWD firms should use judgement to determine the appropriate split of costs into currency and explain their approach in their report narrative.

Collateral Due and Excess Collateral: TWD firms should report Due Collateral and Excess Collateral as defined in the LCR Delegated Act.

Non-Level 1 Collateral: TWD firms should report outflows in accordance with Article 30 Paragraph 1 of the LCR Delegated Act.

Collateral Substitution: TWD firms should report outflows in accordance with Article30 paragraph 6 c) of the LCR Delegated act.

Increases in Margin Requirements during Stress: TWD firms should report the impact of increased margin haircuts being applied by CCPs and OTC counterparties during the wind-down. Where applicable the initial impact should be calibrated to the firm's Pillar 2 add-on for this risk. It may be assumed that margin requirements reduce following the systemic stress and a corresponding inflow reported. Reductions in IM requirements due to trade exit or hedging should not be shown in this row.

Liquidity Impact of Risk Based Losses: TWD firms should report the liquidity impact of risk-based losses. Where firms believe that risk based losses could be met by posting securities as collateral rather than in cash they may reflect as a securities outflow rather than a cash outflow on the template'

Liquidity Impact of New Derivative Hedges: TWD firms should report the liquidity impact of derivative hedging entered into. Firms should use judgement to determine the appropriate split into currency and explain their approach in their report narrative.

Downgrade-Driven Contractual Flows: TWD firms should report cash and securities flows which occur contractually as a direct consequence of the applicable downgrade in the firm's rating. Any flows which are more general consequences of the ratings downgrade (e.g. higher haircuts applied on new repo trades), should be reported in the relevant line but firms should identify in their narrative where these lines are materially driven by the downgrade.

Cash Operational Costs: TWD firms should report cash operating costs, which should reconcile to the 3E template on a total currency basis. Firms should use judgement to determine the appropriate split into currency and explain their approach in their accompanying narrative.

Other costs: TWD firms should report any other cash costs not captured in the lines above

Unencumbered Securities: TWD Firms should report the end-of-day market value of unencumbered securities split by HQLA level and for non-HQLA. This should include all such securities held by the entity rather than a subset belonging to Trading Book businesses or allocated to cover Trading Book outflows. A security that would otherwise be classified as HQLA should not be classified as non-HQLA purely because it is not under the control of Treasury in the ordinary course of business.

Cash balance (central banks): TWD firms should report the end-of-day balance of cash placed on deposit with central banks. Firms should report the full entity balance not a subset allocated to cover Trading Book outflows.

Cash balance (other): firms should report the end-of-day balance of cash placed on deposit other than with a central bank that can be freely withdrawn, including where relevant, amounts placed on deposit with Group entities. Firms should report the full entity balance not a subset allocated to cover Trading Book outflows.

Detailed Instructions: Part B

Part B of the template is structured with monthly tenor buckets in columns, and with the components of LCR broken out in rows. TWD firms should report the components of LCR for their Trading Book and non-Trading Book businesses as at the end of each monthly tenor bucket, according to the line item definitions below. The 'Pillar 1 LCR' field will then calculate the LCR ratio implied by the submitted components. Submissions as of the reference date are not included in the template as it is expected that this would form part of the TWD firm's business as usual reporting.

Part B Line item Definitions

High Quality Liquid Assets (HQLAs): TWD firms should report the balance of HQLAs that would be reported in the COREP C72 Template. This may be less than the total of cash and unencumbered HQLA securities reported on Template E due to LCR HQLA weightings and the exclusion of HQLA securities that do not meet the operational criteria to be reported as part of an entity's liquidity buffer.

LCR Outflows- Trading Businesses: TWD firms should report the balance of LCR outflows that would be reported in the COREP C73 template, which relate to trading businesses,

LCR Inflows- Trading Businesses: firms should report the balance of LCR inflows that the entity would report in its COREP C74 template, which relate to trading businesses. The number should not be adjusted to reflect the LCR inflow cap.

LCR Outflows- Non-Trading Businesses: firms should report the balance of LCR outflows that would be reported in the COREP C73 template, which relate to non-trading businesses.

LCR Inflows - Non-Trading Businesses: firms should report the balance of LCR inflows that would be reported in the COREP C74 template, which relate to non-trading businesses. The number should not be adjusted to reflect the LCR inflow cap.

Pillar 1 LCR: Calculated field representing the Pillar 1 LCR that would be reported at the reporting date for each tenor bucket.