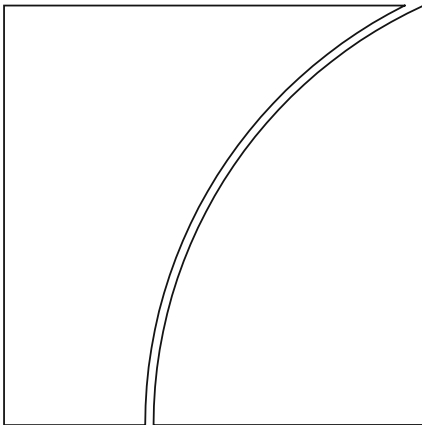


# Basel Committee on Banking Supervision



## Regulatory Consistency Assessment Programme (RCAP)

### Assessment of Basel III LCR regulations – Russia

March 2016



BANK FOR INTERNATIONAL SETTLEMENTS

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## Glossary

ALA	Alternative liquidity approaches
BCBS	Basel Committee on Banking Supervision
CBR	Central Bank of Russia
CFP	Contingency funding plan
CLF	Committed liquidity facility
FAQ	Frequently asked question
G-SIB	Global systemically important bank
HQLA	High-quality liquid assets
ICAAP	Internal capital adequacy assessment process
LCR	Liquidity Coverage Ratio
LIBOR	London Interbank Offered Rate
RCAP	Regulatory Consistency Assessment Programme
RUB	Russian rouble
SARB	South Africa Reserve Bank
SGS	System of gross settlement
SIG	Supervision and Implementation Group of the Basel Committee
SREP	Supervisory review and evaluation process

## Preface

The Basel Committee on Banking Supervision sets a high priority on the implementation of regulatory standards underpinning the Basel III framework. The prudential benefits from adopting Basel standards can only fully accrue if these are implemented appropriately and consistently by all member jurisdictions. The Committee established the Regulatory Consistency Assessment Programme (RCAP) to monitor, assess, and evaluate its members' implementation of the Basel framework.

This report presents the findings of the RCAP Assessment Team on the domestic adoption of the Basel LCR standard in Russia. The assessment focuses on the adoption of Basel LCR standard applied to the Russian banks that are internationally or regionally active and of significance to its domestic financial stability.

The RCAP Assessment Team was led by Mr René van Wyk, Registrar of Banks and Head of Bank Supervision of the South African Reserve Bank (SARB). The Assessment Team comprised seven technical experts drawn from Brazil, Georgia, Hong Kong SAR, India, South Africa, Sweden and the United Kingdom (Annex 1). The main counterpart for the assessment was the Central Bank of Russia (CBR).

The RCAP LCR assessment was based primarily on the LCR regulation issued by the CBR on 30 May 2014. In the course of the assessment, the authorities made a number of revisions based on issues identified by the Assessment Team. The final regulation on the Basel LCR standard was issued by the Russian authorities in December 2015 and came into effect on 1 January 2016. This report has been updated where relevant, to reflect the progress made in the Russian final regulation.

The assessment relied upon the data, information and materiality computations provided by the CBR up to end-December 2015. The assessment findings are based primarily on an understanding of the current processes in Russia as explained by the counterpart staff and the expert view of the Assessment Team on the documents and data reviewed. The overall work was coordinated by the Basel Committee Secretariat with support from SARB staff.

Starting in May 2015, the assessment was divided into three phases: (i) completion of an RCAP questionnaire (a self-assessment) by the CBR; (ii) an off- and on-site assessment phase (June to December 2015); and (iii) a post-assessment review phase (January to March 2016). The second phase included an on-site visit for discussions with the CBR and representatives of Russian banks. These exchanges provided the Assessment Team with a deeper understanding of the implementation of the Basel LCR standard in Russia. The third phase consisted of a two-stage technical review of the assessment findings: first by a separate RCAP Review Team with feedback from the Basel Committee's Supervision and Implementation Group; and secondly, by the RCAP Peer Review Board and the Basel Committee. This two-step review process is a key instrument of the RCAP process to ensure quality control and the integrity of the assessment findings. The focus of the assessment was on the consistency and completeness of the domestic regulations in Russia with the Basel minimum requirements. Issues relating to prudential outcomes, adequacy of liquidity ratios of individual banks or the effectiveness of the Russian authorities' liquidity risk management were not in the scope of this RCAP assessment exercise.

Where domestic regulations and provisions were identified to be not in conformity with the Basel framework, those deviations were evaluated for their current and potential impact (or non-impact) on the reported liquidity ratios for a sample of internationally active Russian banks. Some findings were evaluated on a qualitative basis. The assessment outcome was based on the materiality of findings and use of expert judgment.

The report has three sections and a set of annexes: (i) an executive summary with a statement from the CBR on the material findings; (ii) the context, scope and methodology, and the main set of assessment findings; and (iii) details of the deviations and their materiality along with other assessment-related observations.

The RCAP Assessment Team acknowledges the professional cooperation received from the CBR throughout the assessment process. In particular, the team sincerely thanks the staff of the CBR for playing an instrumental role in coordinating the assessment exercise. The Assessment Team would also like to thank the representatives of Russian banks that provided data and information to the Assessment Team. The series of comprehensive briefings and clarifications provided by the CBR helped the RCAP assessors to arrive at their expert assessment. The Assessment Team is hopeful that the RCAP assessment exercise will contribute to the sound initiatives that have been taken by the CBR and to further strengthening the prudential effectiveness and full implementation of the recent reform measures in Russia.

## Executive summary

In May 2014 the Central Bank of Russia (CBR) issued the reporting requirement of the Liquidity Coverage Ratio (LCR) on a solo basis through the publication of Regulation no 421-P "On the Calculation of the Liquidity Coverage Ratio (Basel III)" (see Annex 3). This regulation was amended and updated in December 2015. Additionally, Regulation no 510-P "On the Calculation of the Liquidity Coverage Ratio ("Basel III") by Systemically Important Credit Institutions" was published in December 2015, which sets out the minimum LCR requirements on a consolidated basis. This regulation includes references to the calculation methodologies specified in Regulation no 421-P. The accompanying reporting and disclosure requirements were issued in May 2014 and December 2015. All internationally active systemically important banks, determined in accordance with Ordinance no 3737-U "On the Methodology of Defining Systematically Important Credit Institutions" are subject to the LCR prudential requirements.

In May 2015 the CBR completed an extensive self-assessment of their LCR rules as part of their preparation for the RCAP exercise against the Regulation no 421-P. Based on the self-assessment and the published draft rules, the RCAP Assessment Team identified a number of material variations in the LCR rules from the Basel framework. The CBR used the RCAP findings to amend the rule to the extent feasible and consistent with Russian national interests. This resulted in a significant strengthening of the Russian liquidity regime.

Overall, as on the cut-off date for the RCAP assessment, the final LCR regulations in Russia are assessed as compliant with the minimum Basel LCR standard. All graded components of the LCR framework, including the high-quality liquid assets, the liquidity inflows and outflows and disclosure requirements, are assessed as compliant. The amendments made by the CBR and issued in December 2015 considerably improved the level of compliance with the Basel minimum standards. In the absence of these reforms, the RCAP assessment would have generated a considerably less positive result.

A notable feature of the CBR's LCR implementation is the adoption of alternative liquidity approaches (ALA). In particular, the CBR created a committed liquidity facility (CLF) to ensure that sufficient liquid assets are available for Russian banks to comply with the minimum LCR requirements. The CBR also allows banks to use additional foreign currency HQLA to cover domestic liquidity needs. While the team considered the regulations implementing the ALA options to be in line with the Basel standard, the Assessment Team did not undertake a formal assessment or form a view on Russia's eligibility for adopting the ALA approach. As the use of ALA is permissible only in the case of a structural HQLA shortage, the eligibility of Russian banks to use ALA will be part of a separate peer review process by the Basel Committee (see Annex 15).

In addition to the formal assessment of the LCR standard and disclosure requirements, this report also summarises the CBR's implementation of the Basel Principles for sound liquidity risk management (Sound Principles) and the LCR monitoring tools (see Annexes 9 and 10). The Sound Principles have been implemented through Regulation no 510-P. The liquidity monitoring tools have been implemented through Ordinance no 2005-U, Regulations no 421-P and 510-P (the LCR in significant currencies) and various reporting forms under Ordinance no 2332-U. Further, a summary is provided of the key national discretions and approaches that the CBR has adopted in their implementation of the LCR standard (Annex 14).

These help to clarify how national authorities implement certain aspects of the Basel standards that are not in the scope of the present RCAP-LCR assessment. Over time, the information detailed in the annexes to the report will provide a basis for designing best practices and additional supervisory guidance that will benefit the regulatory community and the banking industry to raise consistency of the implementation of the LCR and to improve the effectiveness in practice.

The Assessment Team compliments the CBR for their implementation of and alignment with the Basel LCR framework. The implementation work on many reforms, however, has only just begun. The CBR



and banks now face the challenge of implementing the LCR standard in practice (see Annex 7 for the key liquidity indicators of Russian banking system). The team also identified a number of items that would benefit from further clarification by the Basel Committee (Annex 11).

## Response from the Russian authorities

The CBR highly appreciates the high-quality work done by the RCAP Assessment Team under the leadership of Mr René van Wyk. The regulatory framework was scrutinised thoroughly by the Team with a high level of professionalism.

The CBR agrees with the findings of this assessment report and is content that the Russian regulation on the LCR (including the reporting requirements on the LCR) is assessed by the RCAP team as compliant. It is worth mentioning that the RCAP was conducted at the same time as the implementation process of the LCR requirements in Russia. That facilitated an effective process for the drafting and implementation of the LCR rules.

The LCR implementation in Russia consists of several steps. In 2014, the CBR adopted Regulation no 421-P dated 30 May 2014 "On the Calculation of the Liquidity Coverage Ratio ("Basel III)". This rule sets the methodology for the LCR calculation on a standalone basis for large Russian banks for monitoring purposes since 1 August 2014 (ie based on the data as of July 2014). In 2015 the CBR developed and passed the LCR framework as a prudential requirement for 10 systematically important Russian credit institutions on a consolidated basis in compliance with the Basel documents. At the same time, the Basel Committee's principles for sound liquidity risk management in banks were adopted as a requirement (they were published as recommendations to banks in 2009).

Based on the deep analysis of the sufficiency of the high-quality liquid assets denominated in Russian roubles in the financial system, the CBR decided to use two alternative liquidity approaches: Option 1 (contractual committed liquidity facilities) and Option 2 (foreign currency HQLA to cover domestic currency liquidity needs). For that purpose, the terms of contractual committed liquidity facilities were designed.

The phase-in arrangements for the LCR allowed by the Basel III rules are provided for in the national regulation.

According to Basel III, a bank's use of its HQLA is allowed in Russia in circumstances of market-wide stress. As there is a strong linkage between macroeconomic stresses and liquidity stresses in Russia based on a number of recent crisis periods, the announcement of the countercyclical capital buffer is used as the trigger for the start and finish of the liquidity stress episode. Moreover, the decision to invoke the countercyclical capital buffer is taken with due consideration of market indicators.

The CBR believes that the implementation of Basel III will strengthen the Russian banking sector in terms of short-term liquidity management and supervision.

It should be noted that a number of areas in the Russian regulation on the LCR were marked as an observation by the RCAP team. These observations generally arise from the national peculiarities of eg legal and accounting frameworks for some particular financial instruments used in other jurisdictions (collateral swaps, custody services etc).

Moreover, some areas need further clarification (eg treatment of balances on nostro accounts) to ensure consistent application in different jurisdictions as the current Basel III text does not provide an unambiguous treatment. Therefore, the CBR would appreciate the Basel Committee's point of view on whether to include excessive balances on such accounts as inflows into the LCR calculation and the corresponding inflow rate. The second issue to be further clarified by the Basel Committee is the treatment of deposits in precious metals in the cash outflows and inflows. The term "precious metals" encompasses deposits/accounts in precious metals in an unallocated form. The CBR proposes that such deposits be classified as other deposits from the corresponding counterparty if historical outflows did not exceed those set by the corresponding outflow rates.

Overall, the CBR considers the RCAP an important and useful exercise, which facilitates the consistent implementation of regulatory standards by BCBS member states.

# 1 Assessment context and main findings

## 1.1 Context

### Status of implementation

The Central Bank of Russia (CBR) is responsible for the supervision of liquidity risk and the issuance of liquidity regulations. The CBR issued the domestic LCR reporting requirements in May 2014 with subsequent amendments published thereafter. In December 2015, the CBR issued a set of amendments to further align the regulations with the internationally agreed Basel minimum LCR requirements. The minimum LCR requirement and the public disclosure requirements came into effect on 1 January 2016.<sup>1</sup>

Russian banks have reported the LCR to the CBR for monitoring purposes since July 2014. Based on the monitoring of the LCR, the CBR decided in 2015 to implement the Alternative Liquidity Approaches (ALA) to allow banks access to additional liquidity to meet the minimum LCR requirements. Overall, the estimated shortfall in high-quality liquid assets for banks is approximately RUB 2 trillion (USD 30 billion) (as of 1 October 2015). The shortfall is in part due to the structure of the Russian economy and the relatively low level of domestic sovereign debt denominated in roubles (around 9% of GDP). Annex 15 provides further information regarding the implementation of the ALA framework in Russia.

Along with the LCR regulations, the CBR has also implemented the Basel Principles for sound liquidity risk management and supervision, and the LCR monitoring tools. A factual description of how each of these frameworks is implemented in Russia is provided in Annexes 9 and 10, respectively.

### Regulatory system and model of supervision

In Russia, all credit institutions identified as internationally active and systemically important are subject to the Basel III LCR standards, on a solo (if a bank does not have a banking group) or consolidated basis otherwise.<sup>2</sup> The LCR reporting requirements are binding on a solo basis for credit institutions that hold RUB 50 billion or more in total assets or hold RUB 10 billion or more of retail deposits and both on a solo and a consolidated basis for systemically important credit institutions.

The CBR, established in its current form in 1990 through the Federal Law "On the Central Bank of the Russian Federation (the Bank of Russia)", is the sole supervisor responsible for banks in Russia. Articles 74 and 75 of the aforementioned Federal Law authorise the CBR to take supervisory measures and apply penalties and to take measures on the financial rehabilitation (according to the decision of the Board of Directors) in the case of banks' non-compliance with federal laws and enactments of the CBR and in the case of threats to the interests of depositors and creditors and to the stability of the Russian banking sector.

<sup>1</sup> The Assessment Team relied on English translations provided by the CBR of the domestic regulations and regulatory documents. In a few specific instances, the team assessed the appropriateness of the English translation of the Russian rules through comparison with the original text in Russian. For those sections, the translation was generally found to be appropriate.

<sup>2</sup> The CBR identified 10 Russian banks as systemically important. See press release: [www.cbr.ru/eng/press/PR.aspx?file=20102015\\_112506eng2015-10-20T11\\_24\\_57.htm](http://www.cbr.ru/eng/press/PR.aspx?file=20102015_112506eng2015-10-20T11_24_57.htm).

## 1.2 Structure, enforceability and binding nature of prudential regulations

The CBR's liquidity regulation is subject to the same regulatory policymaking process as the risk-based capital regulation. As part of this process, draft regulations are subject to various internal and external consultations before their approval by the CBR's Banking Supervision Committee and Board of Directors. The following table provides an overview of the legal hierarchy of prudential regulations in Russia (details on the structure and binding nature of prudential regulations in Russia are outlined in the RCAP assessment report on the Russian risk-based capital requirements for banks).<sup>3</sup> The LCR requirements issued and published in final form in December 2015 meet the RCAP criterion of being enforceable and binding in nature (see also Annex 6).

Hierarchy of Russian laws and regulatory instruments		Table 1
Laws that empower the CBR as banking supervisor	Constitution of the Russian Federation (Article 75) (1993)	
	Federal Law no 86-FZ on the Central Bank of the Russian Federation (the Bank of Russia) (2002)	
	Federal Law no 395-1 on Banks and Banking Activities (1990)	
Supervisory regulations derived from the above laws (various)	CBR Regulations ("P")	
	CBR Instructions ("I")	
	CBR Ordinances ("U")	
Non-binding supervisory documents	CBR Letters, methodological guidelines and recommendations	

## 1.3 Scope of the assessment

The assessment was made of the LCR requirements as applicable to internationally active banks in Russia. In evaluating the materiality of the findings, the quantification was limited to a sample of five banks subject to the RCAP review (see Annex 8). These banks hold more than 60% of the assets in the Russian banking system.

### Assessment grading and methodology

As per the RCAP methodology approved by the Basel Committee, the outcome of the assessment was summarised using a four-grade scale, both at the level of each of the key components of the Basel framework and overall assessment of compliance: compliant, largely compliant, materially non-compliant and non-compliant.<sup>4</sup>

The materiality of the deviations was assessed in terms of their current or, where applicable, potential future impact (or no-impact) on liquidity ratios of the banks. The quantification was, however, limited to the agreed RCAP sample of internationally active banks. Wherever relevant and feasible, the Assessment Team, together with Russian authorities, attempted to quantify the impact based on data collected from Russian banks in the agreed sample of banks. The non-quantifiable aspects of identified

<sup>3</sup> <http://www.bis.org/bcbs/implementation/I2.htm>

<sup>4</sup> This four-grade scale is consistent with the approach used for assessing countries' compliance with the Basel Committee's *Core principles for effective banking supervision*. The actual definition of the four grades has been adjusted to take into account the different nature of the two exercises. In addition, components of the Basel framework that are not relevant to an individual jurisdiction may be assessed as not applicable (N/A). See [www.bis.org/publ/bcbs264.htm](http://www.bis.org/publ/bcbs264.htm) for further details.

deviations were discussed and reviewed in the context of the prevailing regulatory practices and processes with the Russian authorities.

Ultimately, the assignment of the assessment grades was guided by the collective expert judgment of the Assessment Team. In doing so, the Assessment Team relied on the general principle that the burden of proof rests with the assessed jurisdiction to show that a finding is not material or not potentially material. A summary of the materiality analysis is given in Annex 8.

There have been no areas reported by the CBR where a stricter approach than the Basel minimum standard is applied (Annex 13).

## 1.4 Main findings

A summary of the main findings is given below. Overall, the Assessment Team considers the LCR regulation issued and published in December 2015 to be compliant with the Basel standard. All components assessed by the RCAP Assessment Team are also considered compliant with the minimum Basel standard. More detail is provided in the main findings section below.

Summary assessment grading		Table 2
Key components of the Basel LCR framework	Grade	
Overall grade:	C	
LCR subcomponents		
High-quality liquid assets (numerator)	C	
Net outflows (denominator)	C	
Net inflows (denominator)	C	
LCR disclosure requirements	C	

Compliance assessment scale (see Section 1.3 for more information on the definition of the grades): C (compliant), LC (largely compliant), MNC (materially non-compliant) and NC (non-compliant).

### Main findings by component

#### *General comments – scope of application and transitional arrangements*

The CBR issued the LCR regulations in December 2015, including the disclosure requirements, with an effective implementation date of 1 January 2016. While this adoption date is one year later than the implementation date agreed by the Basel Committee (1 January 2015), the CBR adopted the phase-in arrangements in accordance with the Basel standard, with a minimum LCR requirement of 70% in 2016 and gradually increasing to 100% in 2019.

The CBR applies the LCR minimum standard to the 10 largest Russian banks identified as systemically important and internationally active. These banks account for over 60% of total banking assets in Russia and they are defined based on the criteria of international activity and include the five banks that were selected in the RCAP sample of banks (Annex 8).

During the course of the assessment, the CBR made several amendments and rectifications to align the scope of application and transitional arrangements with the Basel standards (see Annex 5). A key amendment involved the introduction of the LCR requirements on a consolidated basis.

Regarding the use of HQLA, the Basel standard explicitly allows banks to draw down the liquidity buffer in time of stress, thereby allowing banks to fall below the minimum LCR requirements. The Basel

standard does not define “times of stress”, but requires that supervisors should assess the situation and give guidance to banks on the usability of the HQLA buffer according to circumstances.

The CBR defines the period of stress as the time period after the announcement of the CBR’s decision to set the countercyclical capital buffer equal to zero until the decision to increase its level. During this period, banks would in principle be allowed to use the HQLA to cover cash outflows that would reduce the actual value of the LCR below the required minimum. To make this determination, the CBR’s unit responsible for supervising the bank assesses the circumstances under which the bank’s LCR has fallen below the minimum required level. This assessment covers various elements, including (i) the specific reasons behind the decrease of the bank’s LCR; (ii) the role of the financial markets and external economic environment; (iii) the liquidity risks taken by the bank, its business model and the level of compliance of the bank with other prudential ratios; (iv) the size, duration and frequency of the shortfall of the LCR; (v) the possible effects of the shortfall on other financial institutions; and (vi) possible mitigating measures available to the CBR to restore the bank’s LCR, eg by providing additional liquid funds. Based on the CBR’s assessment, the bank may be allowed to operate beneath the minimum LCR, but must submit an action plan to ensure a return to compliance with the minimum LCR requirements. If the CBR concludes that the bank is non-compliant with the minimum LCR requirements, the bank can be subjected to wide-ranging supervisory actions including financial penalties. Incidentally, the team notes that the countercyclical capital buffer could be zero for prolonged periods for macroeconomic reasons, which may not necessarily coincide with periods of liquidity stress. Hence, at such times, the CBR may have to apply supervisory discretion in defining periods of liquidity stress.

#### *High-quality liquid assets (numerator)*

The Assessment Team considers the CBR’s regulatory implementation to be compliant with the Basel LCR requirements for high-quality liquid assets (HQLA).

The CBR has implemented the alternative liquidity approaches (ALA), to allow banks to supplement their pool of HQLA with alternative sources of liquidity. The Basel framework offers three different ALA options, and the CBR has implemented two of them. Under option 1, the CBR allows banks to include contractual committed liquidity facilities with the CBR in its pool of HQLA. The contractual committed liquidity facilities are available against a fee, to discourage banks from relying excessively on this facility to meet the LCR requirement. Under option 2, the CBR allows banks to include foreign currency HQLA to cover domestic currency liquidity needs. Specifically, the CBR allows banks to include high-quality liquid assets denominated in US dollars, euros, pounds sterling, Japanese yen and Swiss francs in the pool of HQLA to cover net outflows in roubles.

The Assessment Team reviewed the domestic regulations implementing the ALA options, and considered these to be in line with the minimum requirements specified by the Basel standard. It should be emphasised, however, that the team did not assess the eligibility of the CBR to use the ALA options. The Basel standard allows jurisdictions to use the ALA options under certain conditions only, such as a structural shortage of domestic HQLAs.<sup>5</sup> The eligibility for jurisdictions to use the ALA options is reviewed through a separate peer review process by the Basel Committee, and falls outside the scope of the RCAP assessment. For more background information on the implementation of ALA options by the CBR, please see Annex 15.

<sup>5</sup> The Basel standard specifies four criteria that need to be met for the use of the ALA: (i) there is an insufficient supply of HQLA in the domestic currency, taking into account all relevant factors affecting the supply of, and demand for, such HQLA; (ii) the shortfall is caused by long-term structural constraints that cannot be resolved within the medium term; (iii) the jurisdiction has the capacity, through any mechanism or control in place, to limit or mitigate the risk that the alternative treatment does not work as expected; and (iv) the jurisdiction is committed to observing the obligations relating to supervisory monitoring, disclosure, and periodic self-assessment and independent peer review of its eligibility for alternative treatment. The review will be conducted by a separate peer review process, which is outside the scope of this RCAP assessment.

### *Outflows (denominator)*

The Assessment Team finds the CBR's regulatory implementation to be compliant with the Basel LCR requirements for net outflows. The team has observations regarding the implementation by the CBR of outflows regarding precious metal deposits and the treatment of custody accounts in Russia.

In the draft LCR regulation reviewed by the team, the CBR considered precious deposits to be similar to foreign currency deposits and accordingly used the same run-off factor as for retail/wholesale deposits, ie 5–10% for retail and 40% for corporates. The CBR explained that banks manage the precious metal deposits in a manner similar to foreign currency deposits. Also, it was pointed out that the risk-based capital standard treats gold in a similar fashion as foreign exchange rate risk. The Assessment Team noted that the Basel standard is not explicit regarding the treatment of precious metals deposits. It is the team's view that such deposits should be subject to higher run-off rates than foreign currency deposits, due to the price volatility of precious metals and the behavioural characteristics of depositors investing in such deposits, and should then be treated according to the category "other contractual cash outflows". The risk-based capital standard may be less relevant on this point, as market risk differs in nature from liquidity risk.

In the course of the assessment, the CBR amended the run-off rate for precious metal deposits to 100%, as per the category "other contractual cash outflows" under paragraph 141 of the Basel LCR standard. This ensures a conservative approach, which the team considers fully compliant with the minimum requirements of the Basel standard. However, the team would suggest that the Basel Committee reviews whether additional guidance may be developed regarding the treatment of precious metal deposits, to ensure a consistent implementation across jurisdictions.

Regarding custody accounts, the Basel standard specifies that qualifying operating deposits include clearing, custody or cash management deposits that meet certain criteria. The team observed that the CBR excludes from the outflows the deposits arising from custody activities (excluding foreign subsidiaries of the banking group subject to the LCR on a consolidated basis, for which the treatment enunciated in the Basel LCR rules text apply). The CBR explained that such activities are structured as trust management activities in Russia, which are accounted for in special designated accounts of the credit institution (a separate balance sheet) in accordance with the Russian regulations and accounting rules. All trust operations are conducted between those accounts only and do not incur any cash outflow for the bank itself for the provision of the service. Liabilities to clients are covered by assets on the trust accounts that are also not included in the HQLA. In the case of a bank violating the Russian law on conflict of interest, however, the CBR would require the bank to include a 100% cash outflow for the possible liability that may arise eg as a result of the lawsuit.

### *Inflows (denominator)*

The Assessment Team finds the CBR's regulatory implementation to be compliant with the Basel LCR requirements for net inflows.

The Assessment Team extensively discussed the treatment of nostro accounts, which are correspondent accounts held by banks at other banks, including foreign ones. The CBR explained that some Russian banks have sizeable nostro accounts due to their role in the financial transactions related to commodity exports. At present, there is no specific treatment of inflows on nostro accounts in the Russian regulations but the CBR asked if it might apply a non-zero inflow rate for nostro accounts. The team finds that the Basel standard is not explicit regarding the treatment of inflows from nostro accounts. It is the team's view that these accounts may be eligible for a 100% inflow factor depending on the contractual specifications and operational purpose of the account. If the bank can withdraw funds unconditionally from the nostro account, eg in a way similar to an overnight deposit, and there are no operational purposes linked to the account, such as for clearing, custody or cash management, a 100% inflow factor could be applied. This would mirror the treatment given to nostro accounts in the outflow rates section of the Basel standard, where a 100% outflow rate is applied. Given the materiality of nostro accounts for the Russian



banking sector, the team would ask the Basel Committee to confirm the treatment of inflow rates for nostro accounts. Also, the team would recommend that supervisors review whether banks that receive funds on nostro accounts apply a 100% outflow rate whenever the depositing bank applies a 100% inflow rate. This would ensure consistency in treatment across banks and jurisdictions.

### *Disclosure requirements*

The Assessment Team finds the CBR's regulatory implementation to be compliant with the Basel LCR disclosure requirements. In the course of the assessment, the CBR amended its disclosure regulations to bring them in line with the Basel standard. Annex 5 lists the key amendments.

The CBR requires banks to disclose the LCR as a simple average of daily observations over the previous quarter starting on 1 January 2017 onwards. Until that date, the CBR allows banks to disclose the LCR based on a simple monthly average of the LCR at the beginning of each month. This is in line with the Basel standard.

## 2 Detailed assessment findings

The component-by-component details of the assessment of compliance with the Basel LCR standards are detailed below. The focus of Sections 2.1 to 2.3 is on findings that were assessed to be deviating from the Basel minimum standards, and their materiality. Section 2.4 lists a number of observations and other findings specific to the implementation practices in Russia. Observations do not indicate sub-equivalence, but are considered compliant with the Basel standard.

### 2.1 Scope of application and transitional arrangements

Summary	Overall, the Assessment Team finds the scope of application and transitional arrangements to be in line with the Basel standards. Following the amendments made by the CBR, the team did not identify any remaining deviations.
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### 2.2 LCR

#### 2.2.1 High-quality liquid assets (numerator)

Section grade	Compliant
Summary	The Assessment Team finds the CBR's regulatory implementation to be compliant with the Basel LCR requirements for high-quality liquid assets (HQLA). Following the amendments made by the CBR, the team did not identify any remaining deviations.

#### 2.2.2 Outflows (denominator)

Section grade	Compliant
Summary	The Assessment Team finds the CBR's regulatory implementation to be compliant with the Basel LCR requirements for net outflows.

#### 2.2.3 Inflows (denominator)

Section grade	Compliant
Summary	The Assessment Team finds the CBR's regulatory implementation to be compliant with the Basel LCR requirements for net inflows. Following the amendments made by the CBR, the team did not identify any remaining deviations.

### 2.3 LCR disclosure requirements

Section grade	Compliant
Summary	The Assessment Team finds the CBR's regulatory implementation to be compliant with the Basel LCR disclosure requirements. Following the amendments made by the CBR, the team did not identify any remaining deviations.

### 2.4 Observations

The following observations highlight certain special features of the regulatory implementation of the Basel standards in Russia. These are presented for contextual and informational purposes. Observations are considered compliant with the Basel standard and do not have a bearing on the assessment outcome.

## 2.4.1 Scope of application

Basel paragraph no	Basel paragraph 164: Scope of application
Reference in domestic regulation	Introductory clause, paragraph 1.3 and paragraph 1.6 of Regulation no 510-P
Observation	The LCR standard and monitoring tools should be applied to all internationally active banks on a consolidated basis, but may be used for other banks and on any subset of entities of internationally active banks to ensure greater consistency and a level playing field between domestic and cross-border banks. The CBR monitored banks' LCR on a solo basis and its regulations were not applicable on a consolidated basis. However, implementation of the LCR on banking group basis shall commence from 1 January 2016.
Basel paragraph no	Basel paragraph 10: Implementation of the LCR by the CBR
Reference in domestic regulation	Paragraph 1.4 of Regulation no 510-P
Observation	<p>The Basel standard specifies that the LCR is introduced on 1 January 2015. The minimum is set at 60% and rises in equal annual steps to reach 100% on 1 January 2019. The LCR was reported by banks to the CBR as a monitoring tool from July 2014. The CBR introduced the LCR as a minimum standard on 1 January 2016. The schedule of the LCR implementation and minimum requirements (phase-in arrangements) is as follows:</p> <ul style="list-style-type: none"> <li>• 70% – starting from 1 January 2016,</li> <li>• 80% – starting from 1 January 2017,</li> <li>• 90% – starting from 1 January 2018,</li> <li>• 100% – starting from 1 January 2019.</li> </ul> <p>The CBR's implementation schedule for the LCR is in line with that of the Basel requirement from 1 January 2016 onward.</p>
Basel paragraph no	Basel paragraphs 11 and 18: The use of HQLA
Reference in domestic regulation	Paragraph 1.5, paragraph 4.1, paragraph 4.3, paragraph 5.3 and paragraph 1 of Annex 2 of Regulation no 510-P
Observation	<p>Regarding the use of HQLA, the Basel standard explicitly allows banks to draw down the liquidity buffer in time of stress, thereby allowing banks to fall below the minimum LCR requirements. The Basel standard does not define "times of stress", but requires that supervisors should assess the situation and give guidance on usability of HQLA buffer according to circumstances.</p> <p>The CBR defines the period of stress as the time period following the announcement of the CBR's decision to set the countercyclical capital buffer equal to zero until the decision to increase its level. During this period, banks would in principle be allowed to use the HQLA to cover cash outflows that would reduce the actual value of the LCR below the required minimum. To make this determination, the CBR's structural unit responsible for supervising the bank assesses the circumstances under which the bank's LCR has fallen below the minimum required level. This assessment covers various elements, including (i) the specific reasons behind the decrease in the bank's LCR; (ii) the role of the financial markets and external economic environment; (iii) the liquidity risks taken by the bank, its business model and the level of compliance of the bank with other prudential ratios; (iv) the size, duration and frequency of the shortfall of the LCR; (v) the possible effects of the shortfall on other financial institutions; and (vi) possible mitigating measures available to the CBR to restore the bank's LCR, eg providing additional liquid funds. Based on the CBR's assessment, the bank may be allowed to operate beneath the minimum LCR, but must submit an action plan to ensure a return to compliance with the minimum LCR requirements. In case the CBR's assessment concludes that the bank is non-compliant with the minimum LCR requirements, the bank can be subjected to wide-ranging supervisory action including financial penalties. Incidentally, the team notes that the countercyclical capital buffer could be zero for prolonged periods for macroeconomic reasons, which may not necessarily coincide with periods of liquidity stress. Hence, at such times, the CBR may</p>

	rely more fully on its supervisory discretion in assessing the appropriateness for a bank's LCR to fall below its minimum required level.
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## 2.4.2 Outflows and inflows

Basel paragraph no	Basel paragraph 113: Collateral swaps
Reference in domestic regulation	Chapter 3 and paragraph 4.4 of Regulation no 421-P on repo-style agreements
Observation	Basel paragraph 113 of the LCR text provides that collateral swaps should be treated as repo or reverse repo agreements. The Basel QIS also stipulates the run-off rate for a collateral swap involving different collateral in the two legs. The CBR regulation does not contain specific treatment for collateral swap. The CBR replied that the term "collateral swap" is not defined in the Russian legislation. However, banks are permitted to carry out two repo transactions (repo and reverse repo) in order to swap assets. These two deals are included in the LCR separately.
Basel paragraph no	Treatment of precious metal deposits under LCR
Reference in domestic regulation	Paragraph 3.2.1, 3.3.1, 3.5.24 of Regulation no 421-P
Observation	In the draft LCR regulation reviewed by the team, the CBR considered precious deposits to be similar to foreign currency deposits and accordingly used the same run-off factor as for retail/wholesale deposits, ie 5–10% for retail and 40% for corporates. The CBR explained that banks manage the precious metal deposits in a manner similar to foreign currency deposits. Also, it was pointed out that the risk-based capital standard treats gold in a similar fashion as foreign exchange rate risk. The Assessment Team notes that the Basel standard is not explicit regarding the treatment of precious metals deposits. It is the team's view, however, that such deposits should be subject to higher run-off rates than foreign currency deposits, due to the price volatility of precious metals and the behavioural characteristics of depositors investing in such deposits, and should then be treated according to the category "other contractual cash outflows". The risk-based capital standard may be less relevant on this point, as market risk differs in nature from liquidity risk. In the course of the assessment, the CBR amended the run-off rate for precious metal deposits to 100%, as per the category "other contractual cash outflows" under paragraph 141 of the Basel LCR standard. The team considers this compliant with the minimum requirements of the Basel standard. However, the team would suggest that the Basel Committee reviews whether additional guidance may be needed on the treatment of precious metal deposits, to ensure a consistent implementation across jurisdictions (Annex 11).
Basel paragraph no	Basel paragraphs 93–104: Definition of custody activity as operational deposits
Reference in domestic regulation	Paragraphs 3.3.6–3.3.10, 3.5.22 and 3.5.23, 3.5.24 of Regulation no 421-P, paragraph 3.5 of Regulation no 510-P
Observation	Basel paragraph 94 specifies that qualifying operating deposits include clearing, custody or cash management deposits that meet certain criteria. The team observed that the CBR excludes from the outflows the deposits arising from custody activities (if these activities are conducted by residents under the Russian legislation and regulation).  The CBR noted that there is no definition of custody activities in Russia similar to the definition in the Basel III text: custody activity is more like trust management. All trust operations are executed through the bank at the customer's expense and for its benefit, with a corresponding commission payment to the bank for services provided. Trust management activities are accounted for in special designated accounts of the credit institution (a separate balance sheet) in accordance with the Russian regulations and accounting rules (all trust operations are conducted only between those accounts) and do not carry any risk for the credit institution-trust manager. Liabilities to clients are covered by assets on the trust accounts that are also not included in the HQLA. Under Article 5 of the Federal Law no 39-FZ, the trust manager is responsible for losses to clients only if it violates 39-FZ (losses due to the conflict of

	<p>interests and losses from investments in securities for qualified investors (high-risk securities) if a client is not a qualified investor). In such a case the corresponding outflows are included in the LCR at the run-off rate of 100% under paragraph 3.5.22 of 421-P.</p> <p>Regarding escrow accounts, if the bank provides such services, those accounts are on the balance sheet and lead to either a 0% outflow when the money is blocked on those accounts or a 100% outflow when the money is used for the deal for which the amount of money is set aside.</p>
Basel paragraph no	Basel paragraph 99: Definition of nostro accounts
Reference in domestic regulation	Paragraph 3.3.10 of Regulation no 421-P
Observation	<p>The Assessment Team extensively discussed the treatment of nostro accounts during the assessment. Nostro accounts are deposits held by banks at other banks, including foreign ones. The CBR informed the team that some Russian banks have sizeable nostro accounts at foreign banks due to commodity exports. The team finds that the Basel standard is not explicit regarding the treatment of inflows from nostro accounts. It is the view of the team, however, that these accounts may be eligible for a 100% inflow factor depending on the contractual specifications and operational purpose of the account. If the bank can withdraw funds unconditionally from the nostro account, eg in a way similar to an overnight deposit, and there are no operational purposes linked to the account, such as for clearing, custody or cash management, a 100% inflow factor could be applied. This would mirror the treatment given to nostro accounts in the outflow rates section of the Basel standard, where a 100% outflow rate is applied. Given the materiality of nostro accounts for the Russian banking sector, the team would ask the Basel Committee to confirm the treatment of inflow rates for nostro accounts. Also, the team would recommend that supervisors review whether banks that receive funds on nostro accounts apply a 100% outflow rate whenever the depositing bank applies a 100% inflow rate. This would ensure consistency in treatment across banks and jurisdictions.</p>

### 2.4.3 Disclosure requirements

Basel paragraph no	Basel paragraph 10 of the LCR disclosure requirements
Reference in domestic regulation	<p>Section 3 on "Information on the LCR calculation" of Reporting form 0409813 set out in Ordinance no 2332-U (amendments by CBR Ordinance No 3875-U, dated 3 December 2015)</p> <p>Ordinance no 3081-U "On Disclosing Information on Activities by Credit Institutions" dated 25 October 2013 (with amendments by 3879-U dated 3 December 2015)</p> <p>Ordinance 3876-U "On Forms, Procedure and Terms of Information Disclosure by Parent Credit Institutions on Accepted Risk, Risk Evaluation Procedures, and Risk and Capital Management Procedures" dated 3 December 2015</p>
Observation	<p>Basel specifies that national authorities are required to give effect to the liquidity disclosure requirements by no later than 1 January 2015. Banks will be required to comply with these disclosure requirements from the date of the first reporting period after 1 January 2015. The CBR's LCR disclosure requirements are effective from 1 January 2016, together with the LCR requirement.</p> <p>The CBR requires banks to disclose the LCR as a simple average of daily observations over the previous quarter starting on 1 January 2017 onwards. Until that date, the CBR allows banks to disclose the LCR based on a simple monthly average of the LCR at the beginning of each month. This is in line with the Basel standard</p>

## Annexes

### Annex 1: RCAP Assessment Team and Review Team

#### Assessment Team Leader

Mr René van Wyk                      South African Reserve Bank

#### Assessment Team members

Ms Thais Lungov	Central Bank of Brazil
Mr Grant McHendry	South African Reserve Bank
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Mr Anders Rydén	Sveriges Riksbank
Mr Vakhtang Sikharulishvili	National Bank of Georgia
Ms Ieva Snezhkova	Bank of England
Ms Jingchun Zhang	Hong Kong Monetary Authority

#### Supporting members

Mr Noel Padia	South African Reserve Bank
Mr Maarten Hendriks	Basel Committee Secretariat
Mr Olivier Prato	Basel Committee Secretariat

#### Review Team members

Karl Cordewener	Basel Committee Secretariat
Sungwoo Kim	Financial Supervisory Service of South Korea
Stefano de Polis	Bank of Italy
Heidi Richards	Australian Prudential Regulation Authority

## Annex 2: List of LCR standards under the Basel framework used for the assessment

### Basel documents in scope of the assessment

- (i) *The Liquidity Coverage Ratio* (January 2013), including the *Frequently asked questions on Basel III's January 2013 Liquidity Coverage Ratio* (April 2014);
- (ii) *Liquidity Coverage Ratio disclosure standards* (January 2014);

### Basel documents reviewed for information purposes

- (iii) *Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools* (January 2013) (part of liquidity risk monitoring tools);
- (iv) *Monitoring tools for intraday liquidity management* (April 2013); and,
- (iv) *Principles for sound liquidity risk management and supervision* (September 2008).

## Annex 3: Local regulations issued by Russian authorities for implementing Basel LCR standards

The CBR issued the domestic LCR regulation in May 2014 with subsequent refinements and amendments published thereafter, including the introduction of requirements for disclosure and reporting.

Overview of issuance dates of important Russian LCR rules

Table 3

Basel standard	Domestic regulations implementing the Basel standards Name of the document, version and date
Basel LCR standard	<p>CBR Regulation no 421-P "On the Calculation of the Liquidity Coverage Ratio (Basel III)" dated 30 May 2014. During the assessment this regulation was updated and finalised under Ordinance no 3872-U dated 1 December 2015;</p> <p>CBR Regulation no 510-P "On the Calculation of the Liquidity Coverage Ratio ("Basel III") by Systemically Important Credit Institutions" dated 3 December 2015;</p> <p>CBR press release "On realisation of Basel III and on regulation of systemically important credit institutions" published on 15 July 2015;</p> <p>CBR press release "On normative acts approved by the Board of Directors of the CBR" published on 30 November 2015;</p> <p>CBR press release "On the implementation of liquidity coverage ratio" published on 29 December 2015.</p>
Basel LCR disclosure requirements	<p>CBR Ordinance no 3081-U "On Disclosing Information on Activities by Credit Institutions", dated 25 October 2013 with amendments for the disclosure requirements on LCR dated 3 December 2015 (made via CBR Ordinance no 3879-U);</p> <p>On disclosure of risks, risk assessment procedures, and risk and capital management on a consolidated level (banking groups): CBR Ordinance no 3876-U, dated 3 December 2015, "On Forms, Procedure and Terms of Information Disclosure by Parent Credit Institutions on Accepted Risk, Risk Evaluation Procedures, and Risk and Capital Management Procedures";</p> <p>CBR Ordinance no 2332-U "On Reporting Forms and the Procedure for Presenting them by Credit Institutions to the Central Bank of the Russian Federation", dated 12 November 2009 with amendments for the disclosure requirements on the LCR dated 3 December 2015;</p> <p>Reporting form 0409813 "Information on required ratios and leverage ratio" includes a new section no 3 on "Information on LCR calculation", specified in Ordinance no 2332-U.</p>

Hierarchy of Russian laws and regulatory instruments

Table 4

Laws that empower the CBR as banking supervisor	Constitution of the Russian Federation (Article 75) (1993)
	Federal Law no 86-FZ on the Central Bank of the Russian Federation (the Bank of Russia) (2002)
	Federal Law no 395-1 on Banks and Banking Activities (1990)
Supervisory regulations derived from the above laws (various)	CBR Regulations ("P")
	CBR Instructions ("I")



	CBR Ordinances (“U”)
Non-binding supervisory documents	CBR Letters, methodological guidelines and recommendations

## Annex 4: Details of the RCAP assessment process

### A. Off-site evaluation

- (i) Completion of a self-assessment questionnaire by the Russian authorities
- (ii) Evaluation of the self-assessment by the RCAP Assessment Team
- (iii) Independent comparison and evaluation of the domestic regulations issued by the Russian authorities with corresponding Basel III standards issued by the BCBS
- (iv) Identification of observations
- (v) Refinement of the list of observations based on clarifications provided by the Russian authorities
- (vi) Assessment of materiality of deviations for all quantifiable deviations based on data and non-quantifiable deviations based on expert judgment
- (vii) Forwarding of the list of observations to the Russian authorities

### B. On-site assessment

- (viii) Discussion of individual observations with the Russian authorities
- (ix) Meeting with selected Russian banks and accounting firms
- (x) Discussion with the Russian authorities and revision of findings to reflect additional information received
- (xi) Assignment of component grades and overall grade
- (xii) Submission of the detailed findings to the Russian authorities with grades
- (xiii) Receipt of comments on the detailed findings from the Russian authorities

### C. Review and finalisation of the RCAP report

- (xiv) Review of comments by the RCAP Assessment Team, finalisation of the draft report and forwarding to the Russian authorities for comments
- (xv) Review of the Russian authorities' comments by the RCAP Assessment Team
- (xvi) Review of the draft report by the RCAP Review Team
- (xvii) Reporting of findings to SIG by the Team Leader
- (xviii) Review of the draft report by the Peer Review Board
- (xix) Approval of the report by the Basel Committee and publication

## Annex 5: List of rectifications by Russian authorities

Basel paragraph	Reference to Russian document and paragraph	Brief description of the rectification
Scope of application		
162	Paragraph 4.2 of Regulation no 510-P; Reporting forms 0409805 and 0904135 in Ordinance no 2332-U	The CBR made necessary changes to align its requirements on increasing the reporting frequency in stress situations through paragraph 4.2 of Regulation no 510-P. The LCR reporting forms are specified in Ordinance no 2332-U.
163	Paragraphs 4.1 and 4.3 of Regulation no 510-P	As per the Basel rules text, banks are expected to inform supervisors of their LCR and their liquidity profile on an ongoing basis. Banks should also notify supervisors immediately if their LCR has fallen, or is expected to fall, below the minimum required level. Paragraph 4.1 and 4.3 were introduced into Regulation no 510-P to implement these requirements.
164	Paragraph 1.3 of Regulation no 510-P	As per the Basel rules text, the LCR standard and monitoring tools should be applied to all internationally active banks on a consolidated basis. The requirement to compile the LCR on consolidated basis was introduced to Regulation no 510-P.
165	Paragraph 3.8 and paragraph 1 of Appendix 2 to Regulation no 510-P	As per the Basel rules text, national supervisors should determine which investments in banking, securities and financial entities of a banking group that are not consolidated should be considered significant, taking into account the liquidity impact of such investments on the group under the LCR standard. Further, as per the rules text, national supervisors should agree with each relevant bank on a case-by-case basis on an appropriate methodology for how to quantify potential liquidity draws, in particular, those arising from the need to support the investment in times of stress out of reputational concerns for the purpose of calculating the LCR standard. To the extent that such liquidity draws are not included elsewhere, they should be treated under "Other contingent funding obligations". Paragraph 3.8 and paragraph 1 of Appendix 2 were added in 510-P to implement the above requirements.
166	Appendix 1 of 510-P	As per the Basel rules text, regardless of the scope of application of the LCR, in keeping with Principle 6 as outlined in the <i>Sound Principles</i> , <sup>6</sup> a bank should actively monitor and control liquidity risk exposures and funding needs at the level of individual legal entities, foreign branches and subsidiaries, and the group as a whole, taking into account legal, regulatory and operational limitations to the transferability of liquidity. The <i>Sound Principles</i> were introduced under Appendix I "Principles of Liquidity Risk Management" in 510-P.

<sup>6</sup> See [www.bis.org/publ/bcbs144.htm](http://www.bis.org/publ/bcbs144.htm).

169, 170	Paragraph 3.2.1 of Regulation No 421-P Paragraph 3.3, of 510-P	As per the Basel rules text, a cross-border banking group should apply the liquidity parameters adopted in the home jurisdiction to all legal entities, being consolidated except for the treatment of retail/small business deposits, which should follow the relevant parameters adopted in host jurisdictions in which the entities (branch or subsidiary) operate. Also, home requirements for retail and small business deposits should apply to the relevant legal entities (including branches of those entities) operating in host jurisdictions if: (i) there are no host requirements for retail and small business deposits in the particular jurisdictions; (ii) those entities operate in host jurisdictions that have not implemented the LCR; or (iii) the home supervisor decides that home requirements should be used that are stricter than the host requirements. Paragraph 3.2.1 of 421-P and paragraph 3.3 of 510-P implement these requirements.
171, 172	Paragraph 2.5 on availability of HQLA and 3.10 on availability of inflows, and paragraph 1 of Appendix 2 on supervision, of 510-P	As per the Basel rules text, 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. This aspect has been added in 510-P.  As per the Basel rules text, 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.  Paragraph 2.5 of 510-P was revised to require banks to monitor transferability of a banking group participant's assets to a parent credit institution, taking into account possible regulatory, legal, tax, accounting and other limitations.
High-quality liquid assets		
10	Paragraph 1.4 of 510-P	The Basel standard specifies that LCR be introduced on 1 Jan 2015, and the minimum will be set at 60% and rise in equal annual steps to reach 100% on 1 Jan 2019. The implementation schedule of LCR by the CBR would be in line with that of the Basel requirement from 1 Jan 2016 onward. Minimum LCR requirement is implemented in the Regulation no 510-P.
11, 17, 18	Paragraph 1.5, 4.1, 5.3 and paragraph 4 of Appendix 2 of 510-P	The usability of the HQLA during periods of stress is implemented in 510-P.
16	Paragraph 1.1 of 510-P	The Basel rules text clearly prescribes that the purpose of the LCR is to ensure that a bank has an adequate stock of unencumbered HQLA to meet its liquidity needs for a 30-calendar day liquidity stress scenario. The aim was added in paragraph 1.1 of 510-P.
21	Paragraph 10 of Appendix 1 of 510-P	Liquidity stress testing requirement was added in paragraph 10 under Appendix I "Principles of Liquidity Risk Management" in 510-P.
22, 23, 24	Paragraph 1.2 of 421-P	The Basel standard requires that the numerator of the LCR be a stock of unencumbered HQLA, which can be easily and immediately converted into cash at little or no loss of value, while Russia regulation allowed some HQLA to be received within the next calendar day without explicit specification of the type of assets. Paragraph 1.2 of 421-P was modified to convey the meaning that HQLA available on the following day refers only to deposits at central banks.

24, 46	Paragraph 1.2 and 2.2 of 421-P	Paragraph 24 of the Basel rules text requires that assets allowed to be included in the pool of HQLA should meet all the fundamental and market-related characteristics of HQLA. Additional words were added in paragraph 1.2 and 2.2 of 421-P to provide these general requirements.
25	Paragraph 1.2 and 2.2 of Chapter 2 of 421-P	The Basel rules text provides that, by way of sale or repo, the liquidity-generating capacity of all HQLAs should remain intact in periods of severe idiosyncratic and market stress. Certain changes in Chapter 2 of 421-P were made to ensure the liquidity generating capacity of all HQLAs should retain intact.
30	Paragraph 2.11 of 510-P and paragraph 2.1.1 of 421-P	Paragraph 30 of the Basel rules text requires that a bank should periodically monetise a representative proportion of the HQLA. Paragraph 2.11 of 510-P and paragraph 2.2 of 421-P introduced requirement on regular assessment on the availability of the active market for HQLA and the possibility to use these HQLA to raise funds.
31	Paragraph 2.1.2 of 421-P	Paragraph 31 of the Basel rules text spells out certain specific requirements of "unencumbered assets". The definition was amended in paragraph 2.1.2 of 421-P.
32	Paragraph 2.1.1 of 421-P Paragraph 12 of Appendix 1 of 510-P	The Basel rules text provides some specific requirements regarding the function of liquidity risk management such as the need to have a procedure and system in place, including providing the function with access to all necessary information to execute monetisation. Paragraph 2.1.1 of 421-P was amended to implement such requirements; also this aspect was added in paragraph 12 of Appendix 1 in 510-P.
35	Appendix 1 of 510-P	Paragraph 35 of the Basel rules text specifies that banks should have a policy in place that identifies legal entities, geographical location, currencies and specific custodial or bank accounts where HQLA are held. Appendix 1 of 510-P was amended to implement the requirement.
35, 73	Paragraph 3.2.1, 3.3.1 and 3.5.24 of 421-P	Changes were made to apply 100% outflow to retail and wholesale deposits in precious metals.
37	Paragraph 2.5 of 510-P	With regard to the inclusion of HQLA in legal entities within the consolidated group, paragraph 2.5 of 510-P was added to implement paragraph 37 of Basel text.
38	Paragraph 1.2, 2.1.1 and 2.1.2 of 421-P	Paragraph 38 of the Basel rules text requires that banks should exclude from the HQLA the assets that may have an impediment to sale. Paragraphs 1.2, 2.1.1 and 2.1.2 were amended to include a similar provision in the local regulation.
41	Paragraph 8 of Appendix 1 of 510-P	Paragraph 41 of the Basel rules text requires that banks should actively manage their intraday liquidity positions. This requirement was added in paragraph 8 under Appendix I "Principles of Liquidity Risk Management" in 510-P.
44	Paragraph 2.13 of 421-P, 2.10 of 510-P, paragraph 1 of Appendix 2	Paragraph 44 of the Basel rules text specifies diversification requirements for the asset types, issue and issuer types. Amendments were made in 421-P and 510-P to implement such requirements.
50	Paragraph 2.5.1 of 421-P	The Basel standard does not provide for the recognition of cheques, particularly traveller's cheques, and thus cheques (including traveller's cheques) were removed from HQLA.
52, 54	Paragraph 2.2 of 421-P	The Basel LCR standard requires that securities in HQLA should not be an obligation of a financial institution or any of its affiliates. Amendment was made to paragraph 2.2 of 421-P to explicitly exclude securities that are issued by and/or guaranteed by other FIs.
52, 54	Paragraph 2.2 of 421-P	Paragraph 2.2 of 421-P was amended to state that qualifying corporate bonds should be plain vanilla assets (consistent with Footnote 19 in Basel rule text).

54	Paragraph 2.7.1 of 421-P	Paragraph 2.7.1 of 421-P was updated to require the underlying assets of residential mortgage-backed securities not to be originated by the bank itself or any of its affiliated entities.
54	Paragraph 2.7.3 of 421-P, paragraph 2.3 of 510-P	Paragraph 2.7.3 of 421-P was updated to require that the equity share should be denominated in the domestic currency of a bank's home jurisdiction or in the currency of the jurisdiction where a bank's liquidity risk is taken. The same requirement was included at a consolidated level (paragraph 2.3 of 510-P).
55-67	Paragraphs 2.4, 2.8, 2.9, 5.2, 5.4 and paragraph 1 of Appendix 2 of 510-P Press release from CBR dated 29 December 2015	The Basel rules text provides jurisdictions that face structural shortage of HQLA ALA options to meet the minimum LCR requirements. ALA options are adopted in 510-P. Information about the adoption of ALA options was published in an official press release from CBR dated 29 December 2015.
Outflows		
72	Paragraph 3.5.26 of 421-P	Paragraph 3.5.26 of 421-P was added to incorporate the requirement that, where an item could be potentially be counted in multiple outflow categories, a bank has to assume up to the maximum contractual outflow for that product.
90, 91	Paragraph 3.3.5 of 421-P, and paragraph 3.4 of 510-P	Definition of small business customer in 421-P and 510-P is aligned in the final rules.
93	Paragraphs 3.5 and 5.5, paragraph 2 of Appendix 2 of 510-P	With regard to supervisory approval for the use of the operational deposits, paragraph 3.5 of 510-P was amended to define operational deposits, while paragraph 5.5 and paragraph 2 of Appendix 2 of 510-P were added to outline the approval requirement on operational deposits.
96, 97	Paragraphs 3.3.7 and 3.3.9 of 421-P regarding the methodology for identifying excess deposits	Paragraph 96 of the Basel rules text mentioned that, if banks are unable to determine the amount of the excess balance, then the entire deposit should be assumed to be excess to requirements and, therefore, considered non-operational. Paragraph 3.3.9 of 421-P was amended to explicitly implement this requirement. Paragraph 3.3.7 of 421-P was amended to contain the details of the requirement for banks set out in Paragraph 97 of the Basel rules to determine the methodology for identifying excess deposits, which is important in the determination of operational relationship.
103	Paragraph 3.3.6 of 421-P	Paragraph 3.3.6 of 421-P was updated to contain a more specific definition of cash management under the LCR requirement.
118	Paragraph 3.5.4 of 421-P	The Basel rules text provides that triggers linked to a bank's short-term rating should be assumed to be triggered at the corresponding long-term rating in accordance with published ratings criteria. Paragraph 3.5.4 of 421-P was amended to include such a specification.
119	Paragraph 3.5.5 of 421-P	With regard to increased liquidity needs related to the potential for valuation changes on posted non-level 1 assets, Paragraph 3.5.5 of 421-P was amended.

122	Paragraph 3.5.8 of 421-P	BCBS LCR FAQ <sup>7</sup> 9(g) (setting out guidance for cases where collateral substitution may involve different classes of collateral) provides that if HQLA collateral (eg Level 1 assets) may be substituted for other HQLA collateral (eg Level 2A assets), an outflow amounting to the market value of the received collateral multiplied by the difference between the haircuts of the received collateral and the potential substitute collateral should be applied. This FAQ was incorporated in paragraph 3.5.8 of 421-P.
126	Paragraph 4.2 of 421-P	The Basel rules text requires that all facilities that are assumed to be drawn will remain outstanding at the amount assigned throughout the duration of the test. Paragraph 4.2 of 421-P was amended to implement this requirement.
129	Paragraph 3.5.15 of 421-P	Paragraph 129 of the Basel rules text states that any facilities provided to hedge funds, money market funds, etc should be captured in their entirety as a liquidity facility subject to 100% drawdown rate. The table under paragraph 3.5.15 was amended to reflect this requirement.
138	Paragraph 3.5.17 of 421-P	The Basel rules text states that trade finance instruments consist of trade-related obligations directly underpinned by the movement of goods or the provision of services. Paragraph 3.5.17 of 421-P was updated to provide more detailed information on the types of trade finance.
141	Paragraph 3.5.24 of 421-P	With regard to uncovered short position and unsecured collateral borrowing, paragraph 3.5.24 of 421-P was updated.
Inflows		
143	Paragraph 3.12 and paragraph 5 of Appendix 1 of 510-P	Paragraph 3.12 of 510-P was amended to impose requirement for liquidity risk concentration. Paragraph 5 of Appendix 1 (Sound Principles) to 510-P was introduced to impose the requirement for inflow concentration monitoring.
146	Paragraph 4.4 of 421-P	According to paragraph 146 of the Basel rules text, if the collateral obtained through reverse repo, securities borrowing or collateral swaps that mature within the 30-day horizon is re-used (ie rehypothecated) and is used to cover short positions that could be extended beyond 30 days, a bank should assume that such reverse repo or securities borrowing arrangements will be rolled over and will not give rise to any cash inflows. Paragraph 146 recognises the liquidity needs arising from a bank's own short position. Paragraph 4.4 of 421-P was amended to specify that a bank's own position is meant.
148	Paragraph 3.12 of 510-P and paragraph 9 Appendix 1 of 510-P	As per the Basel rules text, a bank should manage its collateral such that it is able to fulfil obligations to return collateral whenever the counterparty decides not to roll over any reverse repo or securities lending transaction. Paragraph 3.12 of 510-P and paragraph 9 of Appendix 1 of 510-P were amended to implement the requirement.
151	Paragraphs 4.1 and 4.2 of 421-P	Paragraph 4.2 of 421-P was updated to reflect the Basel requirement of considering cash inflow related to loan repayments.

<sup>7</sup> See [www.bis.org/publ/bcbs284.pdf](http://www.bis.org/publ/bcbs284.pdf).

152	Paragraph 4.1 of 421-P	Inflows from loans that have no specific maturity (ie have non-defined or open maturity) should not be included. An exception to this would be minimum payments of principal, fee or interest associated with an open maturity loan, provided that such payments are contractually due within 30 days. These minimum payment amounts should be captured as inflows. Paragraph 4.1 of 421-P was updated to incorporate this requirement.
Disclosure		
9	Paragraph 7 of the order of reporting form 0409813 compiling in Ordinance no 2332-U	The disclosure form 0409813 was enforced and paragraph 7 of the order of reporting form 0409813 compiled in Ordinance no 2332-U requires banks obligated to meet LCR requirement to compile the LCR disclosure table under Section 3 of reporting form 0409813.
10	Press release from CBR dated 29 December 2015	Before 1 January 2017, the data will be disclosed by the Russian banks using the simple average of each month's beginning's data over the previous quarter, which was announced in an official CBR press release on 29 December 2015.
12	Reporting Form 0409813	The disclosure form 0409813 follows the common template that the Basel Committee has developed. Paragraph 7 of the order of form compiled in Ordinance no 2332-U also requires banks to calculate and disclose information on a consolidated basis. Presentation of disclosure is in roubles.
13	Reporting form 0409813, Press release from CBR dated 29 December 2015	Press release from CBR dated 29 December 2015 set out the disclosure requirement. Number of data points used in calculating the average figures of LCR is required under Amendment to Ordinance no 3081-U (CBR Ordinance no 3879-U dated 3 December, 2015) and Ordinance no 3876-U dated 3 December 2015.



## Annex 6: Assessment of bindingness of regulatory documents

The following table summarises the assessment of the seven criteria used by the Assessment Team to determine the eligibility of Russian regulatory documents. Based on this the Assessment Team concluded that the regulatory instruments issued and used by the CBR as set out in Annex 3 are eligible for the RCAP assessment.

Criterion	Assessment
(1) The instruments used are part of a well-defined, clear and transparent hierarchy of legal and regulatory framework.	<p>Enactments (“normative acts”) of the CBR are part of the Russian legal and regulatory framework and issued when the CBR is authorised by federal law.</p> <p>Under Article 7 of Federal Law no 86-FZ “On the Central Bank of the Russian Federation (the Central Bank of Russia)” and other federal laws the CBR issues enactments in form of ordinances, regulations and instructions. All these types of CBR enactment are equally binding.</p> <p>The CBR also issues letters (a form of non-binding recommendation).</p>
(2) They are public and easily accessible	<p>Enactments and letters (recommendations) are public and easily accessible (they are published in the “Bank of Russia Bulletin” and on the CBR website).</p> <p>Enactments of the CBR become effective 10 days after their official publication in the “Bank of Russia Bulletin” unless the Board of Directors of the CBR decides otherwise. Enactments cannot have a retroactive effect.</p> <p>The CBR shall officially announce the forthcoming change in prudential ratios and their methodology not later than one month before putting them into force.</p>
(3) They are properly communicated and viewed as binding by banks as well as by the supervisors.	<p>Enactments of the CBR are binding for authorities, legal entities and individuals (Article 7 of Federal Law no 86-FZ).</p> <p>Letters/recommendations are non-binding.</p>
(4) They would generally be expected to be legally upheld if challenged and are supported by precedent.	<p>Enactments of the CBR may be appealed against in the same procedure as for enactments of the federal authorities (Article 7 of Federal Law no 86-FZ).</p> <p>The court rejects the application when it avows that the enactment under dispute does not contradict a federal law or another enactment of a greater legal force (Article 253 of the Russian Federation Code of Procedure).</p>
(5) Consequences of failure to comply are properly understood and carry the same practical effect as for the primary law or regulation.	<p>Under Article 74 of Federal Law no 86-FZ, the CBR is authorised to take measures in the event of non-compliance of the credit institution with federal laws and enactments of the CBR.</p>
(6) The regulatory provisions are expressed in clear language that complies with the Basel provisions in both substance and spirit.	<p>Under Article 72 of the Federal law no 86-FZ the CBR takes into account best practice when it issues methodology for capital and prudential ratios.</p>
(7) The substance of the instrument is expected to remain in force for the foreseeable future	<p>Enactments of the CBR shall normally be registered with the Ministry of Justice.</p> <p>Enactments are in force till they are amended or repealed unless the time they came in force had been fixed at the time of their adoption.</p>

## Annex 7: Key liquidity indicators of the Russian banking system

Data on a standalone basis as of 1 October 2015

Table 5

Size of banking sector (RUB million).			
1. Total assets (including off-balance sheet) <sup>8</sup> of all banks <sup>9</sup> operating in the jurisdiction	80 687 668		
2. Total assets (including off-balance sheet) of all Domestic Systemically Important Banks	51 136 142		
3. Total assets (including off-balance sheet) of locally incorporated banks to which liquidity standards under the Basel framework are applied	51 136 142		
Number of banks			
4. Number of banks operating in the jurisdiction (excluding local representative offices)	714		
5. Number of Global Systemically Important Banks (G-SIBs)	0		
6. Number of Domestic Systemically Important Banks <sup>10</sup> (D-SIBs)	10		
7. Number of banks required to implement Basel III liquidity standards	10		
8. Number of banks required to implement domestic liquidity standards	714		
Breakdown of LCR for 10 D-SIBs		Unweighted	Weighted
9. Total HQLA	3 779 478	3 650 964	
10. Level 1 HQLA	3 521 542	3 521 542	
11. Level 2A HQLA	1 299	1 104	
12. Level 2B HQLA	256 638	128 319	
13. ALA HQLA <sup>11</sup>	-	-	
14. Total cash outflows	-	10 405 582	
15. Retail and small business stable deposits	92 530	4 627	
16. Retail and small business less stable deposits	12 598 559	1 259 856	
17. Wholesale unsecured operational deposits	0	0	
18. Wholesale unsecured non-operational funding	9 907 331	5 755 844	
19. Secured funding	-	242 635	
20. Derivatives cash outflows	1 943 176	1 943 176	
21. Debt issued instruments (incl. credit and liquidity facilities)	3 418 995	610 352	
22. Other contractual outflows	4 376 228	561 658	
23. Contingent funding obligations	27 435	27 435	
24. Total cash inflows	8 859 429	5 764 055	
25. Secured lending	464 827	236 861	
26. Fully performing unsecured loans	4 196 178	3 650 786	

<sup>8</sup> The measure of assets including off-balance sheet positions is the denominator of the Basel leverage ratio.

<sup>9</sup> Banks only, non-banking credit institutions are not included.

<sup>10</sup> As defined based on criteria of international activity.

<sup>11</sup> ALA is applied starting from 1 January 2016.

27. Other cash inflows	1 876 408	1 876 408
28. Liquidity Coverage Ratio (%)		78.7

## Annex 8: Materiality assessment

The outcome of the RCAP assessment is based on the materiality of the findings. As a general principle, and mirroring the established RCAP assessment methodology for risk-based capital standards, a distinction is made between quantifiable and non-quantifiable findings and the RCAP-LCR materiality assessment is based on both quantitative and qualitative information with an overlay of expert judgment. Where possible, teams also take into account the dynamic nature of liquidity risks and seek to assess the materiality of any deviations at different points in time.

In line with underlying RCAP principles, for quantifiable gaps the materiality assessment is based on a determination of the cumulative impact of the identified deviations on the reported LCRs of banks in the RCAP sample (see below). For non-quantifiable gaps, the team relies on expert judgment only. Following this approach, an attempt was made to determine whether findings are “not material”, “material” or “potentially material”.

In the case of the Russia LCR assessment, following the amendments published in December 2015 by the CBR, no quantifiable or non-quantifiable gaps remain. The following table summarises the number of deviations according to their materiality.

Component	Non-material	Material	Potentially material
Definition of HQLA (numerator)	0	0	0
Outflows (denominator)	0	0	0
Inflows (denominator)	0	0	0
LCR disclosure requirements	0	0	0

Note: materiality is defined based on quantitative benchmark thresholds (for the quantifiable gaps) and expert judgment (for the non-quantifiable gaps). See Section 2 with the detailed assessment findings for further information.

### RCAP sample of banks

The following Russian banks were selected for materiality testing of the quantifiable deviations. Together these banks hold about 60% of the total assets of the Russian banking system.<sup>12</sup> The sample covers Russia’s internationally active banks, and is a fair representation of the various types of banks operating in Russia. The basis of materiality assessment is the impact on the reported liquidity ratio of the banks constituting the sample agreed between the Assessment Team and the assessed jurisdiction.

Banking group	Share of the banking groups’ assets in the total Russian banking sector assets as of 1 October 2015
1. Sberbank	28.8%
2. VTB Group	16.2%
3. Gazprombank	7.0%
4. Otkritie	6.5%

<sup>12</sup> For this purpose, banking assets include both on- and off-balance sheet assets.

5. Alpha Bank	2.7%
Total	61.2%

Note: data are based on banks' asset size on a standalone basis, but including domestically locally incorporated banking subsidiaries. The banking sector is defined as banks only; non-banking credit institutions are not included.

## Annex 9: Russia's implementation of the liquidity monitoring tools

### Basel liquidity monitoring tools

In addition to the LCR the CBR collects and analyses a wide range of information on liquidity risk taken by banks, such as:

- information on maturity gaps;
- concentration of funding;
- available unencumbered assets;
- LCR by significant currencies; and,
- domestic required liquidity ratios set by the CBR.

Moreover, the CBR gathers, analyses and publishes a wide range of market-related data crucial for assessing the liquidity of banks and the banking sector as a whole.

#### 1. Contractual maturity mismatch

The CBR-specified Reporting Form 0409125 "Information on the Assets and Liabilities by Maturity" is included in Appendix 1 to CBR Ordinance no 2332-U (hereinafter referred to as Form 0409125) in order to monitor the maturity mismatch. All banks report these data to the CBR monthly.

According to Form 0409125 balance sheet items, off-balance sheet liabilities and guarantees are mapped to the following time bands based on their residual maturity: on demand and less than one day, less than five days, less than 10 days, less than 20 days, less than 30 days, less than 90 days, less than 180 days, less than 270 days, less than one year and above one year. For the maturity gap analysis only liquid assets/high credit quality assets are reported in Form 0409125.

Amounts of assets and liabilities by the residual maturity are reported as cumulative totals.

Form 0409125 also contains the information on the liquidity surplus (deficit) calculated as total liquid assets less total balance and off-balance sheet liabilities and guaranties in each time bucket and the coefficient of liquidity surplus (deficit) calculated as a ratio of the liquidity surplus (deficit) to the total amount of liabilities.

Based on the information under Form 0409125, the CBR calculates the total short-term liquidity ratio (PL1) which is defined as a ratio of liquid assets (that can be received and/or demanded within 30 days) to liabilities maturing within less than one year in accordance with paragraph 3.4.1 of CBR Ordinance no 2005-U of 30 April 2008 "On the Assessment of Economic Situation of Banks" (hereinafter referred to as CBR Ordinance no 2005-U).

#### 2. Concentration of funding

##### Significant counterparties

All banks provide the CBR with information on large creditors and depositors (groups of interconnected creditors and depositors) using Reporting Form 0409157 "Information on bank's large creditors and depositors" included in Appendix 1 to CBR Ordinance no 2332-U (hereinafter referred to as Form 0409157) on a monthly basis. A creditor or depositor (group of interconnected creditors and depositors) is treated as "large" if a bank's liabilities to this creditor or depositor (that is not a credit institution) are equal to or more than 10 % of total bank's liabilities.

The CBR uses Form 0409157 to analyse the concentration risk by estimating the ratio of funds raised from large creditors and depositors (or groups of interconnected creditors and depositors) to the amount of liquid (up to 30 days) assets (PL10 ratio) according to paragraph 3.4.9 of CBR Ordinance no 2005-U.

### Significant instruments/products

The CBR monitors and analyses the balance sheet structure of banks on the basis of three main ratios.

The indicator of the liability structure (PL4 ratio) is calculated as a share of demand liabilities in total liabilities in accordance with paragraph 3.4.4 of CBR Ordinance no 2005-U.

The risk measure of dependence on the interbank market (PL5 ratio) is defined as the ratio of received less placed interbank loans (deposits) to total liabilities in accordance with paragraph 3.4.5 of CBR Ordinance no 2005-U.

The measure of dependence on and the risk of issued promissory notes (PL6) is defined as the ratio of the total amount of issued promissory notes and bank acceptances to the bank's capital in accordance with paragraph 3.4.6 of CBR Ordinance no 2005-U.

### Significant currencies

In order to assess the funding concentration and to capture currency mismatches in funding sources and highly liquid assets in each significant currency, the CBR collects data under Reporting Form 0409122 "Calculation of the liquidity coverage ratio ("Basel III")" included in Appendix 1 to CBR Ordinance no 2332-U (hereinafter referred to as Form 0409122) that includes data on contractual claims (liabilities) that can be called/redeemed/paid back within the next 30 days (ie unweighted amounts).

Form 0409122 is provided by large banks that meet the criteria of Clause 7 of Part 1 of Article 76 of Federal Law no 86-FZ (ie total assets are equal to or more than RUB 50 billion and/or retail deposits are equal to or more than RUB 10 billion).

In order to regulate and control the foreign exchange risk taken by credit institutions, the CBR limits open foreign currency positions. Amounts (limits) of open foreign exchange positions are calculated as the ratios of open foreign exchange positions in a single foreign currency and precious metal, a balancing position in Russian roubles, the overall amount of all open foreign exchange positions in a single foreign currency and precious metal to own funds (capital) of credit institutions according to CBR Instruction no 124-I, dated 15 July 2005 "On Setting Limits on Open Foreign Exchange Positions, the Methodology for Calculating Them and the Specifics of Supervision over Their Compliance by Credit Institutions". Data are reported by credit institutions using Reporting form 0409634 "Open Foreign Exchange Position Report".

## 3. Available unencumbered assets

Large banks that report data on the LCR under Form 0409122 provide information on the value of assets that can be posted by the bank as collateral for a loan from the CBR under refinancing operations by asset type: securities included in the Lombard List, other assets (including loans) and gold.

## 4. LCR by significant currency

While the LCR is supposed to be met as the all-currency LCR (ie for positions in all the currencies converted into Russian roubles), in order to better capture potential currency mismatches, the CBR monitors the LCR in significant currencies as set out in paragraph 5.2 of CBR Regulation no 421-P, dated 30 May 2014 "On the Calculation of the Liquidity Coverage Ratio ("Basel III")" on a standalone basis and in Para 1.9 of CBR

Regulation no 510-P, dated 3 December 2015 "On the Calculation of the Liquidity Coverage Ratio ("Basel III") by Systemically Important Credit Institutions" on a consolidated basis.

The CBR uses the same definition of the significant currency as set by Basel III (a currency is considered "significant" if the aggregate liabilities denominated in that currency amount to 5% or more of the bank's total liabilities).

## 5. Market-related monitoring tools

The CBR analyses a wide range of market-related information. The CBR compiles and publishes on its website the following information:

- Indicators of the foreign exchange market;
- Market interest rate indicators such as MIACR, MosPrime, RUONIA etc;
- Government bond market rates;
- Zero coupon risk-free yield curve; and,
- Values of major stock indices etc.

## Final remarks

In order to monitor a bank's ability to fund loans to customers with wholesale liabilities the CBR calculates the loan-to-deposit ratio (PL7) as a ratio of loans granted to clients (non-credit institutions) (including loans, granted to natural persons) to funds raised from clients (non-credit institutions) and issued debt securities in accordance with paragraph 3.4.7 of CBR Ordinance no 2005-U.

The CBR uses three domestic required liquidity ratios on a standalone basis in order to regulate the bank's liquidity risk. All banks must comply with the minimum requirements set for liquidity ratios.

The CBR uses required liquidity ratios, the risk metrics mentioned above, information on compliance with the obligatory reserves requirements, information on past due liabilities and other indicators for the quarterly assessment of banks according to CBR Ordinance no 2005-U. The results of the assessment influence the bank's ability to receive funding from the CBR.

## Basel guidance on monitoring tools for intraday liquidity management

Under paragraph 8 of Annex 1 of CBR Regulation no 510-P, systemically important banks should manage their intraday liquidity and the associated risks to facilitate the continuous operation of payment and settlement systems both in normal and unstable financial environments.

Russian banks use the CBR System of Gross Settlements (SGS) for their payments in roubles. Under the CBR Regulation no 303-P dated 25 April 2007 "On the Bank of Russia's system of gross settlements in real time", in order to optimise settlement costs, banks use intraday overdraft provided by the CBR through the liquidity bridge between the SGS and the banks' accounting systems. Russian banks manage their intraday liquidity in the SGS to ensure that all payments can be made in real time within the amount available on correspondent accounts, taking into account funds provided by the CBR intraday overdraft and overnight loans and settlements restrictions (if any). The liquidity intraday limit on settlements can be set either by the bank itself or by the CBR in accordance with the provisions of their agreement. This limit can be changed on request.

The SGS is managed by the CBR enabling the latter to monitor, control and gather information about settlements directly without any additional reporting forms. Due to the ongoing monitoring process,



the CBR analyses in real time the total payments of the credit institutions (per hour and per day) and the time required for payment.

## Annex 10: Russia's implementation of the *Principles for sound liquidity risk management and supervision*

The Basel Committee's *Principles for sound liquidity risk management and supervision* (2008) (the Sound Principles) have been incorporated into the banking regulation of the liquidity risk in Russia. Article 62 of the Federal Law no 86-FZ empowers the CBR to set the required ratios, including liquidity ratios, for credit institutions and banking groups.

Article 66 of Law no 86-FZ provides broad definitions of the numerator and denominator for such liquidity ratios. Moreover, Article 57 of the Law specifically empowers the CBR to set the methodology for calculating liquidity ratios and their minimum levels for systemically important credit institutions (eg for the implementation of Basel III).

Under Article 57<sup>1</sup> and Article 57<sup>2</sup> of Law no 86-FZ, the CBR sets requirements for risk management, capital management and internal control in credit institutions and banking groups and conducts their assessment.

The required liquidity ratios have been in force in Russia for more than 20 years. According to CBR Regulation no 139-I, of 3 December 2012 "On Required Ratios for Banks" (Regulation no 139-I), banks should maintain on a daily basis three required liquidity ratios: N2 at 15% for instant liquidity (over one day), N3 at 50% for current liquidity (over the next 30 days), and N4 at 120% for long-term liquidity (over more than 365 days).

The Liquidity Coverage Ratio (LCR) as per Basel III has been calculated since July 2014 by the largest banks for monitoring purposes, as well as for the quantitative impact study and a calibration of some run-off factors used for the LCR that are not set by the BCBS (CBR Regulation no 421-P, of 3 May 2014 "On the Calculation of the Liquidity Coverage Ratio (Basel III)"). For the implementation of the LCR as a prudential requirement, the CBR adopted Regulation no 510-P dated 3 December 2015 "On the Calculation of the Liquidity Coverage Ratio ("Basel III") by Systemically Important Credit Institutions" (Regulation no 510-P) with the following schedule of the LCR implementation and its minimum requirements (phase-in arrangements): 70% starting from 1 January 2016; 80% starting from 1 January 2017; 90% starting from 1 January 2018; 100% starting from 1 January 2019. All systemically important banks according to CBR Ordinance 3737-U "On the Methodology of Defining Systematically Important Credit Institutions" are subject to Regulation no 510-P. The CBR introduced the LCR on a consolidated basis for banking groups of systemically important banks and on a standalone basis for systemically important banks that do not have a banking group.

In 2009, the CBR issued recommendations for banks on liquidity management (Letter no 139-T, of 27 July 2000) for the following purposes: (i) a clear identification of bank's divisions responsible for developing and implementing policies and decision-making with regard to liquidity; (ii) a mandatory collection and analysis of information on a bank's liquidity status; (iii) liquidity forecasting systems; (iv) asset/liability analysis and decision-making process; (v) liquidity stress testing, including a worst-case scenario; (vi) contingency plans with regard to a bank's liquidity; (vii) analysis of linkages between bank's foreign exchange operations and its liquidity including the analysis of liquidity by currency.

In 2009, for the implementation of the Sound Principles by all Russian banks, the CBR issued Letter no 15-1-4/536, of 4 February 2009 "On the Guidance of the Basel Committee on Banking Supervision 'Principles for Sound Liquidity Risk Management and Supervision'" with 17 principles for managing and supervising liquidity risk. The Sound Principles are applied when supervising the liquidity position of credit institutions.

As a requirement for systemically important banks, the Sound Principles were introduced in Regulation no 510-P (Appendix 1 with 13 principles of liquidity risk management) effective from 1 January 2016.

The CBR ordinance no 3624-U, of 15 April 2015 "On the Requirements to the Risk and Capital Management System of the Credit Institution and the Banking Group" (Ordinance no 3624-U) stipulates the requirements for credit institutions' ICAAP, including liquidity risk measurement and management. These include methods and procedures for the management of material risks, methods and procedures for capital management, a system of controlling material risks, capital adequacy, and compliance with the risk limits, reporting under the ICAAP framework, a system of ensuring compliance with ICAAP and their efficiency, as well as the internal documents drafted by the credit institution.

Compliance with the requirements for credit institutions' ICAAP including liquidity risk measurement and management is assessed by the CBR under Ordinance no 3883-U dated 7 December 2015 "On the Assessment of Quality of Risk and Capital Management Framework and Capital Adequacy of Credit Institutions and Banking Groups performed by the Bank of Russia" (Ordinance no 3883-U / SREP).

The liquidity and liquidity risk management quality of a bank are assessed by the CBR within the quarterly supervisory assessment of banks' economic situation under Ordinance of the CBR 2005-U of 30 April 2008 "On Assessing Banks' Economic Situation" (Ordinance no 2005-U). As a result of this assessment, a bank is classified into one of five groups. The methodology of Ordinance 2005-U includes both quantitative and qualitative criteria. The CBR has a range of tools available to address deficiencies.

Principle 14 (The role of supervisors)	Procedures in place and future steps
Supervisory framework (Paragraph 132)	
<p>14.1 The liquidity risk supervisory framework allows supervisors to make thorough assessments of banks' liquidity risk management practices and the adequacy of their liquidity, in both "normal" times and periods of stress. This framework:</p>	<p>The liquidity and liquidity risk management quality of a bank are assessed by the CBR within the supervisory assessment of banks' economic situation (position) under Ordinance no 2005-U. The assessment is carried out by the CBR on a quarterly basis. Based on the assessment a bank is classified into one of five groups. The methodology of Ordinance no 2005-U includes both quantitative and qualitative assessment criteria. Corporate governance quality, including risk management system and internal control is assessed using qualitative indicators. Bank liquidity is assessed using ratios that characterise the short-term and the current liquidity position of a bank, its funding structure, dependence on the interbank market and funding from large depositors/creditors etc. The aggregated result for liquidity assessment is calculated as the weighted average of each ratio's grade and is assessed using four possible grades (good, satisfactory, doubtful, and unsatisfactory). The assessment of liquidity management internal procedures is a part of the overall bank's management quality assessment. If a bank's liquidity and corporate governance quality are assessed lower than satisfactory the bank cannot be classified as one that does not have current difficulties. Depending on identified shortcomings such banks can be classified into group 3 "Banks that experience problems in their activities, which, if not rectified, may lead to a situation threatening the financial stability of the bank and the interests of its creditors and depositors within the next 12 months", or to groups 4 or 5 "Banks that encounter problems in their activities that are a direct threat to their financial stability, while the solution of such problems requires urgent and effective measures of the governance bodies and owners of these banks".</p> <p>The Law on the CBR, Articles 57.1, 57.2, 72.1 and the Federal Law no 395-1, of 2 December 1990, "On Banks and Banking Activity" (hereinafter referred to as the Federal Law no 395-1), Articles 11.1-1, 11.1-2 empower the CBR to set requirements for risk and capital management in credit institutions, to require them to develop and implement ICAAP and to assess the ICAAP quality.</p> <p>Ordinance no 3624-U stipulates the requirements for credit institutions' ICAAP, including the assessment and management of the liquidity risk: methods and procedures for management of material risk, methods and procedures for capital management, a system of controlling material risks, capital adequacy, and compliance with the risk limits, reporting under the ICAAP framework, a system of control over compliance with ICAAPs and their efficiency, internal documents</p>

	<p>developed by the credit institution. Ordinance no 3624-U stipulates the requirements to credit institutions' risk management system (Chapter 3, Chapter 1 of the Annex to 3624-U), including liquidity risk (Chapter 6 of the Annex 3624-U).</p> <p>Since July 2014, the largest banks have reported to the CBR the all-currency LCR and LCRs in each significant currency for monitoring purposes on a solo basis, as well as for a quantitative impact study and a calibration of some run-off factors used for the LCR that are not set by the BCBS (CBR Regulation no 421-P, of 3 May 2014 "On the Calculation of the Liquidity Coverage Ratio (Basel III)").</p> <p>Starting from 1 January 2016, the banks which are subject to Regulation no 510-P are required to report to the CBR the all-currency LCR and LCRs in each significant currency on a consolidated basis. In accordance with Regulation no 510-P they are obliged to draft internal documents relevant to their liquidity risk management and to provide them to the CBR. Under the principles of sound liquidity risk management included in Regulation no 510-P, banks should manage their liquidity in a standard environment and during stress periods. Under paragraph 4.2 of Regulation no 510-P, there is a requirement to increase the LCR reporting frequency in stress situations.</p>
* is publicly available	Enactments and recommendations of the CBR are published in "Vestnik Banka Rossii" and are available on the CBR website.
* requires banks to have a robust liquidity risk management strategy and policies and procedures	The components of robust liquidity management and assessment to be included in banks' policies and procedures are stated in Annex 1 of Regulation no 510-P for systematically important banks and in the CBR's recommendations (Letters no 139-T and no 15-1-4/536). Internal liquidity risk management procedures are assessed as a part of the overall bank's management assessment under Ordinance no 2005-U and as the part of Ordinance no 3883-U (SREP). According to Ordinance no 3624-U liquidity risk management procedures must cover various forms of this risk and must include inter alia a description of the procedures for determining funding requirements; the procedure for analysing liquidity in different time perspectives; the procedure for establishing liquidity limits, determining methods to control the compliance with such limits, procedures for daily liquidity management, and procedures for liquidity recovery.
* requires banks to maintain a sufficient level of liquidity as insurance against liquidity stresses	<p>According to Regulation no 139-I, banks should meet on a daily basis three required liquidity ratios: N2 at 15% for instant liquidity (over one day), N3 at 50% for current liquidity (over 30 days), and N4 at 120% for long-term liquidity (over 365 days or longer).</p> <p>Under Regulation no 510-P, banks should hold a stock of unencumbered high-quality liquid assets to cover the total net cash outflows over a 30-day period under the stress scenario.</p> <p>For the purpose of bank liquidity and liquidity risk management quality assessment under Ordinance no 2005-U, grades are determined for each actual value of the liquidity ratios. In accordance with those grades, each index is assessed from 1 to 4. When determining liquidity ratio grades, the CBR takes into consideration that banks whose economic position is assessed as stable in accordance with Ordinance no 2005-U (ie groups 1 or 2, with no problems in their activities,) must also have a liquidity buffer in an amount higher than the minimum required by the CBR liquidity levels. The banks that meet the required liquidity levels requirement and do not have a liquidity buffer are classified into group 3 (less favourable). According to paragraph 6.5 Chapter 6 of the Annex to Ordinance no 3624-U, a credit institution must develop a plan for financing its activities in case of an unforeseeable decline in liquidity. This plan should be reviewed on a regular basis (at least once a year).</p>
* allows the supervisors to conduct assessments through on-site inspections and off site monitoring	<p>Banks' liquidity assessment is based on a wide range of information available to the CBR through off-site tools (including banks' reporting) and on-site inspections.</p> <p>Regulation no 510-P specifies a list of information (additional to the LCR reporting) that should be provided to the CBR for off-site supervision.</p>
* includes regular communication with a bank's senior management and/or board of directors	<p>Under Ordinance no 2005-U, the CEO is informed about the shortcomings identified as a result of a bank's economic position evaluation, including liquidity and risk management quality.</p> <p>According to Ordinance no 3883-U, the credit institution's top management shall be informed of the ICAAP assessment results.</p>

Risk-focused approach (Paragraph 133)	
14.2a The liquidity risk supervision approach factors in the characteristics and risk of the banks in the jurisdiction, as well as relevant local contextual factors, such as the legal framework and market structure.	<p>The liquidity risk supervision approach reflects both the characteristics and risk of the banks in the jurisdiction, as well as relevant local factors.</p> <p>The CBR intends to encourage substantive (risk-based) approaches based on the evaluation of the credit institution's performance.</p>
14.2b Firms which pose the largest risks to the financial system are closely monitored and held to a higher standard of liquidity risk management (ie the "proportionality" principle).	<p>The CBR closely supervises and monitors systemically important banks. That is the key factor for banking sector stability at the federal or regional levels. The CBR's Systematically Important Banks Supervision Department was set up specifically to supervise the activity of systemically important banks.</p> <p>Furthermore, all systemically important banks according to Ordinance of the CBR dated 22 July 2015, no 3737-U "On the Methodology of Defining Systematically Important Credit Institutions" are subject to the LCR minimum requirements and the requirements for sound liquidity risk management.</p>
Governance and oversight (Paragraph 134)	
The liquidity risk supervisory approach requires supervisors to:	
14.3 Assess that banks' risk tolerance ensures sufficient liquidity, given the bank's business model and role in the financial system.	<p>The CBR assesses credit institutions taking due account of their business and systemic importance at the federal or regional levels. Under paragraph 5.3 of Regulation no 510-P, a bank's risk appetite, the level of its liquidity risk, its role in the financial system etc are analysed for supervisory decisions regarding a bank's use of its HQLA in circumstances of market-wide stress.</p>
14.4 Assess whether the board of directors and senior management are taking full responsibility for the sound management of liquidity and provide sufficient oversight and guidance.	<p>In the process of risk management assessment, the CBR in accordance with Ordinance no 2005-U evaluates:</p> <ul style="list-style-type: none"> <li>whether the board oversees the compliance of credit institutions' activities with the legislation, the CBR's regulations, and internal risk management policies and procedures (namely, the periodicity of board's meetings, examination of executive body's reports on the current financial, operational and strategy implementation results, as well as internal auditor and supervisory reports, approval of risk management policies and other policies prescribed by governance guidance issued by the CBR, adherence to the duty of care and other governance practices prescribed by the governance guidance issued by the CBR);</li> <li>whether the board and senior management are promptly informed about the current financial standing of the credit institution and risks taken, including the operations of the credit institutions' branches. According to paragraph 2.3 Chapter 2 of Ordinance no 3624-U, the Board should approve risk and capital management strategy, the procedure for managing the material risks and capital of the credit institution, and maintain control over its implementation (including liquidity risk).</li> </ul> <p>The CEO shall approve the procedures for managing risks and capital, and stress-testing procedures based on the risk and capital management strategy of the credit institution, as well as ensure compliance with ICAAPs and maintenance of capital adequacy at the level established by the internal documents of the credit institution. Under Ordinance no 3883-U (SREP), the assessment of the risk management system (including the liquidity risk management system) includes the risk management procedures and policies and their compliance with the requirements stipulated by the CBR.</p>
14.5. Assess the effectiveness of a bank's processes to measure and monitor liquidity risk and	<p>In its assessment of credit institutions' financial standing, the CBR evaluates whether the credit institution has risk management policies and procedures of identification, measurement and mitigation of risks taken including liquidity risk. Contingency</p>

review the techniques and underlying assumptions used to estimate future net funding requirements under stress scenarios.	funding plans and liquidity stress-testing procedures are also taken into account within the assessment of liquidity management policies. Ordinance no 3883-U includes an assessment of the effectiveness of a credit institution's processes to measure and monitor liquidity risk. Moreover, according to paragraph 1 of Appendix 2 to Regulation no 510-P, the CBR analyses the efficiency of bank's liquidity risk management policies for banks' usage of ALA.
14.6 Assess the adequacy of the size and composition of a bank's liquidity cushion and the relevant assumptions made about the marketability of assets in stress scenarios.	According to Chapter 5 and Appendix 2 to Regulation no 510-P, the CBR assesses a bank's liquidity cushion and the possibility of the immediate sale (outright or repo/collateralised transactions) of high-quality liquid assets used to meet the LCR and any restrictions on making these transactions. The CBR assesses the adequacy of the size and composition of a credit institution's liquidity cushion under Regulation no 139-I (domestic ratios), Ordinance no 2005-U. The LCR (defined under stressed conditions) is expected to come into force in Russia as a prudential requirement for systematically important credit institutions starting from 1 January 2016.
14.7 If quantitative standards (limits or ratios) for liquidity risk management exist, supervisors also assess whether banks are actively managing liquidity risk and evaluate the effectiveness of additional/different approaches or methods that banks are using.	Banks' liquidity and their liquidity risk management quality are assessed by the CBR under Ordinance no 2005-U on a quarterly basis. For detailed information on the assessment methods, please, see comments on paragraph 132 (point 14.1 of this Table). Additional approaches or methods used by the credit institution are evaluated under Ordinance no 3883-U annually. Under Regulation no 510-P, the CBR analyses and monitors the procedures of the LCR calculation, evaluates the effectiveness of the action plan aimed at reducing the reliance on ALA used for the LCR calculation, and assesses the liquidity risk management for supervisory decisions regarding a bank's use of its HQLA in circumstances of market-wide stress etc.
Stress testing and CFPs (Paragraphs 135–137)	
The liquidity risk supervisory approach requires supervisors to:	
14.8 Critically assess the scope and severity of the scenarios and underlying assumptions in banks' liquidity stress tests.	Stress-test procedures (including liquidity risk) used by credit institutions are evaluated under Ordinance no 3883-U.
14.9 Evaluate how senior management and the board use stress-test results, including whether they take specific and meaningful actions to mitigate vulnerabilities identified.	According to Regulation no 510-P, a bank subject to the LCR may use Option 2 only if the bank conducts stress testing of foreign exchange risk relevant to Option 2 usage. The effectiveness of these stress tests for the LCR purposes is assessed under paragraph 1 of Appendix 2 to Regulation no 510-P. Stress-test procedures used by credit institutions are evaluated under Ordinance no 3883-U. Also the usage of stress-test results by senior management and the board is assessed under Ordinance no 3883-U.
14.10 Assess both the comprehensiveness of the CFP, including whether it addresses vulnerabilities identified in stress tests, and management's program for promoting understanding of the CFP through periodic testing and internal communication.	Regulation 242-P of 16 December 2003 "On the organisation of internal control of credit organisations and banking groups" contains requirements regarding contingency planning in credit institutions, including those on periodic testing of such plans.
14.11 Assess banks' management of significant intraday and overnight liquidity risks arising from a bank's payment and settlement activities from a liquidity risk perspective (ie not just from an	The bank liquidity monitoring system includes daily monitoring of the turnover and balances on a bank's correspondent accounts held with the CBR. Intraday and overnight liquidity is also monitored within the refinancing function of the CBR as well as to ensure continuity of the functioning of the payment settlement system.

operational risk perspective). This includes the bank's processes to control the outflow of funds, customer's use of intraday credit and the bank's ability to access sufficient levels of intraday funds.	
Principle 15 (Supervisory off-site monitoring activities)	
Data collection and monitoring (paragraphs 138–140)	
15.1 The liquidity risk supervisory approach requires banks to submit liquidity position and risk data at regular intervals. These data are collected and analysed at a frequency commensurate with the firm's risk profile and reporting frequency adjusted based on market developments.	<p>According to Ordinance no 2332-U, credit institutions submit completed reporting forms on their liquidity position to the CBR on a monthly basis.</p> <p>Since July 2014, the largest banks have compiled and reported to the CBR the all-currency LCR and LCRs in each significant currency on a monthly basis as well on a standalone basis.</p> <p>Starting from 1 January 2016, in accordance with Regulation no 510-P, the systematically important banks should meet the minimum required level of the LCR set by the CBR and calculate and report the all-currency LCR and LCRs in each significant currency on a consolidated basis.</p> <p>For detailed information, please refer to Annex 9 on Russia's implementation of the liquidity monitoring tools.</p>
15.2 Data from the banks are incorporated with market and other publicly available information into an "early warning system" to enhance the supervisory monitoring of banks' liquidity risks.	The CBR analyses a wide range of market-related information, including market interest rate indicators such as MIACR, MosPrime, RUONIA, zero coupon risk-free yield curve etc.
15.3 For monitoring and assessment purposes, supervisors collect and use both banks' internal management reports as well as a standardised supervisory reporting framework.	<p>For the purpose of the liquidity assessment of banks' economic position, all information available to the CBR is used (both financial reporting of banks and on-site inspections data, explanations received from banks about their reporting). Ordinance no 3624-U stipulates the requirements for internal ICAAP reporting (Chapter 6), according to which comprehensive information on risks (including liquidity risk) must be submitted periodically. A wide range of information on internal managements reports, forecasts, analysis should be provided by the bank's management to the CBR in respect of its risk management process and procedures under Regulation no 510-P.</p> <p>The CBR continues to upgrade and optimise credit institutions' prudential and financial reporting practices.</p>
Principle 16 (Supervisory actions)	
Remedial action requirements (paragraphs 141–143)	
16.1 The liquidity risk supervisory approach provides the supervisor with a range of tools to address deficiencies identified, including the authority to compel banks to take appropriate remedial action.	Under the Federal Law no 86-FZ (Article 74), the CBR has a range of powers to take measures to credit institutions including liquidity shortcoming cases. The CBR can impose penalties, requirements to eliminate violations, measures to restrict their activities (limits, prohibitions) and, as an extraordinary measure, the revocation of license. The choice of a specific measure depends on the character of violation; and also on the reasons for its occurrence and the overall financial position of the credit institution.
16.2 Both the infrastructure and supervisory will are in place to allow the utilisation of a range of supervisory actions to	The CBR is empowered to require the credit institution: to increase liquidity ratios, to reduce gaps between assets and liabilities in different maturity buckets (over the first calendar day, 30 days, more than one year); to take measures for financial recovery, including changes in the assets structure; to replace the management of the credit

address liquidity risk management weaknesses and excessive liquidity risk, and include the following:	institution; to increase the quality of liquidity management in cases when the credit institution violates requirements set by the CBR on corporate governance and internal control systems; to limit some activities; to prohibit some banking transactions, reorganisation of a credit institution and launching new branches for a period up to one year.
16.2-1 requiring the firm to improve its internal policies, controls or reporting to senior management and the board	The CBR is empowered to require a credit institution to increase the quality of liquidity management in cases when the credit institution violates requirements set by the CBR on corporate governance and internal controls.
16.2-2 requiring the firm to reduce a funding gap in one or more time buckets or to hold a larger liquidity buffer	The CBR is empowered to require a credit institution to reduce gaps between assets and liabilities in different time buckets (the first calendar day, 30 days, more than one year).
16.2-3 restricting the bank from making acquisitions or from significantly expanding its activities	The CBR is empowered to restrict the bank's activities that lead to higher liquidity risk and threats to creditors' and depositors' interests. Some operations could be prohibited in the case of failing to correct the violations discovered, and financial rehabilitation measures are applied in the case of a current liquidity shortage (if the domestic current liquidity ratio is violated during the latest month by more than 10%).
16.2-4 requiring the bank to operate with higher capital levels	If a credit institution fails to comply with prudential ratios based on regulatory capital, including the long-term liquidity ratio, the CBR requires deficiencies to be addressed by mitigating risks taken or creating an additional capital buffer.
16.3 The supervisor can set a timetable for action and follow-up to ensure deficiencies are addressed in a timely and appropriate manner.	The CBR sets timeframes/deadlines for credit institutions to address deficiencies in their activities. Moreover, in case of changes in the methodology of the LCR according to paragraph 4.6 of Regulation no 510 the CBR may establish the individual timetable (up to a certain limit) to address the negative impact.
Principle 17 (Communication between supervisors)	
Collaboration and information-sharing (paragraphs 144–147)	
17.1 Cooperation and information-sharing between relevant public authorities, including other bank supervisors, central banks, securities regulators and deposit insurance agencies occurs regularly during normal times, and increases as appropriate during times of firm-specific or market-wide stress.	Under Law no 86-FZ (Article 51), the CBR is empowered to request information or documentation from foreign central banks and supervisory authorities so that the Bank can ensure a through execution of its supervisory functions, and also to provide them with relevant information or documents. Communication between the CBR and foreign supervisory authorities, including information-sharing, is based on agreements/memorandums of understanding and by request. The agreements provide for a regular exchange of information when necessary, for instance, in the case of financial stress faced by supervised entities.
17.2 For cross-border banking groups, effective cooperation and information-sharing between home and host supervisors is in place to assess risks at both the group and foreign subsidiary/branch levels.	Under Law no 86-FZ (Article 57) and the Federal Law no 395-1 (Article 43), the CBR has introduced a set of consolidated reporting forms for banking groups which include reports on the parent credit institution risk exposure on a consolidated basis. The set of consolidated reporting forms allows the CBR to determine risks on a consolidated basis, and also for each entity of the banking group including those located abroad. When necessary, the CBR can request information about the activities of foreign participants of a group from a foreign supervisory authority in terms of the consolidated supervision over banking groups. The CBR provides foreign supervisory authorities with similar information about the subsidiaries of foreign banks. Moreover, the CBR takes part in supervisory colleges which supervise the activities of cross-border credit institutions and are formed by supervisory authorities that monitor the parent bank's activity.  The banks subject to the LCR are obliged to provide to the CBR LCR-relevant information about host requirements on retail and small business deposits. The CBR



	<p>assesses host requirements on retail and small business deposits in order to establish whether they are more or less rigorous for the purposes of the LCR calculation.</p> <p>Under paragraph 2.1.4 of Regulation no 421-P and paragraph 2.5 of Regulation no 510-P, banks should assess the availability of HQLA held at the subsidiary or branch, including foreign ones, for eligibility in the pool. Under paragraph 1 of Appendix 2 to Regulation no 510-P, the CBR analyses and monitors compliance with these requirements.</p>
17.3 Clear and appropriate policies and procedures are in place for communicating with other supervisors and public authorities during a crisis.	Communication with other supervisors and public authorities is based on agreements/memorandums of understanding or is performed on request.
17.4 Consideration is given to the type of information shared with other supervisors and stakeholders. Attention is paid to relevant confidentiality laws and the need to protect banks' proprietary information.	Under Law no 86-FZ (Article 51.1), information is shared between the CBR and foreign banking supervision authorities on condition that these counterparties comply with security requirements that meet both the information security standards prescribed by the Russian Federation and the legal requirements of the foreign countries involved.

## Annex 11: Areas for further guidance from the Basel Committee

The Assessment Team listed the following issues for further guidance from the Basel Committee.

### Outflow rate of precious metal deposits

The Assessment Team noted that the Basel standard is not explicit regarding the outflow rate of precious metals deposits. It is the team's view that such deposits should be subject to higher run-off rates than foreign currency deposits, due to the price volatility of precious metals and the specific behavioural characteristics of depositors investing in such deposits, and should then be treated according to the Basel category "other contractual cash outflows". However, the team would suggest reviewing whether additional guidance may be developed regarding the treatment of precious metal deposits, to ensure a consistent implementation across jurisdictions.

### Inflow rate of nostro accounts

The team finds that the Basel standard is not explicit regarding the treatment of inflows from nostro accounts (bank deposits held at other banks). It is the view of the team that these accounts may be eligible for a 100% inflow factor depending on the contractual specifications and operational purpose of the account. In case the bank can withdraw funds unconditionally from the nostro account, eg in a way similar as an overnight deposit, and there are no operational purposes linked to the account, such as for clearing, custody or cash management, a 100% inflow factor could be applied. This would also mirror the treatment given to nostro accounts in the outflow rates section of the Basel standard, where a 100% outflow rate is applied. The team would suggest clarifying the treatment of nostro accounts. Also, the team would suggest reviewing that banks operating vostro accounts for other banks apply a 100% run-off factor in the case that the depositing bank applies a 100% inflow factor. This would ensure consistency in treatment across individual banks and jurisdictions.

## Annex 12: List of issues for follow-up RCAP assessments

The Assessment Team did not identify any specific issues for future follow-up RCAP assessments. However, the team notes that the Basel standard specifies that jurisdictions that implement the alternative liquidity approaches (ALA) will be subject to a separate peer review by the Basel Committee to verify their compliance with eligibility criteria for using ALA. The CBR will be subject to this separate peer review as it implemented two ALA options (see also Annex 15).

## Annex 13: Areas where Russian LCR rules are stricter than the Basel standards

There have been no areas reported by the CBR where a stricter approach than the Basel minimum standard is applied.

## Annex 14: Implementation of LCR elements subject to prudential judgment or discretion in Russia

The following tables provide information on elements of LCR implementation that are subject to prudential judgment and national discretion. The information provided helps the Basel Committee to identify implementation issues where clarifications and (additional) FAQs could improve the quality and consistency of implementation. It should also inform the preliminary design of any peer comparison of consistency across the membership that the Committee may decide to conduct, in similar fashion to the studies on risk-weighted asset variation for the capital standards.

Elements requiring judgment (non-comprehensive list)

Table 7

Basel paragraph	Description	Implementation by the CBR
24(f)	Treatment of the concept of "large, deep and active markets"	This concept is included in the regulation on the LCR (paragraphs 1.2, 2.2 of 421-P) as part of the market-related characteristics of the HQLA. In order to assess the market activity and liquidity for the HQLA, the activity of transactions with an asset, ask-bid spreads, asset trading volumes, number of market participants acting as market-makers, asset's eligibility to be used as collateral under repo agreements and other factors should be considered. Any quantitative and qualitative criteria banks should develop and set internally. The banks should assess the market-related characteristics of the HQLA (regarding existence of large, deep and active markets) on a regular basis.
50	Treatment of the concept of "reliable source of liquidity"	The condition that an asset has a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions was included in compliance with Basel III in the Russian regulation on the LCR (paragraphs 1.2, 2.2 of 421-P) which provides that all fundamental characteristics of the HQLA should be met and the asset can be sold or pledged with at little or no loss of value even in times of stress. Maximum levels of decline of price/increase in haircut during periods of significant liquidity stress are set for Level 2 assets at the level prescribed by the Basel standard.
52	Treatment of the concept of "relevant period of significant liquidity stress"	Historical examples of "significant liquidity stress" were provided (paragraph 2.2 of 421-P): the 2004 local liquidity stress, the 2007–08 global financial crisis.
74–84	Retail deposits are divided into "stable" and "less stable"	The CBR divides retail deposits into "stable" and "less stable" (paragraphs 3.2.1, 3.2.3, 3.2.4 of 421-P and 3.1-3.3 of 510-P) based on the criteria prescribed by the Basel LCR standard as follows: <ol style="list-style-type: none"> <li>1. Stable deposits: retail deposits raised in roubles, US dollars and euros, covered by effective deposit insurance system (in accordance with Russian Federal Law no 177-FZ, dated 23 December 2003, "On the Insurance of Household Deposits with Russian Banks" for the residents of Russia or in accordance with regulations of host jurisdictions for</li> </ol>

		<p>non-resident group members) and at least one of the conditions below is met:</p> <ul style="list-style-type: none"> <li>• The individual has an established relationship with the bank, allowing it to treat deposit outflows as unlikely: the individual is a client for more than one year with no significant (more than 20%) decline in funds raised from this client during any 30 consecutive calendar days over this period and/or if the individual is using, as of the date of the LCR calculation, at least two types of banking service (other than deposits), including loans, payment (bank) cards);</li> <li>• funds are placed on bank accounts where salaries or other employment-related payments (including pension) are deposited, if the maximum interest rate (if the interest rate is set) for such accounts stipulated by the bank account contracts does not exceed the maximum interest rate on retail deposits on demand in the corresponding currency calculated in compliance with CBR Ordinance no 3194-U, dated 27 February 2014, "On the Procedure for Disclosing by Credit Institutions Information on Interest Rates on Retail Deposit Agreements" for the corresponding reporting month, and does not exceed the current CBR rate on rouble denominated deposits on demand;</li> <li>• overnight LIBOR rate established by the British Bankers' Association on foreign currency accounts; overnight discount rate established by the US Federal Reserve System or the European Central Bank for accounts in foreign currencies to which LIBOR rate is not applied or 0.1%.</li> </ul> <p>2. Less stable deposits: other than stable deposits plus the following retail deposits should be classified as less stable retail deposits:</p> <ul style="list-style-type: none"> <li>• deposits opened and managed solely via remote channels (by means of a telecommunication network, including the internet, and other means of remote access to bank accounts);</li> <li>• deposits of qualified investors recognised by the bank as such in accordance with Federal Law no 39-FZ, dated 22 April 1996, "On the Securities Market";</li> <li>• funds on bank accounts of the bank's related parties determined in accordance with Appendix 1 to CBR Instruction no 139-I; and,</li> <li>• client deposits above 5 million roubles.</li> </ul>
83, 86	Treatment of the possibility of early withdrawal of funding with maturity above 30 days (para 83 – retail deposits; para 86 – wholesale funding)	Retail deposits (paragraph 3.2.1 of 421-P, paragraph 3.1 of 510-P): all demand and term deposits (irrespective of maturity) are required to be classified as retail deposits with run-off rates of 5% for "stable deposits" and 10% for "less stable deposits". Cash outflows related to retail term deposits with a residual maturity or withdrawal notice period of greater than 30 days raised by a foreign branch or by a foreign subsidiary can be excluded from total net cash outflows if the depositor has no legal right to withdraw deposits within the 30-day horizon of the LCR due to the laws of the host jurisdiction (if there is no legal requirements in each particular jurisdiction for the

		<p>banks to early return the raised funds to individual). As for retail term deposits raised by the Russian banks, these are all considered as demand deposits because under Article 837 of the Civil Code of the Russian Federation the bank should return term deposits on demand of an individual without penalty.</p> <p>Unsecured wholesale funding (paragraph 3.3.3 of 421-P): cash outflows related to the unsecured wholesale funding with residual maturity of more than 30 calendar days shall be included in the total expected cash outflows if early withdrawal of deposits is allowed by the federal laws, regulations, contractual conditions, foreign law, international law, business practice, and as a result of previous experience or the bank's statements that make it reasonable for clients to expect the bank to assume such obligations.</p>
90–91	Definition of exposure to small business customers is based on nominal euro amount (EUR 1 million)	<p>According to the CBR's Regulation on the LCR (paragraph 3.3.5 of 421-P, para 3.4 of 510-P) the customer can be classified as a small business customer if the following criteria are met:</p> <ul style="list-style-type: none"> <li>• the customer is classified as a small business entity under Federal Law no 209-FZ "On the development of small and medium business in Russian Federation" and the average amount of loans and other funds provided to the customer (group of related customer) calculated for 30 calendar days preceding the LCR calculation date does not exceed 50 million roubles (if there are any loans to the customer/group of related customer) (applicable for funds raised by the Russian banks);</li> <li>• the customer is classified as a small business entity for credit risk calculation purposes – the average amount of loans provided to the customer (group of related customer) calculated for 30 calendar days preceding the LCR calculation date does not exceed EUR 1 million or its equivalent (if there are any loans to the customer/group of related customer) (applicable for foreign subsidiaries of the Russian banks);</li> <li>• the average amount of the total liabilities of the banking group to the customer/group of related customer) calculated for 30 calendar days preceding the date of the LCR calculation does not exceed EUR 1 million or its equivalent (for foreign subsidiaries of the Russian banks) and does not exceed 50 million roubles (for Russian banks);</li> <li>• funds are raised on standard conditions; and,</li> <li>• customer accounts (deposits and loans) are managed as retail exposures.</li> </ul>
94–103	Deposits subject to "operational" relationships"	<p>Regulation on the LCR (paragraphs 3.3.6, 3.3.7, 3.3.8 of 421-P, paragraph 3.5 of 510-P) specifies several provisions to the usage of preferential 25% run-off rate with regard to operational deposits:</p> <ul style="list-style-type: none"> <li>• Deposits should be generated by clearing, custody (for foreign subsidiaries) and cash management activities.</li> <li>• The interest rate (if set) for funding corresponds to existing rates for demand deposits but does not</li> </ul>

		<p>exceed the current rate set by the CBR for demand deposits in roubles; the overnight LIBOR rate set by the British Bankers' Association for interbank deposits (loans) in a foreign currency; the overnight discount rate set by the US Federal Reserve System or the European Central Bank for deposits in foreign currencies that LIBOR does not apply to, or 0.1 % for other deposits;</p> <ul style="list-style-type: none"> <li>The bank has developed and applies a methodology for determining the minimum cash balances on the client's account sufficient to meet its operational needs and to make day-to-day payments and the procedure of estimating changes in cash balances on the client's account (including, those based on the assessment of the ratio between the balance on the client's account and the amount of settlements) in order to determine the efficiency of clients' account balance management;</li> <li>funds raised through the provision of these services are kept in special accounts;</li> <li>the provision of services should be formalised in agreements allowing to classify them as operational deposits;</li> <li>the above-mentioned agreements are terminated not earlier than 30 calendar days after the client gives relevant notice; and</li> <li>there is no concentration risk on deposits classified as operational deposits.</li> </ul> <p>The usage of preferential 25% run off-rate shall be approved by the CBR (paragraph 5.5 of 510-P and Appendix 2 to 510-P).</p>
131(f)	Definition of other financial institutions and other legal entities	The definition in paragraph 3.5.15 (row 5 of the table) of 421-P is set through determination of those entities that should be considered as "others" to those that are not mentioned previously (excluding credit institutions, special purpose vehicles, hedge funds, money market funds).

## Elements left to national discretion

Table 8

Basel paragraph	Description	Implementation by the CBR
5	These two standards [the LCR and NSFR] comprised mainly specific parameters which are internationally "harmonised" with prescribed values. <i>Certain parameters, however, contain elements of national discretion to reflect jurisdiction-specific conditions. In these cases, the parameters should be transparent and clearly outlined in the regulations of each jurisdiction to provide clarity both within the jurisdiction and internationally.</i>	Items of national discretion exercised by the CBR are contained in Regulation no 510-P dated 3 December 2015 "On the Calculation of the Liquidity Coverage Ratio ("Basel III") by Systemically Important Credit Institutions" (Regulation no 510-P) and Regulation no 421-P dated 30 May 2014 "On the Calculation of the Liquidity Coverage Ratio ("Basel III)". Both regulations are publicly available.
8	Use of phase-in options	The CBR adopted Regulation no 510-P with the following schedule of the LCR implementation in Russia and its



		minimum requirements (phase-in arrangements): 70% starting from 1 January 2016; 80% starting from 1 January 2017; 90% starting from 1 January 2018; 100% starting from 1 January 2019.
11	The Committee also reaffirms its view that, during periods of stress, it would be entirely appropriate for banks to use their stock of HQLA, thereby falling below the minimum. Supervisors will subsequently assess this situation and will give guidance on usability according to circumstances. <i>Furthermore, individual countries that are receiving financial support for macroeconomic and structural reform purposes may choose a different implementation schedule for their national banking systems, consistent with the design of their broader economic restructuring programme.</i>	<p>The CBR in Regulation no 510-P allows that, during a period of stress, the stock of a bank's HQLA could be used to cover cash outflows, thereby falling below the minimum required level of the LCR.</p> <p>In determining a response, the CBR shall assess the reasons for the decrease in the LCR, the list of factors is set out in paragraph 5.3 of 510-P.</p> <p>Russia is not within the category of countries receiving financial support for macroeconomic and structural reforms.</p>
50(b)	Eligibility of central bank reserves	<p>Funds with the CBR and authorised agencies of other countries are included in Level 1 assets, including:</p> <ul style="list-style-type: none"> <li>• amounts deposited with the CBR for cash to be received on the next calendar day;</li> <li>• demand deposits in the correspondent and deposit accounts with the CBR and with one-day residual maturity, and claims to the CBR maturing not later than the next calendar day on accrued (accumulated) interest on such accounts, and funds in deposit accounts with the CBR with a residual maturity date of more than one day, if banks are allowed to request the CBR's early repayment of that term deposit;</li> <li>• excess payments refundable to the bank from required reserves accounts with the CBR and authorised agencies of other countries if amounts can be received not later than the day immediately following LCR calculation in the event of extraordinary regulation of required reserves, or in accordance with regulations of authorised agencies of other countries; and,</li> <li>• amounts on correspondent accounts with the CBR are included less of any amounts intended for meeting operating expenses of the bank.</li> </ul>
50(c)	Marketable securities that are assigned a 0% risk-weight under the Basel II Standardised Approach for credit risk	<p>The CBR implemented this in line with Basel III. As the simplified standardised approach is used for the credit risk (Regulation of the CBR no 139-I) of government, central bank and public sector entities, securities allowed as HQLA are classified based on the country risk scores of export credit agencies (ECA) participating in the "Arrangement on Officially Supported Export Credits" (rather than external international ratings). Countries with "0", "1" country risk scores and high-income countries that are members of OECD and/or the European Union and have introduced the single currency of the European Union are assigned a 0% risk weight under Basel II.</p>
53-54	Eligible Level 2B assets	The CBR has included all Basel III eligible assets in Level 2B HQLA.

54a	Provision relating to the use of restricted contractual committed liquidity facilities (RCLF) <sup>13</sup>	Not applicable.
55(f)	Treatment for jurisdictions with insufficient HQLA (subject to separate peer review process)	Due to the insufficiency of HQLA denominated in Russian roubles available for the Russian banks, the CBR decided to allow Russian banks to use ALA options 1 and 2, ie the CLF and the additional use of foreign currency HQLA to cover domestic currency liquidity needs.
68	Treatment of Shariah-compliant banks	Not applicable.
78	Treatment of deposit insurance	<p>The definition of the effective deposit insurance system was provided in the LCR framework (Regulation no 421-P) in full consistency with Basel III.</p> <p>The deposit insurance system of the Russian Federation is assessed as effective.</p> <p>The deposit insurance system of the foreign state is recognised as effective if the following conditions are met: the insurance system is obligatory for banks and regulated by law, prompt payouts of the insurance are made, the amount of any payout is clearly defined, the mechanism of the deposit insurance system is transparent for depositors, the deposit insurer in an effective deposit insurance system is independent, transparent and accountable to the government.</p>
79	Categories and run-off rates for less stable deposits	A 10% run-off rate was set for less stable deposits. No additional categories are defined.
123	Market valuation changes on derivative transactions	<p>The additional liquidity needs (expected cash outflows) associated with market valuation changes on derivative transactions, which require posting of collateral is determined by the bank as follows.</p> <p>Derivatives contracts are classified by types of agreement (contracts) in accordance with approaches introduced by CBR Ordinance no 3565-U dated 16 February 2015, "On Derivative Types" and the bank's internal documents.</p> <p>For each type of agreement (contract) based on internal statistics, the maximum outflow rate for two last years is calculated as the ratio of funds (variation margin) posted during any consecutive 30 calendar days to the average daily volume of concluded agreements (transactions) calculated as the nominal amount set by the agreement (contract) or the fair value of underlying assets for the same period (the rate of liquidity needs caused by market valuation changes on derivatives contracts).</p> <p>The outflow for each type of agreement (contract) as of the date of LCR calculation is specified by multiplying the amount of concluded agreements (contracts) by the rate of liquidity needs caused by market valuation changes on derivatives contracts.</p> <p>If there are no internal statistics as required above, additional liquidity needs associated with market valuation changes on derivatives transactions are calculated as follows.</p>

<sup>13</sup> See [www.bis.org/publ/bcbs274.htm](http://www.bis.org/publ/bcbs274.htm).

		<p>Changes in risk factors (market rates or other indicators affecting the market value of derivatives contracts) used for stress testing of the bank's resilience to a market risk in accordance with the bank's internal documents and determined on the basis of historical data, including those covering crisis periods of at least 2004, 2007–08, and periods of crisis events observed in the bank's activities in the past, are used for revaluation:</p> <ul style="list-style-type: none"> <li>• in respect of derivatives contracts that involve the posting of margin (variation margin) – of the reference price determined in accordance with the approach introduced by CBR Ordinance no 3413-U, dated 7 October 2014, "On the Procedure to Define Estimated Value of Financial Instruments of Forward Transactions Excluded from Organised Trading for the Purposes Envisaged by Chapter 25 of the Tax Code of the Russian Federation"; and,</li> <li>• in respect of derivatives contracts that require the posting of other type of collateral— of the fair value of the derivative contract determined in accordance with CBR Regulation no 372-P.</li> </ul> <p>The reference price or fair value of the derivative contract estimated under the scenario of a crisis is compared to the actual reference price or the current fair value of the derivative contract as of the date of LCR calculation, respectively.</p> <p>In respect of derivatives contracts whose reference price or fair value declines in crisis conditions, such a decline is calculated and regarded as the expected cash outflow. Regardless of the method of the outflow's calculation, derivatives contracts cash outflows may be included in the calculation of cash outflows as net outflows calculated for each counterparty if all respective claims and liabilities arise out of financial contracts subject to settlement and/or liquidation netting.</p> <p>The additional liquidity requirement calculated as the sum of outflows under all concluded agreements (contracts) related to market valuation changes is included in the calculation of expected outflows at the outflow rate of 100%.</p>
134–140	Run-off rates for other contingent funding liabilities	<p>The CBR sets the following run-off rates for contingent funding liabilities:</p> <ul style="list-style-type: none"> <li>• Unconditionally revocable credit and liquidity facilities: 5%;</li> <li>• Guarantees, letters of credit etc related to trade finance: 5%;</li> <li>• not related to trade finance: 10%; and,</li> <li>• other categories of contingent funding liabilities: 100%.</li> </ul>
160	Weight assigned to other contractual inflows	The CBR has assigned a 100% weight to other contractual inflows.
164–165	Determination of scope of application of LCR (whether to apply beyond "internationally active banks" etc) and scope of consolidation of entities within a banking group	Systemically important banks defined based on the criteria of international activity under Ordinance of the CBR dated 22 July 2015 no 3737-U "On the Methodology of Defining Systematically Important Credit Institutions" are subject to Regulation no 510-P. The CBR introduced the LCR on a consolidated basis for banking groups of

		<p>systemically important banks and on a standalone basis for those systemically important banks, which do not have a banking group starting from 1 January 2016.</p> <p>The parent credit institution and the group members which are engaged in financial services/financial intermediation (except for insurance companies), services auxiliary to financial services, real estate transactions, activities involving the use of computing and information technology support (where such activities are undertaken to support the activities of the parent credit institution of the banking group and (or) members of the banking group), other services (where these are provided to support the activities of the parent credit institution of the banking group and (or) members of the banking group) should be included in the scope of the consolidation for the LCR calculation. Non-consolidated entities which may significantly affect the liquidity of the group should be considered for outflows on "Other contingent funding obligations" in accordance with Basel III. The methodology to define the list of such non-consolidated investments and methodology to define outflows should be assessed by the CBR.</p>
168–170	Differences in home/host liquidity requirements due to national discretions	Foreign branches and subsidiaries shall comply with the requirements of the host jurisdiction regarding the classification of retail deposits and definition of small business customers except for cases set by Basel III.
Annex 2	Principles for assessing eligibility for Alternative Liquidity Approaches (ALA)	<p>Due to the insufficiency of HQLA denominated in Russian roubles available for the Russian banks, the CBR has decided to allow Russian banks to use ALA Options 1 and 2, ie the CLF and the additional use of foreign currency HQLA to cover domestic currency liquidity needs. A clearly documented ALA framework is set out in Regulation no 510 and specifies:</p> <ul style="list-style-type: none"> <li>• Option 1 and Option 2 may be used by the banks subject to the LCR;</li> <li>• the criteria that should be met in order to use ALA; and,</li> <li>• the maximum amount of Options 1 and 2 that could be included in the LCR.</li> </ul>

## Annex 15: Implementation of alternative liquidity approaches (ALA) in Russia

This annex provides further background to the implementation of the alternative liquidity approaches (ALA) by the CBR.

In the context of the introduction of Basel III with regard to liquidity risk management, the CBR analysed the availability of high-quality liquid assets meeting Basel III criteria in the Russian financial system and the demand for these assets from the systemically important credit institutions which are required to meet the liquidity coverage ratio limits starting from 1 January 2016 under CBR Regulation no 510-P, dated 3 December 2015 “On the Procedure for Calculating the Liquidity Coverage Ratio (Basel III) by Systemically Important Credit Institutions” for the purpose of estimating the possibility of using alternative (additional) options for calculating the LCR. This analysis demonstrated that the Russian banking system has insufficient high-quality liquid assets meeting the Basel III criteria. This resulted in the CBR’s decision to apply alternative (additional) options for calculating the LCR, including irrevocable credit lines (committed liquidity facilities) opened by the CBR (Option 1) and high-quality liquid assets in certain foreign currencies in excess of the need for this currency (Option 2) in the calculation of the LCR numerator.

Under Option 1, credit institutions subject to the LCR regulation and their significant subsidiaries may include the available amount of the committed liquidity facility in the numerator on the LCR.

The CBR can open a committed liquidity facility for a systematically important credit institution and its largest subsidiaries for one year (365 days). After the expiration of this term, another committed liquidity facility can be opened with a similar maturity. The maximum limit of the committed liquidity facility shall be calculated by the CBR on the basis of the rouble component of the LCR calculated for operations in roubles based on reporting form no 0409122 in compliance with the CBR Order no OD-3439, dated 3 December 2015, “On Determining the Maximum Limit of the Irrevocable Credit Line”, and shall be the least of the committed liquidity facility limit requested by the credit institution and the regulatory estimation of the high-quality liquid asset deficit faced by the bank. The regulatory estimation of high-quality liquid asset deficit is set at up to 80% of the total amount of HQLAs in Russian roubles that the bank is expected to hold to cover its needs in Russian roubles but not more than the amount necessary to reach the LCR for operations in Russian roubles at the level of 100%. The amount of CLF allowed in the HQLA as of the date of LCR calculation is further constrained by the amount of collateral provided to the CBR and the amount of liquidity actually utilised (drawn down by the bank).

When opening the committed liquidity facility, the credit institution shall pay the commitment fee for the right to use the committed liquidity facility in the amount of 0.15% of the maximum committed liquidity facility limit set for this credit institution.

Under Option 2, high-quality liquid assets denominated in US dollars, euros, sterling, Japanese yen and Swiss francs in excess of the expected net cash outflow in the same currency may be included in the numerator on the LCR. Under Option 2, the CBR sets an 8% haircut for HQLA in foreign currencies with the application of a 25% threshold.

The usage of Option 2 does not allow the bank to breach any limits set by the CBR in respect to open currency position limits.

Foreign exchange risk is regulated by means of:

- limits on open foreign exchange positions in individual foreign currencies and precious metals, a limit on the open foreign exchange position in all foreign currencies and precious metals, a limit on the balancing position (limits are set to the amount of regulatory capital) – see CBR Instruction no 124-I, “On Setting Amounts (Limits) on Open Foreign Exchange Positions, the Methodology

for Calculating them and the Specifics of Supervision over their Compliance by Credit Institutions”; and,

- the capital adequacy requirement for foreign exchange risk (CBR Regulation no 511-P).

The limit on usage of the two options:

1. ALA options are allowed if (i) the bank 's all-currency LCR is below the minimum level taking into account the phase-in arrangements, (ii) the amount of Level 1 assets in Russian roubles is not less than 20% of net outflows in Russian roubles.
2. The maximum usage of two options is set up to 80% of the total amount of HQLAs in Russian roubles the bank is expected to hold to cover needs in Russian roubles but not more than the amount necessary to reach the LCR: (i) for operations in Russian roubles at the level of 100%; and, (ii) for operations in all the currencies at the minimum level taking into account the phase-in arrangements plus 10 percentage points (ie 70% + 10 percentage points = 80% from 1 January 2016).

Regarding the implementation of alternative liquidity approaches in Russia, the CBR has ensured that all requirements prescribed by the Basel III document on the LCR are met.