



CAYMAN ISLANDS MONETARY AUTHORITY

To: All Category "A" Non-Retail Banks and Category "B" Banks (excluding branches of foreign incorporated banks)

From: Cayman Islands Monetary Authority (the "Authority")

Date: 5 July 2019

Minimum Requirements – Intragroup Liquidity Funding Agreement (the "Agreement")

The Authority writes to set out the minimum expectations for the explicit agreement required for consideration of Group Bank deposit balances and Certificates of Deposit for the calculation of the Minimum Liquidity Ratio ("MLR"). Section 34.1.(c) of the Basel III Framework - Liquidity Risk Management Rules and Guidelines issued in November 2018 states:

"deposit balances with and Certificates of Deposit (CDs) issued by the bank's Group Bank – Parent, Branch, Subsidiary or Affiliate. However, in order for these exposures to be considered as a liquid asset for the calculation of the MLR, a bank must have an explicit agreement with its Group Bank stating that the assets will be available should the bank encounter a liquidity issue. Any such explicit agreement is required to be approved by the Authority;"

The Authority advises that to be considered for approval, the explicit agreement referred to in the measure should at minimum include the following:

1. The names of the parties entering into the agreement (providing additional information including the location of the parties, name of regulator and its regulatory status, if any). *(Please note that the Authority expects the Group Bank to inform its home regulator about the agreement.)*
2. A clause identifying the actual/type of liquidity instrument(s).
3. A clause defining when one party to the agreement will be considered to have encountered a liquidity issue (at a minimum, the definition should include when the Minimum Liquidity Ratio, as defined by the Authority, falls below 15%).
4. A clause stating that one of the parties to the agreement will make available the specific assets should the other party encounter a liquidity issue.
5. A clause stating that notification will be provided to one party when a liquidity issue has been encountered by the other party. This should include the timelines for notification and for remediation of the liquidity issue.
6. A clause describing how the parties entering into the agreement will manage changes, novation or amendments to the agreement. Such changes, novation or amendments are subject to the approval of the Authority.
7. The date of commencement and expiration of the agreement.

8. No clause in the agreement should inhibit the licensee from carrying out its obligations under the Banks and Trust Companies Law or limit the Authority's supervisory oversight of the licensee at any stage including during a liquidity crisis event.

In case of termination of the agreement, notification should be provided to the Authority as soon as possible that should, at a minimum, include the names of the parties, date of termination, reason for termination and how the liquidity funding will be managed going forward.

Should the agreement be terminated for any reason, the liquid asset can no longer be included in the MLR calculation. The Authority's approval will be required for any new agreement.

Please note that meeting the minimum requirements as detailed above does not guarantee approval of any agreement by the Authority.

If you have any questions regarding the above minimum requirements, please contact the Banking Supervision Division at contactbanking@cima.ky.