Federal Banking
Supervisory Office
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12203 Berlin, November 25, 1998

Announcement

of the amendment of the Principles concerning the Own Funds and Liquidity of Institutions of November 25, 1998

The Principles Concerning the Own Funds and Liquidity of Institutions, Announcement No. 1/69 of January 20, 1969 (Federal Gazette No. 17 of January 25, 1969), as last amended by the Announcement of October 29, 1997 (Federal Gazette p. 13555), are amended, in agreement with the Deutsche Bundesbank and after consulting the central associations of the institutions, with effect from January 1, 1999, as follows:

1. The Preamble is deleted.

2. Principle II shall read as follows:

"Principle II

Contents

Section 1 Scope

(1) [1]Pursuant to Principle II, the Federal Banking Supervisory Office will, as a rule, assess whether the liquidity of an institution is adequate. [2]If an institution fails to meet the requirements laid down in section 2 (1) by more than an insignificant amount, or repeatedly, there is normally reason to suppose that the liquidity of the institution is not adequate. [3]When assessing the adequacy of the liquidity of an institution, special circumstances obtaining at the institution may be taken into account which - according to the situation - may warrant lower or higher requirements.

(2) This Principle does not apply to

1. investment companies,

2. housing enterprises with savings schemes,

3. financial services institutions other than those institutions which conduct trading for their own account, which are authorised as investment intermediaries, contract intermediaries or portfolio managers to obtain the ownership or possession of funds or securities of customers, or which trade in financial instruments for their own account.

Section 2 Proof of adequate liquidity

(1) To meet its payment obligations, an institution must maintain adequate liquidity, which it calculates on the basis of a recording system consisting of the following four time bands:

1. due on demand up to one month,
2. over one month and up to three months,
3. over three months and up to six months,
4. over six months and up to twelve months.

(2) [1]On the basis of the liquidity ratio to be calculated at the end of each calendar month, the Federal Banking Supervisory Office assesses whether the liquidity of the institution is adequate. [2]The liquidity ratio gives the proportion between the liquid assets available in the first time band and the payment obligations callable during this period. [3]The liquidity of the institution is deemed to be adequate if its liquidity ratio does not fall below 1.

(3) [1]Moreover, the institution shall calculate observation ratios which give the proportions between the respective liquid assets and the payment obligations in the individual time bands as referred to in subsection (1) 2 to 4. [2]The observation ratios are calculated in the same way as the liquidity ratio. [3]If the liquid assets in one time band exceed the callable payment obligations, the difference shall be considered as additional liquid assets in the calculation of the observation ratio in the following time band.

Section 3 Liquid assets

(1) The following liquid assets shall be slotted into the first time band:

1. cash,

2. balances with central banks,

3. paper for collection,

4. irrevocable lending commitments received by the institution,

5. securities not held as financial fixed assets which are admitted for trading on a regulated market as defined in Article 1 (13) of the Investment Services Directive in a member state of the European Union or a state being a party to the Treaty on the European Economic Area or on a recognised stock exchange of another zone A state (listed securities), including paper transferred to the institution as a transferee or borrower under repurchase or lending agreements,

6. debt securities which fulfil the requirements of Article 22 (4) sentences 1 and 2 of the UCITS Directive (collateralised debt securities), including collateralised debt securities transferred to the institution as a transferee or borrower under repurchase or lending agreements,

7. 90 per cent of the respective repurchase prices of the shares in money market and securities funds falling under the provisions of the Investment Companies Act (*Gesetz über Kapitalanlagegesellschaften* or *KAGG*) or the Foreign Investment Funds Act (*Auslandinvestmentgesetz*) where the repurchase and settlement of the foreign

investment fund shares are governed by regulations applicable to German investment companies.

(2) The following assets are to be included in time bands 1 to 4 according to their residual maturities:

1. loans and advances to the European System of Central Banks (**ESCB**) and other central banks,

2. loans and advances to credit institutions,

3. loans and advances to customers,

4. bills of exchange, other than those included in numbers 2 and 3,

5. claims of the lending institution to the return of the securities lent,

6. debt securities other than the debt securities and other fixed-interest securities included in subsection (1), including fixed-interest securities transferred to the institution as a transferee or borrower under repurchase or lending agreements,

7. claims of the transferor to the retransfer of securities under genuine sale and repurchase agreements,

8. money claims of the transferee arising from sales with an option to repurchase in the amount to be repaid, provided that the current market value of the securities transferred is lower than the agreed amount to be repaid,

9. equalisation claims on the public sector (Currency Conversion Equalisation Fund) including debt securities arising from their exchange where securitised equalisation claims are not included in subsection (1) 5,

provided that the respective residual maturities on the reporting date do not exceed one year.

(3) The following items shall not be included in the items listed in subsections (1) and (2):

1. loans and bills of exchange to which individual value adjustments have been made, provided that they are currently non-performing,

2. participating interests and shares in affiliated companies,

3. uncollateralised own-debt securities which have been bought back,

4. securities transferred under repurchase or lending agreements, for the duration of the agreement on the part of the transferor or lender,

5. securities pledged as collateral and not available to the institution, for the period they constitute collateral,

6. investment fund shares other than those listed in subsection (1) 7.

Section 4 Liabilities

(1) The following liabilities are to be included in the first time band:

1. 40 per cent of the liabilities to credit institutions due on demand,

2. 10 per cent of the liabilities to customers due on demand,

3. 10 per cent of savings deposits,

4. 5 per cent of the contingent liabilities from rediscounted bills,

5. 5 per cent of the contingent liabilities from guarantees and indemnity agreements,

6. 5 per cent of the liabilities from assets pledged as collateral for third-party liabilities,

7. 20 per cent of placement and underwriting commitments,

8. 20 per cent of undrawn, irrevocable lending commitments, other than those to be included as provided in subsection (3).

(2) The following liabilities are to be included in time bands 1 to 4 according to their residual maturities:

1. liabilities to the ESCB and other central banks,

2. liabilities to credit institutions, unless they constitute liabilities to be included in number 3,

3. 20 per cent of the liabilities of the central institutions of the savings banks and credit cooperative sectors to their regional institutions and of those regional institutions to their affiliated savings banks and credit cooperatives,

4. liabilities to customers,

5. asset liabilities, i.e. obligations of the borrowing institution to return borrowed securities,

6. asset liabilities, i.e. liabilities of the transferee resulting from the duty to return securities under repurchase agreements,

7. monetary liabilities of the transferor arising from sales with an option to repurchase in the amount to be repaid, provided that the current market value of the securities transferred is lower than the agreed amount to be repaid,

8. securitised liabilities,

9. subordinated liabilities,

10. capital represented by participation rights,

11. other liabilities,

provided that the respective residual maturities on the reporting date do not exceed one year.

(3) Irrevocable lending commitments for investment loans and mortgage loans, to be disbursed in line with the progress of construction, which are expected to be used during the 12 months following the reporting date are to be included as follows:

1. 12 per cent in the time band as defined in section 2 (1) 1,

2. 16 per cent in the time band as defined in section 2 (1) 2,

3. 24 per cent in the time band as defined in section 2 (1) 3,

4. 48 per cent in the time band as defined in section 2 (1) 4.

Section 5 Securities repurchase and lending agreements

(1) [1]Securities transferred under genuine repurchase agreements shall be deemed to be part of the portfolio of the transferee, who must take into account a resulting obligation to return the securities. [2]Moreover, the transferee shall take into account a claim on the transferor in the amount of the sum paid for the transfer. [3]The transferor shall, instead of the securities, include a claim to the return of the securities. [4]In addition, he shall take into account a liability to the transferee in the amount of the sum received for the transfer.

(2) [1]Securities acquired by the transferee under sales with an option to repurchase shall be deducted from the portfolio of the transferor, who shall count instead the money received from the transferee. [2]The transferee shall, instead of the money paid, count the securities towards his portfolio. [3]In the event of a negative difference between the respective market price of the securities transferred and the sum to be paid at the time they are retransferred,

1. the securities transferred shall be counted towards the portfolio of the transferor, who shall take into account a liability to the transferee in the amount of the repurchase price, and

2. a claim on the transferor to the amount of the agreed repurchase price shall be included by the transferee, who shall deduct the securities from his portfolio.

(3) [1]Securities transferred under lending agreements shall be deducted from the portfolio of the lender and counted towards the portfolio of the borrower. [2]Moreover, the borrower shall take into account an obligation to return the securities, whose counterpart is an asset claim of the lender in the same amount.

Section 6 Valuation basis

(1) [1]The basis of the valuation is as follows:

1. in the case of liquid assets as referred to in section 3 (1) 5 and 6 and (2) 5 and 7 and liabilities as referred to in section 4 (2) 5 and 6, the respective market prices of the underlying securities,

2. in the case of liquid assets as referred to in section 3 (1) 7, the respective repurchase prices,

3. in the case of liquid assets as referred to in section 3 (2) 8 and liabilities as referred to in section 4 (2) 7 to 9, the respective amounts to be repaid,

4. in the case of securities items and securities-related claims and liabilities under repurchase and lending agreements, the respective market prices of the securities,

5. in the case of the other liquid assets and liabilities, the respective book values.

[2]The market prices are the prices or market prices officially quoted or determined at the close of business on the respective reporting date. [3]Notwithstanding sentence 1 number 1, debt securities and other fixed-interest securities in the portfolio may be counted at 90 per cent of their book value, and officially quoted shares and other variable-yield securities in the portfolio at 80 per cent of their book value, unless the institution uses the marking-to-market method. [4]Country risk value adjustments, general value adjustments and individual value adjustments shall be deducted from the book values of the asset items unless they prevent the asset items referred to in section 3 (3) 1 from being taken into account.

(2) [1]Asset and liability items denominated in foreign currencies shall be converted into the reporting currency (D-Mark or euro) at the reference rate quoted by the ECB on the reporting date and published by the Deutsche Bundesbank ("ESCB reference rate") on the respective reporting date. [2]For the conversion of currencies for which no ESCB reference rate is published the middle rates derived from the determinable buying and selling rates quoted on the respective reporting date shall be applied.

Section 7 Residual maturities

[1]The residual maturity is deemed to be

1. the period of time between the respective reporting date and the due date of the respective liquid assets and liabilities, subject to the following provisions,

2. the respective period of notice in the case of uncalled deposits at notice, plus a non-calling period,

3. the period of time between the respective reporting date and the due date of the partial amount in the case of assets and liabilities to be redeemed in regular instalments, regardless of whether the partial amounts contain interest or not,

4. the residual duration of the transaction in the case of liquid assets arising from repurchase and lending agreements involving securities as defined in section 3 (1) 5 and 6 and in the case of liabilities resulting therefrom,

5. the residual duration of the transaction plus the residual maturities of the securities at the end of the transaction in the case of liquid assets arising from repurchase and lending agreements involving securities as defined in section 3 (2) 6 to 8 and in the case of liabilities resulting therefrom.

[2]Possibilities of early termination shall be considered for liabilities but not for claims and securities in the portfolio. [3]In the case of assets and liabilities which are redeemed in regular instalments, the amounts to be repaid shall be slotted into the relevant time bands to the value of the respective instalments. [4]Day-to-day money and money at call shall not be considered to be due on demand but to be time deposits for one day.

Section 8 Special regulation for mortgage banks

This Principle shall apply to mortgage banks subject to the following rules:

1. Mortgage loans which become or may become due within the following 12 months in connection with an interest rate adjustment shall be assigned a weight of 20 per cent of the book values of the outstanding mortgage loans and included in the liquid assets as defined in section 3 (2) according to their residual maturities;

2. loans granted to a local authority which become or may become due within the following 12 months in connection with an interest rate adjustment shall be assigned a weight of 10 per cent of the books values of the outstanding local authority loans and included in the liquid assets as defined in section 3 (2) according to their residual maturities;

3. in the case of the mortgage and local authority loans mentioned in numbers 1 and 2, the residual maturity shall be the period of time between the respective reporting date and the expiry of the interest rate lock-in period;

4. the other provisions of this Principle shall apply unchanged.

Section 9 Special regulation for building and loan associations

This Principle shall apply to building and loan associations subject to the following rules:

1. The liquid assets and liabilities arising from the non-collective business of building and loan associations shall be included in accordance with the provisions laid down in sections 3 to 7;

2. to capture the collective proportion of the business, 10 per cent of the book values of the difference between the deposits under savings and loan contracts and the loans under savings and loan contracts shall be included in the liabilities as defined in section 4 (1) in the first time band;

3. the other provisions of this Principle shall apply unchanged.

Section 10 Reporting of the ratios

At the end of each calendar month (reporting date), the liquidity ratio as defined in section 2 (2) sentence 2 and the observation ratios as defined in section 2 (3) sentence 1 shall be calculated and, using the official reporting forms provided for that purpose, submitted not later than the fifth or, if remote data transmission is used, the seventh business day of the month following the reporting date to the Land Central Bank responsible for the institution concerned or to the Deutsche Bundesbank in Frankfurt, which will pass the reports on to the Federal Banking Supervisory Office."

3. Principle III is deleted.

4. [1]Numbers 1 to 3 of this Announcement shall come into force on July 1, 2000. [2]Credit institutions subject to Principles II and III may apply Principle II in line with number 2 instead of Principles II and III before that date.

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