



NATIONAL BANK OF CAMBODIA

Number B7.020.003 C-L

(Unofficial Translation)

Phnom Penh, June 25, 2020

**Circular**

**On**

**Annex 2 of Prakas N°B7-015-349 Prokor  
on Liquidity Coverage Ratio**

With reference to the Royal Kram NS/RKM/1199/13 of November 18, 1999 promulgation the Law on Banking and Financial Institutions and Prakas N° B7-015-349 Prokor dated December 23, 2015 on Liquidity Coverage Ratio, the National Bank of Cambodia (NBC) herewith introduces the additional implementation information of this Prakas as follow:

**I- Operational deposits**

1) Definition:

For the purpose of the LCR regulation, “Operational Deposits” refer to financial and non-financial customers deposits which are placed or left with a bank in order to use for payment and settlement<sup>1</sup>. These deposits receive specific outflow and inflow rates in the LCR template.

➤ Outflow rate: 25%

- The operational deposits in the declaring institution from other banks and financial institutions and wholesale customers are filled in It.2.21.

➤ Inflow rate: 0%

- The operational deposits from the declaring institution in other banks and financial institutions are not allowed to be filled in any line of the declaring template, neither in It.3.39, nor in any other line.

2) Criteria for a deposit to be considered as operational deposit

- The eligible deposits must relate to qualifying activities, which are exclusively clearing,

<sup>1</sup> The Basel III framework (“*The Liquidity coverage ratio, January 2013*”)



custody and cash management activities<sup>2</sup>, under the condition that they also meet all the following conditions:

- The customer is reliant on (substantive dependency) the bank to perform these services as an independent third-party intermediary in order to fulfill its normal banking activities over the next 30 days,
  - These services are provided under a legally binding agreement, and
  - The termination of such agreements is subject to a notice period of at least 30 days or significant switching costs if the operational deposits are moved totally or partially before 30 days.
- Qualifying operational deposits generated by such qualifying activities are subject to the following additional conditions:
- They must be by-products of the underlying services,
  - They must be held in specifically designated accounts, that do not give an economic incentive to the customer to leave any excess funds on these accounts (in particular, these accounts should not bear interest rates or very low ones),
  - Only that part of the deposit-balance with the declaring institution that is proven to serve a customer's operational needs can qualify as operational deposit. Excess balances shall be withdrawn from operational deposits for the purpose of the LCR regulation and treated in the appropriate outflow-category for non-operational deposits (It.2.22 to It.2.25), and
  - The declaring bank must have a clear and fair methodology for identifying excess deposits that are excluded from It.2.21. If a declaring institution were unable to clearly determine the amounts of excess balances in its books, then the entire deposits should be assumed to be excess deposits and therefore considered as non-operational deposits (thus treated in It.2.22 to It.2.25).

The NBC may not allow an institution to fill in amounts in It.2.21 of the LCR template when it considers that:

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<sup>2</sup> The relationship of operational deposit between institutions and customers:

- A clearing refer to a service arrangement that enables the customer to transfer funds indirectly through direct participants in domestic settlement systems to final recipients; such services provided by the institution are limited to transmission, reconciliation and confirmation of payments orders, or related activities.
- A custody refers to the provision of safekeeping and processing of financial assets and related activities in the processing and keeping of such assets (such as escrow account).
- A cash management refers to the provision of cash management and related services to the customer. Such services provided by the institution are limited to payment remittance, collection and aggregation of funds, and payroll administration.



- The institution makes an inappropriate use of the operational-deposits' notion,
- A significant portion of operational deposits results from a small number of customers (in order to avoid concentration risk).

## **II- Special treatment of deposits arising from Correspondent banking**

### 1) Definition of deposits arising from Correspondent banking

The deposits arising from correspondent banking refer to the deposits that one bank (Respondent bank) place or leave with other bank (Correspondent Bank) in order to settle foreign currency transactions<sup>3</sup>.

### 2) Treatment:

Deposits arising from correspondent banking are held for operational purpose but due to their particular nature and volatility, they are subject to a specific treatment.

- Deposits arising from correspondent banking in the books of the declaring institution, if any, shall be filled in It.2.24 with the non-operational deposits from banks and other financial institutions, with a 100% run-off factor.
- The deposits from the declaring institution in other banks and financial institutions arising from correspondent banking receive a 0% inflow rate and are not allowed to be filled in any line of the declaring institution's template, neither in It.3.39, nor in any other line.

However, a 100% inflow rate recorded in It.3.39 would be applicable to the amount for which the declaring institution is able to determine that some funds are "excess balances" i.e. they are not tied to operational purposes and may be withdrawn within 30 days.

## **III- Other non-secured wholesale deposits**

All non-secured wholesale deposits that do not qualify as operational deposits shall be treated in It.2.22 to It.2.25 depending on their types of the customer.

## **IV- Inflows – It.3.39 “deposits with banks and financial institutions”**

Non-operational deposits from the declaring institution in other banks and financial institutions may receive a 100% inflow rate and will be filled in It.3.39 unless these deposits can be withdrawn within the 30 next days.

As mentioned above, operational deposits from the declaring institution in other banks and financial institutions receive a 0% inflow rate and are therefore not eligible to any inflow treatment.

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<sup>3</sup> The Basel III framework (“*The Liquidity coverage ratio, January 2013*”)



The declaring institution can consider the excess balance from operational deposit as non-operational deposits and records in It.3.39 under the following conditions:

- The declaring institution must have a clear and fair methodology for identifying excess deposits that can be excluded from operational deposits needed to ensure the continuity of the business activity.
- These excess deposits will be available within the 30 next days.
- When the declaring institution is unable to clearly determine its excess balances in accounts usually dedicated to operational deposits, then all such deposits shall be considered as operational deposits, thus with a 0% inflow rate.

#### **V- Synthesis on the treatment of Inter-bank operational deposits in the LCR template**

The following examples provide some useful examples of the treatment of operational deposits between banks and/or financial institutions in the LCR template.

##### 1) Common operational banking:

Let's consider that Bank "A" has a KHR 200 million deposit at Bank "B" for operational purpose under a legally binding agreement. One of the articles of the agreement states that if the operational deposit is withdrawn before a 30 days' notice, Bank "A" will receive a penalty of 1% of the withdrawn amount. Bank "A" should maintain this deposit balance of KHR 200 million at Bank B for clearing activity during the next 30 days. Bank "A" can withdraw the excess balance at any time.

In this case, both banks shall recognize the KHR 200 million deposit as an operational deposit, as it meets the required criteria, and Bank "B" (receiving bank) should record the deposit in a specifically designated account not bearing interests (or only very low interest).

Case 1: If this specific account has a balance of KHR 200 million at the reporting date, Bank "B" shall record an amount of KHR 200 million in It.2.21, while Bank "A" shall record KHR 0 in It.3.39.

Case 2: If this specific account has a balance of KHR 225 million at the reporting date, Bank "B" shall similarly record an amount of KHR 200 million in It.2.21, and record KHR 25 million in It.2.24, On the other hand, Bank "A" shall record KHR 25 million in It.3.39.

Case 3: If this specific account has a balance of KHR 180 million at the reporting date, it means that the deposit of Bank "A" in Bank "B" is KHR 20 million lower than the minimum contractual amount. In this case, Bank "B" shall record only KHR 180 million in It.2.21, while Bank "A" shall record KHR 0 in It.3.39. Bank "A", with a balance of KHR 180 million, shall receive a penalty of KHR 200,000 due to 1% of the KHR 20 million deficit amount.



2) Correspondent banking:

Case 4: Respondent (Depositing) Bank located in Cambodia

4.1. In case that a contract required a minimum balance to be kept in the account:

Bank "A" (Respondent Bank) whose head office located in Cambodia has an agreement with Bank "ABC" (correspondent bank) in France to deposit and maintain at least EUR 100 million for the purpose of correspondent banking operation.

- In this case, if at the reporting date this account (called "Nostro" in Bank "A") has balance of EUR 100 million or less, Bank "A" shall record EUR 0 in It.3.39 because this deposit is considered an operating deposit and receive inflow rate of 0%.
- On the other hand, if at the reporting date this account has a balance of more than EUR 100 million, supposed that the account has a balance of EUR 120 million, and Bank "A" has the right to withdraw EUR 20 million at any time, the bank can record the exceeding amount of EUR 20 million in It.3.39.

4.2. In case that a contract does not require a minimum balance to be kept in the account:

Bank "A" (Respondent Bank) whose head office located in Cambodia has a deposit agreement with Bank "ABC" (correspondent bank) in France for the purpose of correspondent banking operation.

1. In case that Bank "A" does not have methodology for identifying the balance to be maintained for the payment transaction.
  - In this case, though Bank "A" has a balance of EUR 100 million in Nostro account, at the reporting date Bank "A" shall record EUR 0 in It.3.39 because the deposit is considered an operating deposit and has 0% inflow rate.
2. In case that Bank "A" has a methodology for identifying the balance to be maintained for the payment transaction.
  - On the other hand, if at the reporting date, Bank "A" has a balance of EUR 100 million in its Nostro account but Bank "A" has a methodology for identifying the balance to be maintained for payment transaction (such as the method for calculating the average of monthly net cash outflows for the last 12 months), and suppose that Bank "A" has the average monthly net cash outflows of EUR 70 million and can withdraw EUR 30 million (excess demand) at any time within 30 days, Bank "A" can record the balances of EUR 30 million (or less) in It.3.39. with a 100% inflow rate.



**Case 5:** Respondent (Depositing) Bank located in France

Bank “XYZ” (Respondent Bank) whose head office located in France has an agreement with Bank “A” (correspondent bank) in Cambodia to deposit and maintain at least EUR 50 million for the purpose of correspondent banking operation in Cambodia.

In this case, regardless the amount in the account (called Vostro Account in Bank “A”) at the reporting date, Bank “A” (Correspondent Bank) shall record all balance in the account into It.2.24.

**VI-Retail Deposits**

Retail Deposits includes demand, savings and term deposits (regardless of maturity). Retail Deposits are divided into Stable Deposits and Less Stable Deposits.

➤ Stable Deposits (It.2.11)

Retail Deposits that can be considered as “Stable deposits” shall satisfy the following 2 conditions:

- 1) The Retail Deposit is insured by an effective deposit protection scheme, and
- 2) An established relationship exists between the depositor and the declaring institution, where the depositor meets at least one of the following criteria:
  - He has had an active bank account relationship with the declaring institution for at least the 12 last months;
  - He has a borrowing relationship with the institution for mortgage loans or other loans maturing in no less than 12 months; and
  - He has at least one other active financial product, other than a loan, with the institution.

➤ Less Stable deposits (It.2.12)

All retail deposits that do not meet the criteria set out to be captured in It.2.11 are considered as “less stable deposits” and reported in It.2.12.

**VII- Committed facilities**

1) Definition

Committed credit and liquidity facilities refer to contractual agreements and/or obligations to extend funds at a future date to retail or wholesale counterparties. For the purpose of the LCR calculation, these facilities include only contractually irrevocable (“committed”) or conditionally revocable agreements.

Credit facilities refer to the obligation of the institution to provide general working capital facilities and overdrafts for customers (both the legal entities and natural persons). For example: the unused portion of Trade loans, Revolving loans, Credit Cards, and Overdrafts, etc.

Liquidity facilities refer to the obligation for an institution to provide committed facilities to customers in situations where such customer face potential liquidity needs. For example, a corporate customer cannot get funding by issuing commercial paper on financial markets due to some reasons (customer downgrading or bad market conditions).

2) Treatment of expected cash outflows related to committed facilities:

- It.2.51 and It.2.52: report the undrawn committed credit and liquidity facilities to natural person and SMEs. Same run off rate: 5% as mentioned in Annex 1.
- It.2.53 and It.2.54: report the undrawn committed credit and liquidity facilities to non-financial corporate, sovereigns and central banks, MDBs and PSEs. Run off rate respectively 10% and 30% as mentioned in Annex 1.
- It.2.55 and It.2.56: report the undrawn committed credit and liquidity facilities to BFIs. Same run off rate: 40% as mentioned in Annex 1.
- It.2.57 and It.2.58: report the undrawn committed credit and liquidity facilities to OFIs. Run off rates, respectively, 40% and 100% as mentioned in Annex 1.
- It.2.59 and It.2.60: report the undrawn committed credit and liquidity facilities to any other legal entity and report any other contractual obligation to extend funds other than for liquidity within 30 days that would not be captured elsewhere. Same run off rates: 100% as mentioned in Annex 1.

This circular shall take effect from the signing date.

**The Governor**

Signed and Sealed: **Chea Chanto**