Rules on Liquidity Risk Management of Commercial Banks

Chapter I General Provisions

Article 1 The Rules are enacted in accordance with the Law of the People's Republic of China on Banking Regulation and Supervision, the Law of the People's Republic of China on Commercial Banks, the Regulation of the People's Republic of China on the Administration of Foreign-funded Banks and other relevant laws and regulations in order to strengthen the liquidity risk management of commercial banks and maintain safe and sound operation of commercial banks.

Article 2 The Rules shall be applicable to commercial banks established within the territory of the People's Republic of China.

Article 3 The term "liquidity risk" as mentioned in the Rules refers to the risk that the commercial banks cannot timely obtain sufficient funds at reasonable costs to pay due debts, fulfill other payment obligations and meet other funding needs for normal operations.

Article 4 A commercial bank shall, according to the Rules, establish sound liquidity risk management systems to effectively identify, measure, monitor and control liquidity risks at the legal entity and group level, as well as the subsidiaries, branches and business lines, and ensure the liquidity needs can be timely met at reasonable costs.

Article 5 The banking regulatory authority shall supervise the liquidity risks and the liquidity risk management system of commercial banks in accordance with relevant laws.

Chapter II Liquidity Risk Management

Article 6 A commercial bank shall establish sound liquidity risk management system at both legal entity and group level, adapting to the size, nature and degree of complexity of the bank's operations.

The liquidity risk management system shall include the following basic elements:

(1) effective governance structure of liquidity risk management;

(2) sound liquidity risk management strategies, policies and procedures;

(3) effective identification, measurement, monitoring and control of liquidity risks;

(4) complete management information system.

Section 1 Governance Structure of Liquidity Risk Management

Article 7 A commercial bank shall establish sound governance structure of liquidity risk management, clarify the functions and reporting routes of the board of directors and its special committees, board of supervisors (supervisors), senior management and the related departments in liquidity risk management, and set up appropriate assessment and accountability mechanisms.

Article 8 The board of directors of a commercial bank shall bear the ultimate

responsibilities for liquidity risk management, and perform the following functions:

(1) examining and approving the liquidity risk preference, liquidity risk management strategies, and major policies and procedures. Liquidity risk preference should be reviewed at least once a year;

(2) monitoring the senior management to ensure effective management and control of liquidity risks ;

(3) paying continuous attention to the liquidity risk conditions, regularly obtaining reports on liquidity risks, and timely learning about the level of liquidity risks, management conditions, and major changes;

(4) examining and approving the liquidity risk information for public disclosure, and ensuring the authenticity and accuracy of the disclosed information;

(5) other relevant functions.

The board of directors may authorize its sub-committees to perform some of the functions.

Article 9 The senior management of a commercial bank shall perform the following functions:

(1) formulating, regularly assessing and monitoring the implementation of the liquidity risk tolerance level, liquidity risk management strategies, policies, and procedures;

(2) determining the organizational structure of liquidity risk management, clarifying respective responsibilities of related departments, and ensuring the commercial bank has enough resources to perform liquidity risk management independently and effectively;

(3) ensuring the liquidity risk preference, liquidity risk management strategies, policies and procedures are effectively communicated and conveyed within the

commercial bank;

(4) establishing a complete management information system to support the identification, measurement, monitoring and control of liquidity risks;

(5) fully understanding and regularly assessing the bank's liquidity risk level and management conditions, timely understanding the significant changes of liquidity risks, and regularly reporting to the board of directors;

(6) other relevant functions.

Article 10 A commercial bank shall designate a specific department to be responsible for liquidity risk management, keep the liquidity risk management function independent of business functions, and possess enough manpower and other resources to perform liquidity risk management functions.

The department responsible for liquidity risk management shall perform the following functions:

(1) drawing up liquidity risk management strategies, policies and procedures, and submitting it to senior management and board of directors for their review and approval;

(2) identifying, measuring and monitoring liquidity risks, including continuously monitoring and controlling the high quality liquid assets conditions; monitoring compliance of liquidity risk limits, and timely reporting any breach of limits; organizing liquidity risk stress tests; organizing tests and assessments of liquidity risk contingency plans;

(3) identifying and assessing liquidity risks of new products, new businesses, or new institutions, examining and approving corresponding operations and risk management procedures;

(4) regularly submitting independent liquidity risk reports, timely reporting liquidity risk level, management conditions and significant changes to the

senior management and the board of directors;

(5) drawing up the liquidity risks information for public disclosure, and submitting it to senior management and the board of directors for their review and approval;

(6) other relevant functions.

Article 11 A commercial bank shall take full consideration of liquidity risk factors in internal pricing and performance assessment, and incentive mechanisms. A commercial bank shall bring in the factor of liquidity risk cost when examining the risk-adjusted return of branches or main business lines, to prevent excessive pursuing of business expansion and short-term profits at the cost of relaxing liquidity risk management.

Article 12 The board of supervisors (supervisors) shall supervise and evaluate the performance of the board of directors and senior management in liquidity risk management, and report to the shareholders' meeting (shareholders) at least once a year.

Article 13 A commercial bank shall establish a sound internal control system of liquidity risk management as an integral part of the bank's overall internal control system, in accordance with the internal control requirements of the banking regulatory authority .

Article 14 A commercial bank shall bring the liquidity risk management into the scope of internal audit, regularly examine and evaluate the sufficiency and effectiveness of liquidity risk management.

The internal audit shall cover all aspects of the liquidity risk management, including but not limited to:

(1) whether the governance, strategies, policies and procedures of liquidity risk management can identify, measure, monitor and control liquidity risks effectively;

(2) whether the liquidity risk management policies and procedures are implemented effectively;

(3) whether the basic assumptions for cash flow analysis and stress tests are reasonable;

(4) whether the management of liquidity risk limits are effective;

(5) whether the management information system is complete; and

(6) whether the liquidity risk reports are accurate, timely and comprehensive.

Article 15 The internal audit reports of liquidity risk management shall be submitted to the senior management and the board of directors. The board of directors shall urge the senior management to take timely rectification actions to address the issues identified in the internal audit. The internal audit department shall track and examine the implementation of the rectification actions, submit relevant reports to the board of directors timely.

The overseas branches or affiliates of a commercial bank which adopt relatively independent local liquidity risk management should be audited independently on liquidity risk management.

Section 2 Strategy, Policies and Procedures of Liquidity Risk Management

Article 16 A commercial bank shall determine its liquidity risk preference according to factors such as its business strategies, business characteristics, financial strength, financing capability, overall risk preference and market influence.

The commercial bank shall clarify the liquidity risk levels that the bank is willing

and able to bear under both normal and stress scenarios.

Article 17 A commercial bank shall formulate strategies, policies and procedures of liquidity risk management in written form based on its liquidity risk preference. The strategies, policies and procedures of liquidity risk management shall cover all of the bank's businesses both on and off-balance-sheet, as well as all domestic and overseas business units, branches, subsidiaries and affiliates that may have major impacts on its liquidity risks. The liquidity risk management under both normal and stress scenarios shall be covered.

Article 18 The liquidity risk management strategies shall clarify the overall objective, management pattern, main policies and procedures of liquidity risk management.

Liquidity risk management policies and procedures shall include, at a minimum, the following:

(1) identification, measurement and monitoring of liquidity risk, including cash flow estimate and analysis;

(2) liquidity risk limit management;

(3) financing management;

(4) intraday liquidity risk management;

(5) stress test;

(6) contingency plans;

(7) quality liquid asset management;

(8) cross-institution, cross-border and cross-key-currency liquidity risk management;

(9) continuously monitoring and analyzing the potential risk factors and other risks that impact liquidity risks .

Article 19 A commercial bank shall, before introducing new products or new business or establishing a new institution, fully evaluate its potential impact on liquidity risks in the feasibility study, improve the corresponding risk management policies and procedures, and obtain consent from the responsible business unit for liquidity risk management .

Article 20 A commercial bank shall take into overall consideration factors such as business development, technology upgrading, market changes, undertake annual assessment of its liquidity risk preference, its strategies, policies and procedures of liquidity risk management , and make amendment when necessary.

Section 3 Identification, Measurement, Monitoring, and Control of Liquidity Risk

Article 21 A commercial bank shall use appropriate methods and models to analyze and monitor the assets and liabilities mismatch of different future time periods under both normal and stress scenarios, the diversity and stability of financing sources, high quality liquid assets, key currency liquidity risk and market liquidity according to its business size, nature, complexity and risk conditions.

A commercial bank shall set reasonable assumptions when using the above methods and models, regularly assess the assumptions, revise them when necessary, and keep a written record.

Article 22 A commercial bank shall establish cash flow measurement and analysis framework to effectively measure, monitor and control cash flow gap

of different future periods under both normal and stress scenarios.

Cash flow measurement and analysis shall cover future cash flow of assets and liabilities, and potential cash flow of contingent assets and contingent liabilities, and fully consider the impact of the payment and settlement, agency and custody business have on cash flow.

A commercial bank shall measure and analyze the cash flow of key currencies separately.

Article 23 A commercial bank shall, based on its business scale, nature, complexity and risk conditions, monitor the specific scenario or event that may lead to liquidity risks, adopt appropriate warning indicators, prospectively analyze the impact on liquidity risk. Referenced scenario or events include but not limit to:

(1) rapid growth of assets and significant increase in volatility of liabilities;

(2) rise of concentration of assets or liabilities;

(3) decline of average maturity of liabilities;

(4) huge outflow of wholesale and retail deposits;

(5) rise of wholesale and retail financing cost;

(6) difficulty in continuously obtaining long-term or short-term financing;

(7) increase of the degree of maturity or currency mismatch;

(8) approaching the internal limits or supervisory threshold multiple times;

(9) increasing liquidity demand arising from off-balance business, complex products and trading;

(10) deterioration of asset quality, profitability, and overall financial status;

(11) counterparties request for additional collaterals or refuse to make new deals;

(12) correspondent banks reducing or canceling the line of credit;

(13) downgrading of credit rating;

(14) falling of stock prices;

(15) significant reputational risk events.

Article 24 A commercial bank shall implement liquidity risk limit management, determine the liquidity risk limits based on its business scale, nature, complexity, liquidity risk preference and external market changes. Liquidity risk limits include but are not limited to cash flow gap limit, liability concentration limit, intra-group transaction and financing limits.

A commercial banks shall formulate policies and procedures of liquidity risk limit management, establish an authorization system to set liquidity risk limits and make adjustment, the review and approval process and approval procedures about exceeding the limits. The bank shall assess the liquidity risk limits at least once a year and make adjustment when necessary.

A commercial bank shall monitor the compliance with liquidity risk limits, timely report when exceeding the limits. The bank shall deal with unauthorized exceeding situations in accordance with limits management policies and procedures, and keep written record of handling exceeding limits.

Article 25 A commercial bank shall establish and improve its funding strategy to improve the diversity and stability of funding sources.

The funding management shall meet the following requirements:

(1) analyzing funding needs and sources of different future time period under both normal and stress scenarios;

(2) strengthening concentration risk management in terms of types of liabilities, maturity, counterparties, currencies, collaterals and funding market etc, and appropriately establishing concentration limits, for interbank wholesale financing, establishing limits in terms of aggregate total and major tenor respectively.

(3) strengthening funding channel management, actively maintaining the relationships with major funding counterparties and activities in the market, and regularly assessing the funding capability and asset marketability (liquidity);

(4) closely monitoring the changes in trading volume and price of major financial markets, assessing the impact of market liquidity on commercial banks' funding capacity .

Article 26 A commercial bank shall strengthen funding collateral management, to ensure it meet the collateral requirements of funding transactions both intraday and at different time period under both normal and stress scenarios, and timely fulfill the obligation to resale collateral to relevant counterparties.

A commercial bank shall distinguish between encumbered assets and unencumbered assets, monitor and analyze the types, quantity, currencies, geographical locations, legal entities, specific custodian or bank accounts and the acceptance of central bank or financial market of the unencumbered assets that can be used as collateral, regularly assess its asset value and funding capacity, and fully taking into account the operational and time requirements of funding.

A commercial bank shall improve the diversity of collaterals, based on collaterals' funding capacity, price sensitivity, and discount rate in stress scenarios.

Article 27 A commercial bank shall strengthen intraday liquidity risk management, ensure enough intraday liquidity position and related funding arrangements to timely meet the intraday payment requirements in both

normal and stress scenarios.

Intraday liquidity risk management in commercial banks shall meet the following requirements:

(1) effectively calculating expected total daily cash inflow and outflow, and cash inflow and outflow volume and gap at different time spots during the day.

(2) timely monitoring the impact of the changes in business behavior and available funds (i.e. funds on the book, intraday credit line, collateral available, etc.) on intraday liquidity position.

(3) having adequate intraday financing arrangement in place to meet intraday payment needs, and is able to acquire intraday liquidity by managing and utilizing collateral when necessary.

(4) having appropriate control over the timing of fund outflow according to intraday situation.

(5) taking into full consideration unexpected shock on intraday liquidity.

A commercial bank shall make retrospective analysis of its intraday liquidity condition based on historical data, and improve its intraday liquidity risk management when necessary.

Article 28 A commerical bank shall strengtheen interbank business liquidity risk management, enhance the diversity and stability of interbank liabilities, and optimize interbank asset structure and allocation.

Article 29 A commercial bank shall establish liquidity risk stress test system, and analyze its capabilities to control liquidity risk under short-term and long-term stress scenarios.

Liquidity risk stress test shall meet the following requirements:

(1) prudently and reasonably setting and regularly examining stress scenarios,

with a full consideration of the specific shocks to the commercial bank, systemic shocks on the entire market and a combination of both, putting them under mild, moderate and serious stress levels;

(2) prudently and reasonably setting the minimum period that the commercial bank can satisfy liquidity need and continue operating under stress scenarios. Under the scenario of whole market systemic shocks, the period shall be no less than 30 days;

(3) fully considering the interconnectedness between various types of risks and liquidity risks, and the impact of market liquidity on bank liquidity;

(4) regularly conducting stress test at both the entity and the group level, and conducting stress test on branches or affiliates separately where liquidity transfer restrictions exist;

(5) the frequency of stress test shall adapt to its size, risk level and impact on the market. A routine stress test shall be conducted at least once a quarter. In the event of intense market fluctuations, frequency of stress test shall be increased;

(6) where possible, making a back testing of the stress test results ex post facto referring to similar past liquidity shock scenarios affecting banks or markets. The stress test results and back testing shall be recorded in writing;

(7) A commercial bank shall take into full consideration the stress test results when determining the liquidity risk preference, liquidity risk management strategies, policies and procedures, and formulating business development plans and financial plans. Adjustment shall be made in accordance with the stress test results when necessary.

The board of directors and senior management shall examine the stress scenarios, process and results of stress tests to constantly improve the liquidity risk stress test to ensure its function in liquidity risk management.

Article 30 A commercial bank shall take full account of the stress test results, work out a liquidity risk contingency plan on the basis of its business size, nature, complexity, risk level, organizational structure and market influence, etc., to ensure the emergency liquidity needs can be satisfied. The bank shall review and assess the contingency plan at least once a year, and make amendment when necessary.

A liquidity risk contingency plan shall meet the following requirements:

(1) setting various scenarios that trigger the contingency plan;

(2) listing out the source of emergency funding, reasonably estimating the possible scale of funding and time needed, fully considering the transfer restrictions on cross-border, and cross-institution transactions, and ensuring the reliability and sufficiency of the source of emergency funds;

(3) specifying contingency procedures and measures, at least including contingency measures on the asset side and contingency measures on the liability side, strengthening internal and external communication and other measures which can reduce adverse effects to the commercial bank arising from information asymmetry.

(4) clarifying the power and responsibility of the board of directors, the senior management and related departments in implementing contingency procedures;

(5) distinguishing contingency plans between the entity level and the group level, and formulating specific contingency plans for key currencies and major business regions when necessary. Formulating special contingency plans for branches or affiliates with liquidity transfer restrictions.

Article 31 A commercial bank shall hold sufficient high quality liquid assets to ensure the liquidity needs can be satisfied timely under stress scenarios. High quality liquid assets should be unencumbered assets, including liquidity assets that can obtain fund by selling or pledging as collateral in stress scenarios.

A commercial bank shall determine the size and composition of high quality liquid assets based on the principle of prudence, taking into account its liquidity risk appetite, the severity and duration of stress scenarios, cash flow gap, monetizing ability of high quality liquid assets and so on.

Article 32 A commercial bank shall carry out liquidity risk management on a consolidated basis, considering the overall liquidity risk of the whole group as well as the liquidity risk conditions of its affiliates and their impact to the group.

A commercial bank shall establish intra-group transaction and funding limits, analyzing the impact of intra-group liability concentration on liquidity risk, so as to prevent branches and affiliates from over-reliance on intra-group funding, and reduce the risk transfer inside the group.

A commercial bank shall fully understand the liquidity risk management related laws, regulations and supervisory requirements of the counties or regions where its overseas branches, subsidiaries and business are located, fully consider the impact of liquidity risk transfer restrictions, differences in the degree of financial market development and other factors on liquidity risk management on a consolidated basis.

Article 33 A commercial bank shall identify, measure, monitor and control liquidity risk by the aggregate of local and foreign currencies and key currencies respectively.

Article 34 A commercial bank shall prudently evaluate the impacts of credit risk, market risk, operational risk, reputational risk and other types of risks on the liquidity risk.

Section 4 Management Information System

Article 35 A commercial bank shall establish a complete management information system so as to accurately, timely and comprehensively measure, monitor and report liquidity risk conditions.

The management information system shall at least achieve the following functions:

(1) Monitoring intraday liquidity conditions and calculating cash inflows, outflows and gaps at different set time intervals on a daily basis;

(2) Calculating the liquidity risk supervision and monitoring indicators and increasing the monitoring frequency when necessary;

(3) Supporting the monitoring and control of liquidity risk limits;

(4) Supporting the real-time monitoring of large-amount fund flows;

(5) Supporting the monitoring of types, quantity, currencies, geographical locations, legal entities, specific custodian or bank accounts etc. of high quality liquid assets and other unencumbered assets;

(6) Supporting the monitoring of funding collaterals' types, quantity, currencies, geographical locations, legal entities, specific custodian or bank accounts etc.;

(7) Supporting stress tests under different stress scenarios.

Article 36 A commercial bank shall set up a standard liquidity risk reporting rule, clarify the content, form, frequency and reporting scope of the liquidity risk report and ensure the board of directors, senior management and other managers can learn about the liquidity risk level and management conditions in a timely manner.

Chapter III Liquidity Risk Supervision

Section 1 Liquidity Risk Supervisory Indicators

Article 37 Liquidity risk supervision indicators include liquidity coverage ratio (LCR), net stable funding ratio (NSFR), liquidity ratio, liquidity matching ratio, and high quality liquid assets (HQLA) adequacy ratio.

A commercial bank with assets of no less than RMB 200 billion shall satisfy the minimum regulatory standards of LCR, NSFR, liquidity ratio, and liquidity matching ratio on an ongoing basis.

A commercial bank with assets of less than RMB 200 billion shall satisfy the minimum regulatory standards of HQLA adequacy ratio and liquidity matching ratio on an ongoing basis.

Article 38 Liquidity coverage ratio aims to ensure a commercial bank has adequate high quality liquid assets, so as to meet its liquidity needs under the set liquidity stress scenarios for at least 30 days through liquidating these assets.

The formula of LCR is:

LCR= eligible HQLA/ total net cash outflows over the next 30 calendar days

The minimum regulatory requirement of LCR is 100%. A commercial bank's liquidity coverage ratio shall not be below the minimum regulatory standard, except for the situations set by the second clause of Article 60 of the Rules.

Article 39 Net stable funding ratio aims to ensure a commercial bank has adequate stable funding sources, so as to meet the stable funding needs of various assets and off-balance sheet exposures.

The formula of NSFR is:

NSFR= available amount of stable funding/required amount of stable funding

The minimum regulatory requirement of NSFR is 100%.

Article 40 The formula of liquidity ratio is:

Liquidity ratio= liquid assets / liquid liabilities

The minimum regulatory requirement of liquidity ratio is 25%.

Article 41 Liquidity matching ratio measures the maturity structure of major assets and liabilities of a commercial bank, and aims to guide a commercial bank to appropriately allocate its long-term stable liabilities and high liquidity or short-term assets, so as to avoid over-reliance on short-term funding to support long-term business development and improve liquidity risk resilience.

The formula of liquidity matching ratio is:

Liquidity matching ratio= weighted funding sources/weighted fund utilization

The minimum regulatory standard of liquidity matching ratio is 100%.

Article 42 High quality liquid assets adequacy ratio aims to ensure a commercial bank has adequate unencumbered high quality liquid assets, so as to meet its liquidity needs under stress scenarios for 30 days through liquidating these assets.

The formula of HQLA adequacy ratio is:

HQLA adequacy ratio = high quality liquid assets/total short-term net cash outflow

The minimum regulatory standard of HQLA adequacy ratio is 100%. A commercial bank's HQLA adequacy ratio shall not be below the minimum regulatory standard, except for the situations set by the second clause of Article 60 of the Rules.

Article 43 A commercial bank shall calculate the liquidity risk regulatory

indicators on both non-consolidated and consolidated basis for legal entities and the group. The scope of the consolidation refers to the relevant commercial bank capital regulation provisions of the banking regulatory authority.

When calculating the liquidity coverage ratio on a consolidated basis, if inter-group cross-border or cross-institution liquidity transfer limitations exist, the high quality liquid assets held by affiliates in excess of that the minimum regulatory standard required shall be excluded from the group's eligible high quality liquid assets.

Section 2 Liquidity Risk Monitoring Instruments

Article 44 The banking regulatory authority shall regularly analyze and monitor the liquidity risk of commercial banks and the banking system. The analysis and monitoring shall include maturity mismatch of assets and liabilities, diversification and stability of funding sources, unencumbered assets, liquidity risk conditions of key currencies, market liquidity, etc.

The banking regulatory authority shall fully consider the limitation of a single liquidity risk regulatory indicator or monitoring instruments in reflecting the liquidity risk of commercial banks, and shall comprehensively use various methods and tools to analyze and monitor liquidity risk.

The banking regulatory authority may set differentiated alarm values or alarm zones to all or part of the monitoring instruments, taking into consideration of a commercial bank's business strategy, market position, business model, asset and liability structure and risk management capability, so as to send risk alerts to the commercial bank and request it take relevant measures in due course.

Article 45 The banking regulatory authority shall regularly monitor commercial

banks' contractual maturity mismatch of different time periods for all the on- and off- balance sheet items, and analyze its effects on liquidity risk. The analysis and monitoring of contractual maturity mismatch can cover multiple time periods and put into overnight, 7 days, 14 days, 1, 2, 3, 6 and 9 months, 1, 2, 3, 5 and beyond 5 years buckets. Relevant reference indicators include but are not limited to liquidity gap and liquidity gap ratio of different time periods.

Article 46 The banking regulatory authority shall regularly monitor the diversification and stability of a commercial bank's financing sources, and analyze its effects on liquidity risk. The banking regulatory authority shall analyze the concentration of a commercial bank's on- and off-balance-sheet liabilities in financing instruments, counterparties and currencies, as per the principle of importance. The analysis of the liability concentration shall cover multiple time periods. Relevant reference indicators shall include but are not limited to core liability ratio, interbank funding ratio, top 10 accounts deposits ratio, and top 10 interbank accounts funding ratio.

Under such circumstances where commercial banks appear to rely heavily on short-term interbank wholesale funding, interbank wholesale funding increases fast, issuance of interbank deposit certificate grows fast, or a commercial bank has a significantly higher level in the above mentioned areas compared with banks of the same category or the average of all commercial banks, the banking regulatory authority shall timely analyze the causes and how they reflect the change of risks of commercial banks, and send risk alerts or require commercial banks to take relevant measures where necessary.

Article 47 The banking regulatory authority shall regularly monitor the type, amount and location of unencumbered assets of commercial banks. Relevant reference indicators shall include but not be limited to excess reserve ratio, high quality liquid assets prescribed by the Rules in Article 31 and other assets eligible as collaterals for central bank or market financing.

Article 48 The banking regulatory authority shall decide whether to separately monitor the liquidity risk of key currencies on the basis of a commercial bank's

scale of foreign exchange business, currency mismatch and its impacts on the market, etc. Relevant reference indicators include but are not limited to liquidity coverage ratio of key currencies.

Article 49 The banking regulatory authority shall closely track and study the impacts of changes in macroeconomic situation and financial markets on the liquidity of the banking system, and analyze and monitor the overall liquidity conditions of financial markets. Under circumstances of tightened market liquidity, increasing funding cost, reduced or lost monetizing capacity of high quality liquid assets, or restrictions in liquidity transfer, the banking regulatory authority shall timely analyze the impacts on commercial banks' funding capacity.

The relevant reference indicators used by the banking regulatory authority to analyze and monitor market liquidity include but are not limited to relevant interbank market interest rates and trading volume, auction rates of the treasury time deposits, bill discount rate, and stock market indexes.

Article 50 The banking regulatory authority shall continuously monitor the fluctuations of commercial banks' loan to deposit ratio. When the loan to deposit ratio of a commercial bank fluctuates largely, rapidly or continuously keeps one-way changes, or the loan to deposit ratio of a commercial bank is significantly higher than banks of the same category or the average of all commercial banks, the banking regulatory authority shall timely analyze the causes and how they reflect the change of risks of commercial banks, and send risk alerts or require the bank to take relevant measures when necessary.

Article 51 Commercial banks shall include all the monitoring indicators of liquidity risk in their internal liquidity risk management framework, timely monitor the fluctuations of indicators, and regularly report to the banking regulatory authority.

Article 52 Besides the liquidity risk supervisory indicators and monitoring reference indicators listed by these Rules, the banking regulatory authority may set other liquidity risk indicators, analyze and monitor liquidity risk of

commercial banks on the basis of their business scale, nature, complexity, management mode and liquidity risk profile.

Section III Approaches and Tools of Liquidity Risk Supervision

Article 53 The banking regulatory authority shall utilize liquidity risk supervisory indicators and monitoring tools to supervise commercial banks' liquidity risk and its management on both the legal entity and group levels through off-site supervision, on-site inspection and supervisory talks with commercial banks' directors and senior management, etc, and it shall endeavor to take timely measures to tackle hidden and potential liquidity risks.

Article 54 A commercial bank shall submit to the banking regulatory authority the financial accounting reports, statistical reports and other reports related to liquidity risk in accordance with the provisions. Where a commercial bank entrusts external intermediary agencies to audit its liquidity risk status and management system, it shall submit the relevant external audit reports to the banking regulatory authority as well. Liquidity risk supervisory indicators shall be submitted on a monthly basis, except those otherwise prescribed by the regulatory authority.

The banking regulatory authority may determine the content and frequency of liquidity risk statements and reports of commercial banks on the basis of their respective business scale, nature, complexity, risk management mode and liquidity risk profile.

Article 55 A commercial bank shall submit to the banking regulatory authority liquidity risk management reports of the preceding year before the end of April each year. The reports shall include its liquidity risk preference, liquidity risk management strategy, major policies and procedures, internal risk management indicators and limits, contingency plans and their test results, etc.

Where a commercial bank makes significant adjustments in its liquidity risk preference, liquidity risk management strategy, policies and procedures, it shall report the adjustments in writing to the banking regulatory authority within a month.

Article 56 A commercial bank shall regularly submit liquidity risk stress test reports to the banking regulatory authority according to the provisions. The reports shall cover stress scenarios, methodologies, procedures and results. Where significant market volatility occurs, the banks shall increase the frequency of the stress test reporting. Where the bank makes significantly adjustment to its liquidity risk preference, liquidity risk management strategy, policies and procedures based on the results of stress tests, it shall timely submit written reports on such adjustment to the banking regulatory authority.

Article 57 A commercial bank shall timely report the following major events that may adversely affect its liquidity risk profile and its management, as well as the corresponding measures it intends to take to the banking regulatory authority:

(1) significant downgrade of the bank's credit rating;

(2) large-scale asset disposal by the bank to raise liquidity;

(3) foreseen restrictions on or loss of major financing channels;

(4) bank run;

(5) significant adverse changes in the business operation, liquidity profile and credit rating, etc, of the parent company or other institutions in the group;

(6) significant adverse changes in the external market liquidity condition;

(7) significant adjustments to the liquidity transfer policies on cross-border and cross-institution transfer unfavorable to liquidity risk management;

(8) significant adverse changes in the political or economic situations of the

countries or regions where the parent company or group operates; and

(9) other major events that may have adverse impacts on the bank's liquidity risk capability and management conditions.

If the supervisory indicators of a commercial bank have or are expected to fall below the minimum supervisory standards, the bank shall analyse the causes and the resulted changes of its risk profile and make timely report to the banking regulatory authority.

If the monitoring indicators of a commercial bank fluctuate greatly, rapidly or continuously move one-way, the bank shall analyse the causes and the resulted changes of its risk profile and make timely report to the banking regulatory authority.

Where the following circumstances occurs, i.e. a foreign bank or a sino-foreign joint venture bank's aggregate domestic assets fall below its domestic liabilities, the banking group's net cross-border outflow ratio exceeds 25%, and foreign bank branches' net cross-border outflow ratio exceeds 50%, they shall report to the banking regulatory authority within two working days.

Article 58 The banking regulatory authority shall determine the content, scope and frequency of on-site examination of liquidity risk according to the assessment results of commercial banks' liquidity risk level and management.

Article 59 A commercial bank shall regularly disclose relevant information of its liquidity risk level and management. The disclosure contents shall include but not be limited to:

(1) governance structure of liquidity risk management, including, but not be limited to, responsibilities and roles of the board of directors and its special committees, senior management and relevant departments;

(2) liquidity risk management strategies and policies;

(3) methodologies for identifying, measuring, monitoring and controlling liquidity risks;

(4) main indicators of liquidity risk management and brief analysis;

(5) main factors affecting liquidity risk;

(6) stress test.

Article 60 Where a commercial bank fails to comply with the minimum regulatory standards of liquidity risk regulatory indicators, the banking regulatory authority shall require it to take rectification measures within a prescribed time limit, and where necessary, take supervisory measures or impose administrative penalties in accordance with Article 37, Article 46 of the Law of PRC on Banking Regulation and Supervision. Exceptions can be made for cases specified in Clause 2 of this Article.

Where a commercial bank's liquidity coverage ratio and adequacy ratio of high qualified liquid assets (HQLA) fall below the minimum regulatory standards under stress scenarios, the banking regulatory authority shall consider the current and future domestic and international economic and financial situation, analyze the factors affecting liquidity profile of an individual bank and the overall financial markets, and take appropriate measures on the basis of the causes, severity, duration and frequency, etc of the aforementioned breach of minimum regulatory standards.

Article 61 Where a commercial bank's liquidity risk management system is flawed, the banking regulatory authority shall require the bank to take rectification measures within a prescribed time limit. Where a commercial bank's liquidity risk management system is serious flawed, or it fails to take effective rectification measures within a prescribed time limit, the banking regulatory authority has the power to take the following measures:

(1) holding supervisory talks with the bank's board of directors and senior management;

(2) requiring the bank to conduct more stringent stress tests and submit more effective contingency plans;

(3) requiring the bank to increase the content and frequency of liquidity risk reports;

(4) increasing the content, scope and frequency of the bank's liquidity risk on-site examination;

(5) limiting the bank's acquisition or other large-scale business expansion activities;

(6) requiring the bank to reduce liquidity risk;

(7) raising the minimum regulatory standards of the bank's liquidity risk supervisory indicators;

(8) raising the bank's capital adequacy ratio requirement; and

(9) other relevant measures as prescribed by the Law of PRC on Banking Regulation and Supervision and other applicable laws, administrative regulations and departmental rules.

Where any liquidity stress occurs at the group or the parent company of a commercial bank, the banking regulatory authority may impose restrictions on the funding transfers between the bank and the parent company or other entities within the group.

Based on the liquidity risk profiles of foreign banks, sino-foreign joint venture banks, foreign bank branches, the banking regulatory authority may propose restrictive requirements on their respective domestic assets and liabilities ratio or the net cross-border outflow ratio.

Article 62 Where a commercial bank fails to provide liquidity risk statements and reports or disclose information in accordance with the provisions, or provides fraudulent statements and reports, the banking regulatory authority

may impose administrative penalties in accordance with Article 46, Article 47 of the Law of PRC on Banking Regulation and Supervision.

Article 63 The banking regulatory authority shall strengthen the coordination and collaboration with relevant domestic and overseas(supervisory/government) agencies, jointly establish information sharing mechanism and liquidity risk emergency response mechanism, and develop liquidity risk supervisory contingency plans for commercial banks.

Where significant liquidity events occurs that may impact an individual bank or the whole markets, the banking regulatory authority shall strengthen the coordination and collaboration with relevant domestic and overseas agencies and timely trigger the liquidity risk supervisory contingency plans to reduce the negative impact on the financial system and the macro economy.

Chapter IV Supplementary Provisions

Article 64 The State Development Bank and policy banks, rural cooperative banks, rural banks, rural credit cooperatives and branches of foreign banks shall be governed analogically by these Rules.

Article 65 The term "liquidity transfer restriction" in these Rules refers to the restrictions imposed on funding or funding collaterals in cross-border or cross–institution transfers due to legal, regulatory, tax, exchange control reasons, or currencies not freely convertible and other reasons.

Article 66 The term "unencumbered assets" in these Rules refers to assets that are not used as collaterals, credit enhancement in any transactions, or designated to pay for operating expenses, and do not have legal, regulatory, contractual or operational barriers in case of liquidation, sale, transfer and assignment of the institution.

Article 67 The term “key currencies” in these Rules refers to the currencies in which more than 5% of a commercial bank's liabilities are denominated.

Article 68 The term“above” in these Rules includes the number itself.

Article 69 The liquidity coverage ratio of commercial banks shall reach 100% before the end of 2018. During the transition period, the liquidity coverage ratio of commercial banks shall be no lower than 90%. Commercial banks are encouraged to meet the minimum standard before the deadline if possible. For commercial banks whose liquidity coverage ratio has reached 100%, the banking regulatory authority urges them to maintain the liquidity coverage ratio above 100%.

Article 70 Commercial Banks shall start implementing the regulatory requirement of liquidity matching ratio from January 1, 2020. The liquidity matching ratio shall be an indicator for regulatory monitoring purpose before 2020.

Article 71 The quality liquid asset adequacy ratio of commercial banks shall reach 100% before the end of June 2019. During the transition period, such ratio shall reach 80% before the end of 2018.

Article 72 For the commercial banks whose asset size reaches RMB 200 billion for the first time, the original regulatory indicators shall be applicable during the month when their assets size first reaches the level. From the second month, whether or not their asset size remains above the RMB 200 billion, the same indicators shall apply as those commercial banks whose asset size is above RMB 200 billion.

Article 73 For the commercial banks whose asset size is smaller than RMB 200 billion, regulatory requirements on liquidity coverage ratio and net stable funding ratio shall apply, whereas quality liquid asset adequacy ratio shall no longer apply with the approval of the banking regulatory authority.

In the applications submitted by commercial banks to adjust the applicable

regulatory indicators, the following shall be included: the status of the information management system of the commercial bank, i.e. whether and how it supports the calculation, monitoring, analysis and reporting of the liquidity coverage ratio and the net stable funding ratio; the approach to identify stable deposits and business associates' deposits in the liquidity coverage ratio and corresponding statistics; analysis on the difference between the liquidity coverage ratio and quality liquid asset adequacy ratio and the reason, management of the quality liquid assets, etc.

Once the applicable regulatory indicators are adjusted, the commercial bank shall not apply to return to its original regulatory indicators except for special reasons.

Article 74 The power to interpret these Rules shall remain with the banking regulatory authority mandated by the State Council.

Article 75 These Rules shall come into force on July 1, 2018. Rules on Liquidity Risk Management of Commercial Banks (Provisional, Order of the CBRC [2015] No.9）shall be simultaneously abolished. Where discrepancies exist between these Rules and relevant rules, guidelines and guidance papers released prior to the implementation of these Rules, these Rules shall prevail.