

Submission on Proposed DTA Liquidity Standard

Important Note

This submission is made entirely in my personal capacity. Nothing in this document should be interpreted as expressing the views of my employer, nor should it be attributed to any organisation with which I am associated. I comment as an individual with technical experience in liquidity modelling and prudential interpretation, with the sole aim of supporting the development of a clear, robust, and effective liquidity standard.

Executive Summary (One Page)

Purpose. This submission supports the development of a clear, robust DTA Liquidity Standard by urging the explicit articulation of long-standing prudential liquidity principles that are currently left implicit. Absent such articulation, there is a material risk that interpretive uncertainty under BS13 will be carried forward despite revised wording.

Core principles. International prudential liquidity frameworks assess cashflow timing on a *worst-case contractual basis*: outflows are modelled at the earliest date counterparties can require repayment, while behavioural stability is reflected through calibrated run-off factors rather than deferred contractual maturity. Where depositor optionality exists, that optionality must be recognised in the contractual view.

Term deposits and cooling-off. Early withdrawal and cooling-off/grace-period features confer exercisable withdrawal rights within the stress horizon. Although such deposits are not operationally identical to demand deposits, they exhibit the same *withdrawal characteristics* for liquidity stress purposes and are therefore appropriately modelled on a demand-deposit-equivalent basis during that period. This approach aligns with established international practice.

Why clarity matters now. Experience under BS13 shows that undefined concepts (e.g. “residual contractual term”) invite divergent interpretations and mask material risks. Apparent equivalence of BS13 outcomes to Basel III outcomes could arguably reflect portfolio shaping by LCR-constrained institutions, not equivalence of underlying rules.

What is requested. The DTA Liquidity Standard should explicitly confirm that liabilities are assessed at their *earliest exercisable date*, including where depositor optionality exists, and clarify the contractual/behavioural distinction. Doing so will improve interpretability, align outcomes with international norms, and reduce supervisory and audit friction.

Evidence. Primary source material and quotations demonstrating the international lineage and prudential basis for these positions are provided in the appendices.

1. Purpose and Summary

The proposed DTA Liquidity Standard represents an important opportunity to resolve long-standing ambiguities that have existed under BS13. While the draft standard introduces updated terminology and structure, it does not consistently articulate the **prudential principles** that are necessary to give that structure clear operational meaning.

In particular, the draft does not explicitly state how liabilities should be treated where depositor optionality exists, how contractual maturity should be interpreted where multiple exercisable dates are possible, or how early-withdrawable term deposits are intended to be treated. These concepts are central to liquidity risk measurement and materially affect reported outcomes.

The absence of explicit principles creates a risk that the new standard will inherit the same interpretive uncertainty that limited BS13, despite changes in wording. This submission therefore focuses on:

- articulating the relevant first principles of prudential liquidity regulation;
- explaining how these principles have been applied internationally;
- highlighting where BS13 diverged from those principles in practice; and
- identifying where the proposed DTA Standard would benefit from making those principles explicit.

For transparency, the positions set out in this submission are grounded in long-standing international prudential practice and primary regulatory sources, including pre-Basel maturity-mismatch frameworks, Basel Committee publications, and national implementations in comparable jurisdictions. **Primary source material, direct quotations, and documentary references supporting this lineage are provided in the appendices**, so that readers may assess the underlying evidence for themselves.

2. Core Prudential Liquidity Principles

International prudential liquidity frameworks, both pre- and post-GFC, have consistently been built on a small number of core principles. These principles are not new, but they are often left implicit.

2.1 Earliest Possible Contractual Maturity

Liquidity risk is assessed on a **worst-case contractual basis**. Cash outflows are therefore modelled at the *earliest possible date* on which the counterparty can require repayment, while inflows are modelled at their latest possible realisation date.

This principle recognises that contractual optionality defines the maximum liquidity exposure faced by an institution under stress.

2.2 Contractual vs Behavioural Views

Liquidity frameworks distinguish between:

- a **contractual view**, which reflects what counterparties are legally entitled to do; and
- a **behavioural view**, which reflects supervisory judgement about what is likely to occur in aggregate.

Behavioural expectations are incorporated through **run-off factors or stability assumptions**, not through the deferral of contractual maturity.

2.3 Depositor Optionality

Where a depositor holds an option to withdraw funds early, that option must be recognised in the contractual view. The existence of penalties, discretion, or notice requirements may influence behavioural calibration, but they do not eliminate the underlying optionality.

3. Evolution of Prudential Liquidity Frameworks

Prior to the Basel III LCR, regulators such as the UK FSA applied maturity mismatch frameworks that embodied the same principles. Liabilities were slotted at their earliest contractual maturity, assets at their latest, and behavioural adjustments were applied separately with supervisory approval.

BS13 was implemented early in the post-GFC period, before the LCR had been finalised. While it shared a common conceptual ancestry with these frameworks, it did not explicitly articulate the underlying principles, leaving key terms open to interpretation.

The Basel III LCR subsequently codified these principles more explicitly, particularly in relation to depositor optionality and notice-period deposits.

4. Contractual Maturity and Optionality

The term “**residual contractual term**”, used extensively in BS13, is not defined. In international prudential usage, “contractual” is generally understood as distinct from “behavioural” and refers to the earliest date at which repayment can be contractually required.

Where a liability contains optionality, contractual maturity is not a single date but a **range of exercisable dates**. In such cases, prudential practice adopts the earliest date within that range for liquidity measurement.

Without an explicit statement of this principle, BS13 has been interpreted in practice by reference to expected or agreed end dates rather than earliest exercisable dates, creating outcomes that are inconsistent with established liquidity risk concepts.

5. Term Deposits, Early Withdrawal, and Cooling-Off Periods

5.1 Contractual Nature of Early Withdrawal

Requests for early withdrawal of term deposits are not “contract breaches”; they are the exercise of contractual rights defined in terms and conditions. These rights may be subject to notice, penalties, or discretion, but they exist within the contract.

5.2 Cooling-Off and Grace Period Deposits

A term deposit in a cooling-off or grace period does not provide the same operational functionality as a demand deposit. Funds cannot typically be accessed via payment rails such as ATMs, and withdrawal requires administrative processing.

However, for **liquidity risk purposes**, these operational differences are not determinative. What matters is whether the depositor has an unrestricted contractual right to withdraw funds within the stress horizon.

During a cooling-off or grace period, that condition is met. The depositor may require repayment at their discretion, and the deposit taker has no ability to defer or refuse the request.

Accordingly, such deposits exhibit **the same withdrawal characteristics as demand deposits for the purposes of liquidity modelling**. They are not legally identical products, but they are the closest available behavioural proxy within the prudential framework.

This approach is explicitly reflected in APRA guidance under the LCR:

If an ADI issuing a 31-day notice period deposit is required to provide the depositor with a grace period (e.g. of seven calendar days) before the ADI can lock the deposit in for

either a new term or notice period, those deposits that are currently in a grace period are, for LCR purposes, to be modelled on an equivalent basis to the demand deposit portfolio.

This treatment reflects the principle of earliest exercisable maturity, with behavioural stability addressed through run-off calibration rather than maturity deferral.

6. Penalties, Discretion, and Behavioural Assumptions

Interest penalties and discretionary refusal rights are sometimes cited as reasons to ignore early withdrawal optionality. From a prudential perspective, neither provides a reliable basis for doing so.

Penalties are typically limited to foregone interest and are smallest precisely when regulatory liquidity value is highest. Discretionary refusal, if exercised under stress, is likely to accelerate loss of confidence rather than preserve liquidity.

International frameworks therefore recognise behavioural stability through calibrated run-off factors, not by excluding optionality from the contractual view.

7. BS13 Outcomes and the Appearance of Equivalence

Assertions that BS13 outcomes are equivalent to Basel III outcomes could arguably reflect portfolio shaping by LCR-constrained institutions rather than equivalence of underlying rules. Where banks optimise for LCR and NSFR, BS13 metrics may appear aligned despite different mechanics.

This apparent equivalence should not be relied upon as evidence that the BS13 framework itself is sound or internally consistent.

8. Thematic Review – Scope and Limitations

The 2021 Liquidity Thematic Review focused on areas where BS13 provided unambiguous instructions. It did not, and arguably could not, address deeper interpretive issues arising from undefined principles such as depositor optionality and earliest possible maturity.

Subsequent reliance on the thematic review as a comprehensive statement of best practice risks entrenching these ambiguities rather than resolving them. Silence on an issue should not be interpreted as endorsement of existing interpretations.

9. Observations on the Proposed DTA Liquidity Standard

The proposed standard introduces revised terminology, but it does not consistently articulate the principles necessary to interpret that terminology.

In particular:

- references to liabilities being “payable or repayable” do not clearly identify whether exercisable rights reside with the depositor or the deposit taker;
- guidance materials reintroduce undefined concepts such as residual maturity;
- optionality is not explicitly addressed.

Explicitly stating that liabilities are to be assessed at their **earliest exercisable date**, including where depositor optionality exists, would materially improve clarity and consistency.

10. Conclusion

The proposed DTA Liquidity Standard provides an opportunity to resolve long-standing ambiguities inherited from BS13. Achieving this requires more than revised wording; it requires the **explicit articulation of underlying prudential principles**.

Clarifying how contractual maturity, depositor optionality, and behavioural assumptions are intended to operate would:

- improve interpretability;
- align outcomes with international norms;
- reduce supervisory and audit friction; and
- ensure the standard operates as intended across institutions with differing business models.

Absent this clarity, there is a material risk that the new framework will perpetuate the very uncertainties it seeks to replace.

Appendices (Evidentiary Material)

The appendices accompanying this submission provide **primary documentary evidence** supporting the principles and conclusions set out above. They are not supplementary commentary, but source material demonstrating the international lineage and established prudential basis for the positions advanced in this submission.

For ease of navigation, the appendices are structured as follows:

- **Appendix A:** Documentary evidence that prudential liquidity frameworks assess liabilities at their earliest contractual maturity (pre-Basel and early Basel sources).
 - **Appendix B:** Evidence that depositor optionality and earliest-exercisable maturity are explicitly recognised in Basel III and national implementations.
 - **Appendix C:** Evidence relevant to the interpretation and intended operation of BS13 (including contemporaneous RBNZ commentary and the implications of undefined terms).
 - **Appendix D:** Evidence and reasoning on early-withdrawable term deposits, cooling-off / grace periods, and why discretion and interest penalties are not a reliable basis for excluding optionality.
 - **Appendix E:** Implications for MMR and CFR under an earliest-exercisable maturity interpretation (including international supervisory responses to common counter-arguments).
 - **Appendix F:** Reporting and template design issues (including risks of coupling maturity breakdowns to ratio calculations without clear definitions).
 - **Appendix G:** Inferences on industry practice under BS13 (observational and incentive-based reasoning).
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Yours sincerely,

[Name redacted]

Submitted in a personal capacity.

Appendix A — Earliest contractual maturity as a foundational prudential principle

A1. Pre-LCR “maturity mismatch” frameworks (UK FSA)

An archived version of the UK FSA’s liquidity regime (“maturity mismatch approach”) remains accessible via the FCA handbook archive (IPRU-BANK Chapter LM). The regime states repeatedly that liquidity monitoring is performed on a **worst-case contractual basis**, with inflows deemed to occur at their latest contractual maturity and outflows at their earliest contractual maturity.

Representative extracts (emphasis added):

- “In the maturity ladder, inflows (assets) and outflows (liabilities) are slotted into time bands. **Maturity is determined on a worst-case view, i.e. inflows (assets) are put in at their latest maturity and outflows (liabilities) at their earliest maturity.**”
- “**Outflows (liabilities) should be included in the maturity ladder according to their earliest contractual maturity.**”
- “For supervisory monitoring, the FSA normally wishes to assess a bank’s liquidity position on a ‘worst case’ basis. Therefore, cash inflows are deemed to occur at their latest contractual maturity and cash outflows at their earliest contractual maturity.”

These statements illustrate the long-standing prudential distinction between **contractual** and **behavioural** views: the contractual view is deliberately conservative (earliest outflows / latest inflows), while behavioural adjustments may be applied separately with supervisory approval.

A2. Basel Committee: early articulation of the same principle

The “worst-case contractual” approach predates Basel III. A Basel Committee publication from 1992 discusses liquidity measurement and management concepts that are consistent with this approach. This is not presented to claim any single origin, but to illustrate that the underlying principle is long-established.

Appendix B — Basel III / national implementations: depositor optionality and earliest-exercisable maturity

B1. Basel III liquidity language (as reflected in APRA APS 210)

APRA’s APS 210 largely reproduces Basel III liquidity language and provides clear examples of how depositor optionality and earliest-exercisable maturity are treated.

Representative extracts:

- (LCR scope and optionality) “*Wholesale funding included in the LCR is defined as all funding that is callable within the LCR’s horizon of 30 days or that has its **earliest possible contractual maturity date** within this horizon ... This **must include all funding with options that are exercisable at the investor’s discretion** within the 30-day horizon.*”
- (Exclusion only where withdrawal is not possible, or penalty is truly prohibitive) “*Cash outflows related to fixed or term deposits with a residual maturity or withdrawal notice period of greater than 30 days will be excluded from LCR calculations if the depositor has no legal right to withdraw deposits within the*

30-day horizon ... or if early withdrawal results in a significant penalty that is materially greater than the loss of interest.”

B2. Explicit clarification where “contractual maturity” is open to interpretation

APRA has recognised (in consultation material) that the maturity of funding instruments with options and deposits with withdrawal notice periods can be “open to interpretation”, and proposed (consistent with internationally agreed standards) that maturity should be taken as the **earliest possible date** at which funds could be redeemed through exercise of an option or withdrawal.

This is a direct application of the principle: where contractual maturity is a range of possible dates due to optionality, prudential liquidity measurement uses the **earliest** date for outflows.

B3. Optionality and “contractual maturity date” as a range rather than a point

Where a term deposit can be broken early (with or without notice), “contractual maturity” is not a single discrete date but a set (or continuum) of exercisable dates. Prudential terminology such as “earliest possible contractual maturity date” is meaningful precisely because optionality creates a range of possible contractual maturity dates.

Appendix C — Evidence relevant to BS13 interpretation and intent

C1. Common ancestry: BS13 and the pre-LCR maturity mismatch tradition

Comparisons between BS13 and Basel III liquidity ratios often emphasise similarities in the mechanics used for deposits:

- both slot deposits by maturity bands; and
- both apply supervisory-prescribed run-off factors (behavioural adjustments) to a contractual view.

This similarity is consistent with a common lineage from earlier maturity mismatch frameworks. The key issue is not that BS13 is “different”, but that BS13 did not consistently **state** the underlying principles that give meaning to terms such as “residual contractual term”.

C2. “Residual contractual term” is undefined and invites divergent practice

BS13 used the term “residual contractual term” extensively but did not define:

- what “contractual maturity” means in the presence of depositor optionality; and
- whether “contractual” is intended to mean “earliest exercisable” (prudential contractual view) or “agreed end date” (behavioural expectation).

In international prudential usage, “contractual” is typically contrasted with “behavioural”. Under that convention:

- “contractual” maturity refers to what can be done under the contract (including exercised options);
- “behavioural” maturity refers to what is expected to happen in practice.

Absent an explicit statement of principle, BS13 has been interpreted differently across institutions, reducing comparability and, in some cases, weakening the conservatism of the ratios.

C3. Contemporaneous RBNZ commentary suggests awareness of “earliest possible” withdrawal

A contemporaneous RBNZ Bulletin article (“The Reserve Bank’s new liquidity policy for banks”, Hoskin/Nield/Richardson) includes the statement:

- *“It is assumed that all market funding is withdrawn at the earliest possible date.”*

This language is notable because it speaks to **withdrawal at the earliest possible date**, rather than mere non-rollover at the stated end date.

The closest BS13 rule-text analogue is the MMR clause referring to market funding “withdrawable at sight or with residual contractual term within one month”. If “residual contractual term” is read through the prism of a prudential contractual view, then the intended operation aligns with the earliest-exercisable maturity principle.

C4. Why “silence is not a view” matters

BS13’s silence on early-withdrawal optionality and on the contractual/behavioural distinction should not be read as an affirmative policy decision to ignore those issues. Where international frameworks explicitly articulate and justify a treatment, silence elsewhere cannot carry the same weight as a documented, reasoned position.

Appendix D — Early withdrawal, cooling-off / grace periods, and why deterrence arguments fail

D1. Early withdrawal is (typically) the exercise of contractual rights

In practice, early withdrawal of term deposits is commonly described as “breaking” a term deposit. That language can mislead: depositors are often exercising rights set out

in the deposit terms and conditions (the contract), albeit subject to notice, penalties, or discretion.

D2. Cooling-off / grace periods: demand-deposit equivalence for liquidity purposes

During a cooling-off or grace period, the depositor's withdrawal rights are typically strongest (including restrictions on refusal and limited or no interest accrual). The deposit is not operationally identical to a demand deposit (e.g., not ATM-accessible), but it exhibits the same **withdrawal characteristics** for prudential liquidity stress purposes.

APRA guidance (APG 210 ¶117) makes the consequence explicit in an LCR context:

“If an ADI issuing a 31-day notice period deposit is required to provide the depositor with a grace period (e.g. of seven calendar days) before the ADI can lock the deposit in for either a new term or notice period, those deposits that are currently in a grace period are, for LCR purposes, to be modelled on an equivalent basis to the demand deposit portfolio.”

D3. Appendix D1 — Why discretionary refusal is not a reliable basis to exclude optionality

It is sometimes argued that term deposits need not be treated as withdrawable prior to contractual end date because the deposit taker retains discretion to decline early withdrawal requests. From a prudential liquidity perspective, that discretion does not eliminate withdrawal optionality and cannot be relied upon as a conservative stress assumption.

Key points:

- Depositor behaviour under stress is driven by expectations and confidence, not legal form alone.
- Where depositors expect early withdrawal to be permitted (based on past practice, market norms, or the framing of terms and conditions), refusal can rapidly become a reputational and confidence shock.
- Selective refusals risk signalling stress and unfairness; blanket refusals are likely to be observed and interpreted as severe liquidity distress.

International standards recognise this dynamic. For example, APS 210 includes a rule designed to prevent “soft” lock-ins that are ignored in practice:

“If an ADI allows a depositor to withdraw such deposits despite a clause that says the depositor has no legal right to withdraw, the entire category of these funds must be treated as demand deposits.”

D4. Appendix D2 — Why interest penalties are unlikely to deter early withdrawal under stress

Most retail terms and conditions apply an interest penalty for early withdrawal, typically by reducing interest to zero (and rarely by reducing principal). This creates a misalignment:

- regulatory liquidity value is driven by **remaining term**;
- interest penalties are driven by **elapsed term**.

As a result, the deposits with the highest regulatory value (most remaining term) often have the lowest penalty cost to break (least elapsed time). Under stress, where principal haircut risk or loss of access is salient, choosing an interest penalty can be rational.

Basel/APRA recognise this by limiting “exclusion” from near-term outflows to cases where the penalty is truly prohibitive:

- *“...only where early withdrawal results in a significant penalty that is materially greater than the loss of interest.”*
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Appendix E — Implications for MMR and CFR under earliest-exercisable maturity

E1. Implications for the MMR

If liabilities are treated at their earliest exercisable maturity, institutions that allow early withdrawal with no notice (other than hardship) would need to model those balances inside the MMR horizon.

For LCR-constrained institutions, the introduction of 31/32-day notice periods (to avoid 30-day LCR outflows) would generally also move earliest exercisable maturity outside a one-month window, though cooling-off / grace-period balances remain an exception and should be treated as demand-equivalent during that period.

E2. Implications for the CFR

Contractual maturity interpretation should be applied consistently between short-horizon (MMR) and structural (CFR) metrics. Treating liabilities that can be withdrawn in ~31/32 days as “> 1 year stable” is difficult to reconcile with the spirit of a one-year stability metric.

APRA faced similar pushback under the NSFR (structural funding) and responded that treating notice deposits at their earliest withdrawal date is consistent with internationally agreed standards and reflects practical operation:

- term deposits are modelled at the notice period because a depositor is contractually able to withdraw at that date; and
 - behavioural stability is recognised through calibrated factors, not by giving a “double benefit”.
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Appendix F — Reporting and template design issues

The design of reporting templates can inadvertently hard-code an interpretation of maturity, particularly where maturity breakdown tabs feed directly into ratio calculations.

A key risk is coupling:

- residual maturity reporting (which many would populate using “expected” end dates absent instruction), with
- regulatory ratio mechanics (which, under prudential contractual views, should reflect earliest exercisable maturity).

APRA mitigates comparable issues by providing explicit guidance on how maturity is to be interpreted for “contractual maturity mismatch” returns, and by decoupling these reporting views from LCR/NSFR calculations.

Appendix G — Inferences on BS13 practice (observational / incentives)

While public disclosures do not always provide sufficient granularity to confirm how each institution has populated BS13 templates, incentive-based reasoning can be informative:

- If BS13 had been interpreted to require breakable term deposits to be treated as demand-equivalent, non-LCR institutions would have faced strong economic incentives to introduce notice periods or materially reprice term deposits.
- The absence of widespread notice-period adoption outside LCR-constrained banks, and the absence of product redesign or repricing consistent with a materially higher regulatory liquidity cost attributable to exercisable optionality, suggests that BS13 has not been applied consistently with an earliest-exercisable maturity interpretation across the market.

These observations reinforce the need for explicit principles to improve comparability, conservatism, and interpretability across institutions.