Draft guideline

Title	Internal Liquidity Adequacy Assessment Process (ILAAP) for Deposit-Taking Institutions – Guideline (2027)
Category	Liquidity Adequacy Requirements
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Sector	Banks Trust and Loan Companies

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> ## Consultation status: Open
>
> Please provide your feedback to Consultations@osfi-bsif.gc.ca by August 19, 2026.

1) Statement of regulatory principles

1. The Liquidity Adequacy Requirements (LAR) guideline specifies regulatory minimums to ensure an institution has adequate stocks of unencumbered high-quality liquid assets (HQLA) and a sustainable funding structure. These regulatory minimums are streamlined and calibrated to apply to all deposit-taking institutions. An institution should not rely only on compliance with LAR regulatory minimums when assessing liquidity adequacy. Rather, the institution should also conduct an Internal Liquidity Adequacy Assessment Process (ILAAP).
2. As a member of the Basel Committee on Banking Supervision (BCBS), we establish minimum standards for liquidity adequacy in line with international peers. We call the metrics used for these minimum standards

Pillar 1 and rely upon them to ensure a level playing field, on which institutions can compete. However, Pillar 1 minimums do not replace the need for effective risk management and supervision, especially considering risks that are not fully captured in their design. We call the assessment and supervisory review of an institution's liquidity risk management Pillar 2.

3. A thorough and comprehensive ILAAP is important for an effective liquidity risk management program. The ILAAP should establish an internal, forward-looking process to assess liquidity adequacy under normal and stressed conditions, inform risk appetite, and guide contingency actions. It should establish a resilient funding structure and minimum level of liquid assets to support ongoing operations and planned growth, even during stress.
4. Each institution is responsible for developing and implementing its own ILAAP for the purpose of setting internal liquidity targets and developing strategies for achieving those internal targets that are consistent with its business plans, risk profile and operating environment. We do not approve institutions' ILAAPs, however we review them to assess institutions' liquidity adequacy and risk management.

2) Scope of the ILAAP and proportionality

5. The ILAAP applies to the consolidated operations of all federally regulated deposit-taking institutions in Canada.
6. The ILAAP coverage of Pillar 2 risks should be proportional to the size, complexity, and risk profile of the institution. Some Pillar 2 risks outlined in section 4 of this guideline may not be applicable to all institutions. Some specific considerations are included in the guideline for systemically important banks (SIBs) or for small and medium-sized banks (SMSBs). However, we expect institutions to consider all Pillar 2 risks relevant to their business and risk profile.
7. The ILAAP should consider alignment with all relevant OSFI guidance. In particular, institutions should consider expectations set out in Guideline B6 – Liquidity Principles.

3) Foundational elements of an institution's ILAAP

3.1 Governance and responsibilities

8. Senior management is responsible for overseeing the design and implementation of the institution's ILAAP. They should understand the nature and level of risk taken by the institution and how this risk relates to adequate levels of liquidity. Senior management should also ensure that the formality and sophistication of the risk management processes are appropriate for the risk profile and business plan of the institution.
9. As part of the strategic planning process, an institution should perform an analysis of its current and future liquidity requirements in relation to its strategic objectives. The strategic plan should clearly describe the institution's liquidity needs in relation to, among other things, anticipated funding needs, the Risk Appetite Framework[1] and access to central bank facilities.

3.2 Risk identification and materiality assessment

10. The ILAAP should address all material risks faced by the institution as they relate to the adequacy of liquidity. This includes risks already captured in minimum regulatory liquidity requirements (Pillar 1 risks) as well as risks that are not fully captured under minimum regulatory liquidity requirements (Pillar 2 risks). The techniques used in assessing risks should be commensurate with the scope and complexity of the institution's risk-taking activities.
11. Institutions should identify all material liquidity and funding risks from a firm-wide perspective. The institution should assess these risks across various dimensions, including products, entities, and currencies. Assessments should reference intraday liquidity exposures, access to secured and unsecured markets, and market access channels.
12. The determination of material risks should be guided by both qualitative and quantitative indicators. These may include assessments of transaction flows, market depth, and operational capabilities. Institutions should document the judgment applied in assessing materiality, along with supporting evidence. This documentation should be consistent with the Internal Capital Adequacy Assessment Process (ICAAP) and the institution's comprehensive approach to risk evaluation.

13. Institutions should assess liquidity risks arising from deposit partnerships, such as those which source retail deposits through a non-bank financial intermediary (NBFI) partner. Assessments should include risks linked to the financial condition and creditworthiness of the NBFI partner. Where funding is concentrated in one or more NBFI, deterioration in the NBFI's credit profile may lead to rapid and correlated deposit withdrawals, creating liquidity stress not fully captured by Pillar 1 assumptions.

3.3 Measurement, limits and early-warning indicators

14. Institutions should establish a comprehensive set of metrics in their ILAAP to measure liquidity adequacy, combining regulatory measures such as the Liquidity Coverage Ratio (LCR), the Net Stable Funding Ratio (NSFR), and the Net Cumulative Cash Flow (NCCF) with internal indicators that reflect firm-specific risks. Institutions should ensure that these measures capture liquidity mismatches and the potential encumbrance of collateral across all relevant time horizons, entities, and currencies. The metrics should be consistent with the outputs of internal stress testing and linked to the institution's risk appetite.
15. We expect institutions to set internal limits aligned with their liquidity risk appetite. These limits may include, for example, maximum tolerated currency mismatches, intragroup funding exposures, or single-counterparty concentrations. Institutions should clearly define breach protocols with escalation paths that ensure timely management action and Board oversight where necessary.
16. Institutions should integrate early-warning indicators (EWIs) into the ILAAP to provide advance notice of emerging risks. Examples include changes in funding spreads, shifts in market access conditions, or unusual deposit flows. The ILAAP should articulate how the institution monitors EWIs and calibrates thresholds, and how signals trigger management review and potential pre-emptive action. The institution's EWIs should be appropriately sensitive to market conditions while avoiding excessive false alarms.

3.4 Internal liquidity stress testing

17. Internal liquidity stress testing (ILST) is central to the ILAAP and provides the analytical foundation for assessing liquidity adequacy under stress. Institutions should design stress scenarios that capture severe but plausible shocks across firm-specific, market-wide, and combined dimensions. Institutions should apply these scenarios across multiple horizons, including acute, medium-term, and protracted stress periods. Institutions

should explicitly consider management actions, central bank facilities, and operational constraints when assessing survival under stress.

18. Assumptions play a critical role in ILST design. Institutions should provide evidence-based estimates for deposit run-offs, secured funding rollover, collateral monetization, and market capacity. Institutions should test these assumptions for sensitivity and, where appropriate, challenge them through reverse stress testing to identify scenarios that would threaten viability.
19. The use of ILST extends beyond compliance; it should directly inform the institution's risk appetite, contingency funding plans, and liquidity buffer calibration. An institution's ILST results should feed into decision-making processes, such as setting limits, defining escalation triggers, and planning remediation. This use test is critical to ensuring that ILST is not a theoretical exercise but an operational tool that supports the resilience of liquidity management.
20. Institutions should incorporate counterparty specific stress scenarios in their internal liquidity stress testing, in which significant funding providers experience financial distress or default. Institutions should consider both direct funding sources, where the counterparty is the depositor, and indirect funding sources, where the counterparty is acting as an intermediary for underlying clients. These scenarios should reflect heightened and correlated deposit outflows, potential disruption to transaction activity, and increased intraday liquidity needs where applicable. Institutions should risk rate significant counterparties, especially those which provide, or intermediate, retail and other more stable sources of funding. Where reliance on lower rated, highly concentrated, or operationally critical counterparties gives rise to residual liquidity risk that is not adequately mitigated, institutions should consider more conservative assumptions and, where appropriate, incremental Pillar 2 liquidity buffers or limits relative to Pillar 1 minimums (for example, LCR, NSFR, NCCF) and the institution's internal liquidity targets.

3.5 Contingency funding plan and playbooks

21. As part of their ILAAP, and in line with Guideline B-6 – Liquidity Principles, institutions should maintain a robust and operationally credible contingency funding plan (CFP) that outlines the strategies, tools, and governance arrangements available to address liquidity stress events. The CFP should fully align with the institution's ILST framework, with clearly defined escalation triggers, documented decision-making authority,

and actionable contingency options. We expect institutions to integrate the CFP into day-to-day liquidity risk management and it should be a core component of an institution's broader liquidity adequacy framework.

22. Institutions should structure the CFP around graduated action ladders tied to objective ILST-based triggers. These action ladders should articulate a sequenced hierarchy of potential liquidity actions, ranging from early-stage measures (for example, increased monitoring, balance sheet optimization) to more severe interventions (for example, secured and unsecured funding mobilization, asset monetization, deposit stabilization measures, and activation of collateral mobility strategies). The CFP should provide a clear rationale for the ordering of actions, ensuring that management understands the trade-offs associated with each step and the circumstances under which the institution would activate different measures.
23. Institutions should ensure the operational feasibility of their contingency actions. This includes documenting required governance approvals, execution timelines, supporting legal documentation, collateral transfer mechanics, market capacity assumptions, and custodial or settlement arrangements. Institutions should be able to evidence their operational readiness through testing or dry-run exercises and should articulate how frequently they review and update these capabilities. Institutions should include testing requirements for CFP, recovery and resolution related actions, pledging, and intraday liquidity access within their ILAAP. Supervisory assessments will focus on whether the CFP is executable within the timeframes assumed in the ILST and whether management can ensure a consistent cadence of monitoring, escalation, and decision-making during periods of stress.
24. Institutions should calibrate the CFP to the nature, scale, and complexity of the institution's operations. We expect larger or more complex institutions, particularly those with significant reliance on wholesale funding or cross-border liquidity, to have a wider range of executable contingency options, including the ability to mobilize collateral across jurisdictions and legal entities. Smaller or less complex SMSBs may maintain more simplified CFPs, provided the CFP remains credible, operational, and proportionate to the risks identified in the institution's ILAAP. Regardless of size, institutions should ensure that CFPs remain aligned with their risk appetite, ILST outputs, and internal liquidity targets.
25. Institutions are required to notify OSFI upon the initialization or de-escalation of a CFP. Institutions should also summarize such usage of their CFP in their ILAAPs.

3.6 Alignment with recovery and resolution planning

26. Institutions should ensure that the ILAAP is aligned with, but not duplicative of, their Recovery and Resolution Planning (RRP). While both frameworks aim to strengthen an institution's resilience, they serve distinct purposes: the ILAAP focuses on ongoing and forward-looking liquidity adequacy under normal and stressed operating conditions, whereas the RRP focuses on the institution's ability to recover from severe stress and support orderly resolution. Institutions should therefore maintain clear delineation between the two frameworks while ensuring consistency of assumptions, data, and analytical foundations.
27. The ILAAP should remain the primary repository for liquidity risk assessments, ILST results, and liquidity buffer calibration. Institutions should not recreate these elements separately for RRP purposes. Instead, the RRP should reference the ILAAP's liquidity analyses where appropriate, while concentrating on recovery strategy design, resolution execution capabilities, and operational readiness for resolution actions. Institutions should ensure that information flows between the two frameworks are efficient and minimize the duplication of documentation, processes, or assumptions.
28. Institutions should identify areas where ILAAP and RRP intersect, such as pledging strategies, collateral mobility, intragroup funding arrangements, and access to central bank or market-based funding, and ensure that assumptions are consistent across both frameworks. Where differences arise due to the distinct objectives of each framework, institutions should provide clear justification. Supervisory reviews will focus on whether institutions can evidence a coherent and integrated approach across ILAAP and RRP, with streamlined documentation, aligned stress scenarios, and a clear articulation of recovery and resolution playbooks.

3.7 Data, models, validation, and controls

29. High-quality data and robust modelling are essential for credible liquidity risk assessment. The ILAAP should document the data sources, aggregation processes, and reconciliation methods used to support liquidity measurement and stress testing. We expect institutions to ensure that liquidity data is timely, accurate, and granular enough to support decision-making. Institutions should be able to demonstrate reconciliation to regulatory returns, such as the LAR.

30. Institutions should establish strong model governance frameworks for ILST and other liquidity risk models, in line with Guideline E-23 – Model Risk Management. This includes independent validation of methodologies, behavioral assumptions, and monetization rates. Institutions should perform back-testing where feasible and use results to refine assumptions and methodologies. Institutions should also employ analysis to provide independent perspectives on the reasonableness of modelling approaches.
31. The ILAAP should describe the internal control processes that ensure accuracy and reliability of liquidity risk assessments. This includes second line of defense review of methodologies and outputs, third line assurance over the integrity of data and processes, and management attestations regarding the adequacy of controls. Supervisory reviews will evaluate the strength of these control frameworks, with particular focus on how institutions ensure independence and rigor in their validation processes.

3.8 Reporting and documentation

32. Institutions should document their ILAAP in a comprehensive and structured manner that allows both internal stakeholders and supervisors to assess its robustness. We expect institutions to prepare an annual ILAAP package that combines a high-level narrative with technical annexes. The package should cover governance and attestations, risk appetite, risk identification, ILST design and results, Pillar 2 themes, contingency funding and playbooks, data and model validation, and remediation plans.
33. The reporting (content and frequency) should be proportional to the institution's size, complexity, and risk profile. The ILAAP should include, at minimum, the core sections outlined in the Appendix of this guideline to facilitate comparability across institutions. Where appropriate, institutions may provide firm-specific analysis and cross-references to existing documents such as the RRP or LAR returns. Institutions should avoid duplicating content unnecessarily and may reference material from other regulatory submissions, provided they integrate references into the overall ILAAP narrative.
34. We expect the ILAAP documentation to be clear, concise, and capable of withstanding independent scrutiny. Institutions should treat the ILAAP not as a compliance document but as a living framework and regularly update it to reflect evolving risks, market conditions, and regulatory expectations. The quality of the ILAAP reporting will be a key consideration in supervisory assessments of liquidity risk management.

4) Comprehensive assessment of Pillar 2 liquidity risks

35. Assessment of risks not fully captured by the LAR Guideline (Pillar 1) requirements is an important element of Pillar 2. ILAAP offers institutions a mechanism to provide their own assessment of these risks and corresponding risk management capabilities to demonstrate overall liquidity adequacy. In this section we highlight prominent Pillar 2 liquidity risks for institutions to incorporate in their ILAAP.

4.1 Product-level liquidity risk

36. The ILAAP should include the institution's own assessment of liquidity risk, at the product level. Specific products may exhibit distinct liquidity risk profiles under stress, and the institution's own assessment of product-level liquidity risk may differ from the Pillar 1 treatment. Institutions should map products to relevant liquidity risk categories such as funding instruments, commitments, derivative exposures, liquid assets, and illiquid assets. In assessing these products, institutions should consider characteristics such as deposit run-off, wholesale funding replacement, commitment drawdown, collateral requirements, and asset liquidity haircuts. Institutions should also consider reliance on third parties and potential counterparty risk. This assessment should draw on both qualitative and quantitative analysis, supported by historical data and scenario-based assumptions.
37. We expect institutions to maintain an inventory of key liquidity assumptions at the product level, including client behaviour characteristics, contractual terms, and market dynamics.
38. Institutions should include robust liquidity risk assessment in their new product approval process to ensure they identify and mitigate potential exposures before launching the product. Institutions should document this governance process within the ILAAP, inclusive of responsibilities for independent risk management.
39. Dynamic, real-time modelling of product-level liquidity is operationally complex. Accordingly, we expect institutions to adopt a pragmatic and risk-based approach. Institutions should identify the material product-level risks, embedded liquidity considerations into their governance and product-approval processes and maintain a clear inventory of assumptions that the institution can test, validate and update over time.

4.2 Franchise viability risk

40. Franchise viability risk arises when actions taken to preserve liquidity under stress impair an institution's reputation, undermine client confidence, or restrict its access to funding markets.
41. As part of their ILAAP, institutions should include a forward-looking analysis of how liquidity management strategies could affect franchise value and market access. This analysis should consider both qualitative factors, such as reputational sensitivity to liquidity actions, and quantitative indicators, including changes in funding spreads or client deposit behaviour under stress.
42. Institutions should embed franchise viability considerations in their product-level liquidity risk assessment, ILST, and contingency funding plans. For example, the ILAAP should articulate how management will prioritize liquidity actions across business lines, balancing the need to preserve liquidity with the importance of maintaining client relationships and long-term franchise value. This analysis should acknowledge that some liquidity actions, although effective in the short term, may generate longer-term costs to market access or client confidence.
43. We recognize that franchise viability is inherently more judgment-based than other elements of liquidity risk assessment. Nonetheless, we expect institutions to adopt a structured and evidence-based approach to documenting their assumptions, supported by past stress events, market data, and client behaviour analysis. The ILAAP should consider how franchise risks are identified, evaluated, and integrated into decision-making, with explicit links to the institution's risk appetite.

4.3 Short-term liquidity adequacy (acute horizon)

44. Short-term liquidity risk adequacy, over an acute horizon (for example, 5 days), considers liquidity risks and mitigants over a shorter time horizon than Pillar 1 measures consider. Stressed short-term liquidity metrics aim to estimate the liquidity an institution requires to operate effectively during periods of very severe stress lasting only a few days, rather than a full month, or longer. Institutions should tailor short-term liquidity adequacy assessments to reflect their own assessment of product-level liquidity risks and their own approach to monetize liquid assets.

45. As part of their ILAAP, institutions should incorporate an acute stress horizon into their internal liquidity stress testing framework, recognizing that the appropriate timeframe may vary across institutions. Institutions should explicitly justify their chosen acute horizon, supported by evidence relating to funding structures, market depth, and the feasibility of monetizing assets or executing contingency actions over the period.
46. In their analysis of short-term liquidity adequacy institutions should consider both contractual and behavioural cash flows, including deposit withdrawals, wholesale funding maturities, and potential collateral calls. Institutions should also ensure monetization strategies are operational feasibility within the acute horizon. They should consider potential short-term impediments such as settlement cycles, custody processes, and market capacity. Where actions rely on access to central bank facilities, institutions should document these assumptions transparently and ensure that credible alternatives exist should such facilities be unavailable.
47. Institutions should focus on assumptions, the robustness of their stress testing frameworks, and the realism of their contingency funding plans. Institutions should integrate acute horizon assessments into their broader ILST framework to ensure that they evaluate short-term risks as well as medium- and long-term vulnerabilities.

4.4 Intraday liquidity risk

48. Intraday liquidity risk is the risk that an institution fails to manage its intraday liquidity effectively, which could leave it unable to meet a payment obligation at the time expected, thereby affecting its own liquidity position and that of other parties.
49. Intraday liquidity risk arises from activities such as direct participation in large value payment systems, correspondent banking, securities settlement, foreign exchange settlement, and interactions with central counterparties. This risk is primarily applicable to institutions that act as direct clearers in payment systems or otherwise generate material intraday payment and settlement obligations. SMSBs that do not participate as direct clearers and do not engage in activities that give rise to material intraday liquidity exposures may perform a high level assessment of intraday liquidity risk. Such an assessment should consider the potential loss or reduction of intraday credit and the institution's ability to pre fund payment obligations where

required.

50. The ILAAP should assess the sources and uses of intraday liquidity, and the adequacy of applicable risk mitigants. The ILAAP should ensure residual risk is within a defined intraday liquidity risk appetite.

51. From a risk management perspective, institutions should consider the impacts to:

    - Balance sheet resilience risk: where the use of liquid assets for intraday needs may limit their effectiveness in countering a broader run on liabilities or liquidity stress, and
    - Payment and settlement risk: where prolonged balance sheet stress could deplete liquid asset buffers, disrupting critical payment and settlement operations.

52. As part of their ILAAP, institutions should quantify and assess their intraday liquidity uses in normal and stressed conditions. This includes monitoring actual peak intraday liquidity requirements on a daily basis as well as potential peak requirements under a number of severe but plausible scenarios. Institutions should consider their unique activities and operational constraints, including the timing of payment obligations, client flows, securities settlement and collateral requirements.

53. Institutions should also quantify their available sources of intraday liquidity in normal and stressed conditions. This includes monitoring available liquid assets and available credit facilities at the beginning of each day. When determining available liquid assets institutions should apply conservative haircuts to reflect their potential value in stressed conditions. Similarly, the availability of intraday credit should be reflective of the contractual commitment of the counterparty and the tested ability of the institution to access the facility.

54. Institutions should monitor and quantify intraday liquidity uses and sources of liquidity on a granular level commensurate with the scope and complexity of their activities. Institutions should not assume sources of intraday liquidity are fungible between business units, currencies or accounts unless they have tested the ability to move funds between them on an instantaneous basis. Institutions are encouraged to utilize the tools detailed in chapter 7 of the LAR Guideline to monitor their intraday liquidity requirements and inform their assessment of intraday liquidity in the ILAAP. Intraday liquidity reporting requirements for direct participants in Lynx are also detailed in chapter 7 of the LAR Guideline.

55. Intraday liquidity stress testing should be consistent and aligned with broader capital and liquidity stress testing, contingency funding plans, and recovery and resolution planning. For example, stress testing should

not assume that liquid assets are available for intraday payment needs as well as to meet deposit outflows in stress.

56. Institutions should include intraday stress testing results along with the key assumptions that drive the results. These assumptions include:

    1. External actions by market participants, counterparties and central bank intervention. Assumptions around the actions of external parties should be reasonable and consistent with historical experience.
    2. Internal management actions outside the course of normal daily processes and procedures. Assumed management actions should be realistic given the institution's operational constraints and consistent with obligations to contribute to the smooth functioning of payment and settlement systems.

57. As part of the ILAAP, institutions should establish appropriate internal intraday liquidity buffers and/or exposure limits. Buffers and limits should quantify the minimum total amount of available intraday liquidity sources each morning and where necessary, constrain or delay intraday liquidity outflows. Monitoring and stress testing should inform buffers and limits, which should be consistent with the institution's overall liquidity risk appetite. Institutions should consider "double duty" risk and the impacts of excluding liquid assets required to meet intraday liquidity buffers from available liquid assets when calculating the institution's liquidity coverage ratio or net cumulative cash flow.
58. The granularity of the intraday liquidity buffers and limits should also be consistent with the scope and complexity of the institution's activities.

4.5 Foreign currency liquidity risk

59. Foreign currency liquidity risk arises whenever an institution needs to meet obligations in one currency, using cash or liquid assets in a different currency. Liquidity is not always fungible across currencies, particularly during stress.
60. Foreign currency liquidity risk is mostly applicable to SIBs and institutions with material international activity. Some SMSBs may not need to assess foreign currency liquidity risk as part of ILAAP or may only need to assess it at a high level.

61. As part of their ILAAP, institutions should conduct a currency-by-currency assessment of cash flow mismatches, funding dependencies, and survival horizons. This assessment should identify material foreign-currency exposures, the extent of reliance on foreign currency exchange (FX) swaps or cross-currency funding markets, and the potential for settlement frictions to emerge. We expect institutions to explicitly document the assumptions underlying their analyses, including expectations regarding the access and use of central bank facilities. Institutions should not assume that such support would be available in all scenarios.
62. Institutions should also integrate foreign currency liquidity considerations into their ILST. This includes modelling run-off assumptions for foreign-currency deposits, funding rollover in offshore markets, and the liquidity impact of collateral requirements stemming from cross-currency swaps or foreign-exchange derivatives. The ILAAP should further capture the timing mismatches and settlement frictions that may arise from payment and settlement processes, particularly where institutions rely on intraday credit or arrangements such as the Continuous Linked Settlement (CLS) system.
63. To avoid duplication and ensure efficiency, we expect that foreign currency liquidity assessments conducted as part of the ILAAP will be consistent with, and not duplicative of, analyses performed for the RRP. Institutions may use cross-referencing when they have already documented currency-specific funding strategies and stress scenarios in their RRPs provided the material is incorporated in a way that clearly informs the overall liquidity adequacy assessment. Institutions should also ensure consistency of assumptions across frameworks, with clear justification where divergences arise due to the distinct objectives of the ILAAP and the RRP.

4.6 Solo and intragroup liquidity risk

64. Intragroup liquidity risk refers to the potential for liquidity resources within a consolidated group to become non-transferable across legal entities due to regulatory, legal, or operational constraints.
65. Solo and intragroup liquidity risk is mostly applicable to SIBs and institutions with material international activity. Some SMSBs may not need to assess solo and intragroup liquidity risk as part of ILAAP or may only need to assess it at a high level.
66. As part of their ILAAP, institutions should assess the transferability and fungibility of liquidity within the group, with explicit consideration of ring-fencing practices, local regulatory requirements, and the potential

for trapped liquidity. We expect institutions to monitor and manage liquidity risks across their entity structures and maintain sufficient standalone liquidity and liquidity management capabilities for material subsidiaries and branches.

67. Institutions should leverage internal liquidity stress testing to identify and measure the potential for intragroup frictions under stress. For example, institutions should model scenarios in which host regulators impose restrictions on liquidity transfers or in which market or counterparty perceptions of risk inhibit the ability to mobilize funds across entities. We expect institutions to support their assumptions regarding the feasibility of intra-group liquidity transfer with evidence-based analysis, including past experience, market practices, and regulatory precedent. Where credible evidence is lacking, institutions should apply conservative assumptions.
68. Institutions' intragroup liquidity assessments should not rely mechanically on solvency indicators such as solo Total Loss Absorbing Capacity (TLAC), as these metrics do not appropriately capture the liquidity transferability of an entity. While capital frameworks provide insights into loss-absorbing capacity, they do not reflect the short-term dynamics or operational realities of liquidity movement within groups. Instead, the ILAAP should identify the sources and uses of liquidity across entities and any impediments to intra-group transfer and demonstrate that material entities can sustain operations under stress without undue reliance on parental support.

4.7 Pledging risk and adequacy of unencumbered assets

69. Pledging risk arises when an institution needs collateral that is not readily available. As part of their ILAAP, institutions should consider all potential collateral needs and assess what unencumbered assets are eligible as collateral and available to pledge. Collateral eligibility will vary by use case, so assessment should consider which activities require cash or HQLA, and which may include less liquid assets such as mortgages.
70. The ILAAP should also include a breakdown of assets currently pledged, where they are pledged, and for what purpose. The ILAAP should identify assets by quality, class, counterparty, legal entity, physical location, central bank eligibility, and operational readiness. It should also incorporate any wrong-way and re-use constraints.

71. Institutions should integrate pledging risk considerations into their product-level liquidity risk assessment and ILST. This includes modelling the liquidity value (after applying a haircut) of all unencumbered assets, with an assessment of where they could be pledged under various stress scenarios involving contingent collateral needs. Institutions should explicitly document any assumptions that underpin their analyses, including the expected availability and use of central bank facilities while recognizing that such support cannot be assumed in all scenarios. Institutions should also consider any contractual obligations, which may require additional pledged collateral.
72. To avoid duplication and ensure efficiency, we expect that pledging risk assessments conducted as part of the ILAAP should be consistent with, and not duplicative of, analyses performed for the RRP. Where institutions have already documented pledging strategies and stress scenarios in their RRPs, they may cross-reference this material, provided it is integrated into the ILAAP in a way that clearly informs the overall liquidity adequacy assessment. Institutions should also ensure consistency of assumptions across different frameworks, while providing clear justifications where divergences arise due to the distinct objectives of the ILAAP and the RRP.

5) Interaction of ILAAP with supervisory review

5.1 Assessment criteria for ILAAP

73. We review liquidity adequacy at two levels. An institution must have sufficient liquidity to meet its Pillar 1 regulatory requirements as detailed in the LAR guideline, as well as sufficient liquidity to support its unique risk profile, as considered in the institution's ILAAP.

74. Our review of an institution's ILAAP will consider the following:

    - Scope: the extent to which the ILAAP addresses the liquidity risks not adequately covered in the Pillar 1 regulatory requirements as well as the full range of the institution's activities and exposures.
    - Depth: whether the level of quantitative and qualitative analysis and documentation of the ILAAP is commensurate with the size, complexity, and liquidity risk profile of the institution and its systemic importance.

- Conservatism: the extent to which the assumptions in stress testing and the calibration of buffers or limits underpinning the ILAAP reflect a prudent view of severe but plausible liquidity stress scenarios the institution could face.
- Consistency: the extent to which the analysis, stress testing and assumptions underpinning the ILAAP are consistent with the institution's liquidity CFP, RRP, and capital plans.
- Alignment: the extent to which the institution aligns its ILAAP and any resulting buffers or limits with its liquidity risk appetite.
- Application: the extent to which the ILAAP is used to inform the institution's liquidity risk management framework, strategic planning and its integration into the management of all relevant activities. We expect the ILAAP to be an important part of the institution's overall management of risk.

75. We do not approve an institution's ILAAP, however we will raise any issues or concerns with an institution through our regular supervisory process when our review indicates that an institution's ILAAP does not meet our expectations.

5.2 Buffer calibration and intervention

76. Regulatory minimums in the LAR guideline establish a clear, consistent floor for each institution when developing its risk appetite and calibrating its liquidity buffer. The ILAAP should identify any additional liquidity needs following the institution's review of risk profile, stress testing outcomes, governance framework, and contingency preparedness. The ILAAP should not trigger automatic imposition of additive requirements for individual risks. Liquidity adequacy should be evaluated holistically, considering interactions between multiple risks, the credibility of management actions, and the resilience of operational capabilities.
77. We may, where warranted, establish institution-specific expectations for the maintenance of additional liquidity resources or enhancements to governance, controls, and reporting. Such expectations may take the form of qualitative measures, including remediation milestones, enhancements to internal limits, or strengthened stress testing methodologies. In circumstances where weaknesses are material and persistent, we may require the maintenance of explicit Pillar 2 liquidity buffers.
78. We will consider early intervention measures when an institution repeatedly breaches internal limits or EWIs, when internal liquidity stress testing results lack credibility or operational feasibility, or when CFPs and

playbooks are insufficiently robust. In these situations, we will prioritize supervisory expectations that strengthen risk management and governance capabilities.

Appendix 1 – Proposed structure and content of ILAAP submission

Heading	Summary Details
1. Executive Summary	Institutions should provide the summarized conclusions of their ILAAP, including: • confirmation that the institution has identified, assessed, and quantified its material liquidity risks • confirmation that liquidity risk is managed within the board-approved risk appetite • a brief description of the review, challenge, and approval process of the ILAAP Institutions should confirm their ongoing compliance with LAR guideline minimums and any other established supervisory expectations. Institutions should include their assessment of any additional liquidity buffers they need to hold to account for risks not captured in Pillar 1. Institutions should highlight any deficiencies identified in their ILAAP and remedial actions (if relevant).
2. Overview	Institutions should provide a brief description of the most material liquidity risks they face due to their business model, products, and activities. Institutions should describe any internal and external changes that impact liquidity risk or liquidity risk management since the last ILAAP submission. Institutions should discuss the comprehensiveness and proportionality of their ILAAP. Institutions may also address proportionality under the relevant headings below where this fits better.
3. ILAAP foundation	
3.1 Governance and responsibilities	Refer to section 3.1 of the guideline.
3.2 Risk identification and materiality assessment	Refer to section 3.2 of the guideline.
3.3 Measurement, limits, and early-warning indicators	Refer to section 3.3 of the guideline.

Heading	Summary Details
3.4 Internal Liquidity Stress Testing (ILST)	Refer to section 3.4 of the guideline.
3.5 Contingency Funding Plan (CFP) and playbooks	Refer to section 3.5 of the guideline.
3.6 Alignment with Recovery and Resolution Planning (RRP)	Refer to section 3.6 of the guideline.
3.7 Data, models, validation, and controls	Refer to section 3.7 of the guideline.
4. Comprehensive assessment of Pillar 2 liquidity risks	
4.1 Assessment of product-level liquidity risk	Refer to section 4.1 of the guideline.
4.2 Franchise viability risk	Refer to section 4.2 of the guideline.
4.3 Short-term (5 day) liquidity risk	Refer to section 4.3 of the guideline.
4.4 Intraday liquidity risk (Mostly applicable to SIBs and large-value payment system members)	Refer to section 4.4 of the guideline.
4.5 Foreign currency liquidity risk (Applicable to SIBs and SMSBs with material international activity)	Refer to section 4.5 of the guideline.
4.6 Solo and intragroup liquidity risk (Applicable to SIBs and SMSBs with material international activity)	Refer to section 4.6 of the guideline.
4.7 Pledging risk and adequacy of unencumbered assets	Refer to section 4.7 of the guideline.
4.8 Other Pillar 2 liquidity risks (optional)	In this section, institutions may describe and assess any other Pillar 2 liquidity risks not covered in the above sections.

Appendix 2 – Phased implementation schedule

Year 1 Assessing fiscal 2027, due within 90 days of fiscal year-end	Establish ILAAP foundation with assessment of ILAAP foundation elements described in Section 3.
Year 2 Assessing fiscal 2028, due within 90 days of fiscal year-end	Expand upon ILAAP foundation, adding assessment of priority Pillar 2 liquidity risks. We will consider supervisory needs and consultation feedback when deciding which of the risks (described in Section 4) to prioritize. Once selected, priority risks will apply to all institutions.
Year 3 Assessing fiscal 2029, due within 90 days of fiscal year-end	Add the remaining Pillar 2 liquidity risks to the ILAAP submission.

Footnotes

1 Refer to our Corporate Governance guideline for additional guidance in this area.