Basel Committee on Banking Supervision

Liquidity coverage ratio disclosure standards

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Introduction

1. The fundamental role of banks in financial intermediation makes them inherently vulnerable to liquidity risk, of both an institution-specific and a market nature. Financial market developments have increased the complexity of liquidity risk and its management. During the early "liquidity phase" of the financial crisis that began in 2007, many banks – despite meeting existing capital requirements then in effect – experienced difficulties because they did not manage their liquidity in a prudent manner. The difficulties experienced by some banks, which, in some cases, created significant contagion effects to the broader financial system, were due to lapses in basic principles of liquidity risk measurement and management.

2. In response, in 2008 the Basel Committee on Banking Supervision published *Principles for sound liquidity risk management and supervision* (the "Sound Principles"), which provide detailed guidance on the risk management and supervision of funding liquidity risk.[1] The Committee has further strengthened its liquidity framework by developing two *minimum* standards for funding and liquidity. These standards aim to achieve two separate but complementary objectives. The first objective is to promote short-term resilience of a bank's liquidity risk profile by ensuring that it has sufficient high-quality liquid assets (HQLA) to survive a significant stress scenario lasting for 30 days. To this end, the Committee published *Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools*.[2] The second objective is to reduce funding risk over a longer time horizon by requiring banks to fund their activities with sufficiently stable sources of funding in order to mitigate the risk of future funding stress. To achieve this objective, the Committee published *Basel III: The Net Stable Funding Ratio*.[3] These standards are an essential component of the set of reforms introduced by Basel III and together will increase banks' resilience to liquidity shocks, promote a more stable funding profile and enhance overall liquidity risk management.

3. This disclosure framework is focused on disclosure requirements for the Liquidity Coverage Ratio (LCR). These requirements will improve the transparency of regulatory liquidity requirements, reinforce the Sound Principles, enhance market discipline, and reduce uncertainty in the markets as the LCR is implemented. Disclosure requirements for the Net Stable Funding Ratio (NSFR) will be determined after the standard is finalised.

4. The LCR will be introduced on 1 January 2015, with a minimum requirement set at 60%. The minimum requirement will rise in equal annual steps to reach 100% on 1 January 2019. Countries that are receiving financial support for macroeconomic and structural reform purposes may choose a different implementation schedule (including for these disclosure requirements) for their national banking systems, consistent with the design of their broader economic restructuring programme.

5. The Committee is of the view that usability of the accumulated stock of HQLA is important. Therefore, during periods of stress it would be entirely appropriate for banks to use their stock of HQLA, thereby falling below the minimum requirement, as maintaining the LCR at 100% under such circumstances could produce undue negative effects on the bank and other market participants.

[1] See www.bis.org/publ/bcbs144.pdf.

[2] See www.bis.org/publ/bcbs238.htm.

[3] See www.bis.org/publ/bcbs271.htm

Supervisors will subsequently assess this situation and adjust their response flexibly according to the circumstances.

6. It is important that banks adopt a common public disclosure framework to help market participants consistently assess banks' liquidity risk position. To promote consistency and ease of use of disclosures related to the LCR and enhance market discipline, the Committee has agreed that internationally active banks across member jurisdictions will be required to publish their LCR according to a common template. There are, however, some challenges associated with disclosure of liquidity positions under certain circumstances, including the potential for undesirable dynamics during stress. The Committee has carefully considered this trade-off in formulating the disclosure framework contained in this document.

7. The disclosure requirements are organised as follows. Section 1 presents requirements on the scope of application, implementation date, and the frequency and location of reporting. The disclosure requirements for the LCR are set out in Section 2 and include a common template that banks must use to report their LCR results and select details of the LCR components.

8. The Committee recognises that the LCR is only one measure of a bank's liquidity risk position and that other information, both quantitative and qualitative, is essential for market participants to gain a broader picture of a bank's liquidity risk position and management. Section 3 of this disclosure framework provides additional guidance on other information that banks may choose to disclose in order to facilitate understanding and awareness of their internal liquidity risk measurement and management.

1. Scope of application, implementation date and frequency of reporting

9. The disclosure requirements set out in this document should be applied to all internationally active banks on a consolidated basis, but may be used for other banks and on any subset of entities of internationally active banks as well to ensure greater consistency and a level playing field between domestic and cross-border banks.

10. National authorities will give effect to the liquidity disclosure requirements set out in this standard by no later than 1 January 2015. Banks will be required to comply with these disclosure requirements from the date of the first reporting period after 1 January 2015.[4] Banks must publish this disclosure at the same frequency as, and concurrently with, the publication of their financial statements, irrespective of whether the financial statements are audited (ie typically quarterly or semiannually).

11. Disclosures required by this document must either be included in banks' published financial reports or, at a minimum, provide a direct and prominent link to the completed disclosure on the banks' websites or in publicly available regulatory reports. Banks must also make available on their websites, or through publicly available regulatory reports, an archive (for a suitable retention period determined by the relevant national authority) of all templates relating to prior reporting periods. Irrespective of the location of the disclosure, the minimum disclosure requirements must be in the format required by this document (ie according to the requirements in Section 2).

[4] That is, where all reference dates used in the calculation occur on or after 1 January 2015.

2. Disclosure requirements

12. The disclosure of quantitative information about the LCR should follow the common template that the Committee has developed. Annex 1 presents an explanation of the common template's design.[5] The LCR information must be calculated on a consolidated basis and presented in a single currency.

13. Data must be presented as simple averages of daily observations over the previous quarter (ie the average is calculated over a period of, typically, 90 days).[6] Moreover, banks must publish the number of data points used in calculating the average figures in the template. To ease implementation burdens, national authorities may exempt banks from the requirement for disclosure of LCR data based on averages of daily data up to the first reporting period after 1 January 2017. In such cases, banks should calculate averages based on monthly figures.

14. For most data items, both unweighted and weighted values of the LCR components must be disclosed. The unweighted value of inflows and outflows is to be calculated as the outstanding balances of various categories or types of liabilities, off-balance sheet items or contractual receivables. The "weighted" value of HQLA is to be calculated as the value after haircuts are applied. The "weighted" value for inflows and outflows is to be calculated as the value after the inflow and outflow rates are applied. Total HQLA and total net cash outflows must be disclosed as the adjusted value, where the "adjusted" value of HQLA is the value of total HQLA after the application of both haircuts *and* any applicable caps on Level 2B and Level 2 assets. The adjusted value of net cash outflows is to be calculated after the cap on inflows is applied, if applicable (see Annex 2 for more details).

15. In addition to the common template, banks should provide sufficient qualitative discussion around the LCR to facilitate understanding of the results and data provided. For example, *where significant to the LCR*, banks could discuss:

(a) the main drivers of their LCR results and the evolution of the contribution of inputs to the LCR's calculation over time;

(b) intra-period changes as well as changes over time;

(c) the composition of HQLA;

(d) concentration of funding sources;

(e) derivative exposures and potential collateral calls;

(f) currency mismatch in the LCR;

(g) a description of the degree of centralisation of liquidity management and interaction between the group's units; and

(h) other inflows and outflows in the LCR calculation that are not captured in the LCR common template but which the institution considers to be relevant for its liquidity profile.

[5] This template is largely based on the one used to collect the Basel III implementation monitoring data: see www.bis.org/bcbs/qis/index.htm.

[6] For banks reporting on a semiannual basis, the average LCR must be reported for each of the two preceding quarters. For banks reporting on an annual basis, the LCR must be reported for each of the preceding four quarters.

LCR common disclosure template

	(In local currency)	TOTAL UNWEIGHTED[a] VALUE (average)	TOTAL WEIGHTED[b] VALUE (average)
HIGH-QUALITY LIQUID ASSETS			
1	Total high-quality liquid assets (HQLA)		
CASH OUTFLOWS			
2	Retail deposits and deposits from small business customers, of which:		
3	*Stable deposits*		
4	*Less stable deposits*		
5	Unsecured wholesale funding, of which:		
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*		
7	*Non-operational deposits (all counterparties)*		
8	*Unsecured debt*		
9	Secured wholesale funding		
10	Additional requirements, of which:		
11	*Outflows related to derivative exposures and other collateral requirements*		
12	*Outflows related to loss of funding on debt products*		
13	*Credit and liquidity facilities*		
14	Other contractual funding obligations		
15	Other contingent funding obligations		
16	**TOTAL CASH OUTFLOWS**		
CASH INFLOWS			
17	Secured lending (eg reverse repos)		
18	Inflows from fully performing exposures		
19	Other cash inflows		
20	**TOTAL CASH INFLOWS**		
			TOTAL ADJUSTED[c] VALUE
21	**TOTAL HQLA**		
22	**TOTAL NET CASH OUTFLOWS**		
23	**LIQUIDITY COVERAGE RATIO (%)**		

[a] Unweighted values must be calculated as outstanding balances maturing or callable within 30 days (for inflows and outflows).

[b] Weighted values must be calculated after the application of respective haircuts (for HQLA) or inflow and outflow rates (for inflows and outflows).

[c] Adjusted values must be calculated after the application of both (i) haircuts and inflow and outflow rates *and* (ii) any applicable caps (ie cap on Level 2B and Level 2 assets for HQLA and cap on inflows).

3. Guidance on additional disclosures

16. The Committee recognises that the LCR is only one measure of a bank's liquidity risk position. Disclosure of other quantitative and qualitative information will provide market participants with a broader picture of banks' liquidity risk position and management and promote market discipline. The *Sound Principles* provide additional guidance to banks on prudent liquidity risk management, including principles on disclosure of certain key information. Using the Sound Principles as a basis for providing greater qualitative information on a bank's approach to liquidity risk management will further enhance the quality and consistency of liquidity disclosures. It will also allow banks to present information relevant to their business model that may not be adequately captured by standardised regulatory metrics. Additional information that banks choose to disclose should provide sufficient information to enable market participants to understand and analyse any figures provided.

17. As there is no single metric that can comprehensively quantify liquidity risk, a bank may also choose to disclose additional quantitative information related to its internal liquidity risk measurement and management framework. In particular, the Basel III liquidity risk framework outlines several key monitoring tools for assessing liquidity risk.[7] These metrics are not regulatory requirements under the Basel III framework, but may be used as consistently defined monitoring tools. They are intended to capture specific information related to a bank's cash flows, balance sheet structure and available collateral.

18. The additional quantitative information that banks may consider disclosing could include customised measurement tools or metrics that assess the structure of the bank's balance sheet, as well as metrics that project cash flows and future liquidity positions, taking into account off-balance sheet risks which are specific to that bank. Other quantitative information could include key metrics that management monitors, including, but not limited to:

(a) concentration limits on collateral pools and sources of funding (both products and counterparties);

(b) liquidity exposures and funding needs at the level of individual legal entities, foreign branches and subsidiaries, taking into account legal, regulatory and operational limitations on the transferability of liquidity; and

(c) balance sheet and off-balance sheet items broken down into maturity buckets and the resultant liquidity gaps.

19. As noted in Section 2, banks are required to provide a qualitative discussion of their LCR results and the related components that are required to be disclosed. Banks may also choose to provide other qualitative information to enable market participants to gain a more thorough understanding of internal liquidity risk management and positions, particularly those related to that specific institution. This information could include:

(a) governance of liquidity risk management, including: risk tolerance; structure and responsibilities for liquidity risk management; internal liquidity reporting; and communication of liquidity risk strategy, policies and practices across business lines and with the board of directors;

(b) funding strategy, including policies on diversification in the sources and tenor of funding, and whether the funding strategy is centralised or decentralised;

[7] These monitoring tools comprise: (i) contractual maturity mismatch; (ii) concentration of funding; (iii) available unencumbered assets; (iv) LCR by significant currency; and (v) market-related monitoring tools. See www.bis.org/publ/bcbs238.pdf.

(c) liquidity risk mitigation techniques;

(d) an explanation of how stress testing is used; and

(e) an outline of contingency funding plans.

Annex 1

Explanation of the LCR common disclosure template

Row number	Explanation	Relevant paragraph(s) of LCR standards[8]
1	Sum of all eligible high-quality liquid assets(HQLA), as defined in the standard, before the application of any limits, excluding assets that do not meet the operational requirements, and including, where applicable, assets qualifying under alternative liquidity approaches	28–68
2	Retail deposits and deposits from small business customers are the sum of stable deposits, less stable deposits and any other funding sourced from (i) natural persons and/or (ii) small business customers (as defined by paragraph 231 of the Basel II framework)	73–84, 89–92, 110
3	Stable deposits include deposits placed with a bank by a natural person and unsecured wholesale funding provided by small business customers, defined as "stable" in the standard	73–78, 89–91
4	Less stable deposits include deposits placed with a bank by a natural person and unsecured wholesale funding provided by small business customers, not defined as "stable" in the standard	73–74, 79–81, 89–91
5	Unsecured wholesale funding is defined as those liabilities and general obligations from customers other than natural persons and small business customers that are not collateralised	93–111
6	Operational deposits include deposits from bank clients with a substantive dependency on the bank where deposits are required for certain activities (ie clearing, custody or cash management activities). Deposits in institutional networks of cooperative banks include deposits of member institutions with the central institution or specialised central service providers.	93–106
7	Non-operational deposits are all other unsecured wholesale deposits, both insured and uninsured	107–109
8	Unsecured debt includes all notes, bonds and other debt securities issued by the bank, regardless of the holder, unless the bond is sold exclusively in the retail market and held in retail accounts	110
9	Secured wholesale funding is defined as all collateralised liabilities and general obligations	112–115
10	Additional requirements include other off-balance sheet liabilities or obligations	116–131

[8] See www.bis.org/publ/bcbs238.pdf.

Row number	Explanation	Relevant paragraph(s) of LCR standards[8]
11	Outflows related to derivative exposures and other collateral requirements include expected contractual derivatives cash flows on a net basis. These outflows also include increased liquidity needs related to: downgrade triggers embedded in financing transactions, derivative and other contracts; the potential for valuation changes on posted collateral securing derivatives and other transactions; excess non-segregated collateral held at the bank that could contractually be called at any time; contractually required collateral on transactions for which the counterparty has not yet demanded that the collateral be posted; contracts that allow collateral substitution to non-HQLA assets; and market valuation changes on derivatives or other transactions.	116–123
12	Outflows related to loss of funding on secured debt products include loss of funding on: asset-backed securities, covered bonds and other structured financing instruments; and asset-backed commercial paper, conduits, securities investment vehicles and other such financing facilities	124–125
13	Credit and liquidity facilities include drawdowns on committed (contractually irrevocable) or conditionally revocable credit and liquidity facilities. The currently undrawn portion of these facilities is calculated net of any eligible HQLA if the HQLA have already been posted as collateral to secure the facilities or that are contractually obliged to be posted when the counterparty draws down the facility.	126–131
14	Other contractual funding obligations include contractual obligations to extend funds within a 30-day period and other contractual cash outflows not previously captured under the standard	132–133, 141
15	Other contingent funding obligations, as defined in the standard	134–140
16	Total cash outflows: sum of lines 2–15	
17	Secured lending includes all maturing reverse repurchase and securities borrowing agreements	145–147
18	Inflows from fully performing exposures include both secured and unsecured loans or other payments that are fully performing and contractually due within 30 calendar days from retail and small business customers, other wholesale customers, operational deposits and deposits held at the centralised institution in a cooperative banking network	153–154, 156–157
19	Other cash inflows include derivatives cash inflows and other contractual cash inflows.	155, 158–160
20	Total cash inflows: sum of lines 17–19	
21	Total HQLA (after the application of any cap on Level 2B and Level 2 assets)	28–54
22	Total net cash outflows (after the application of any cap on cash inflows)	69, Annex 1 in the standard
23	Liquidity Coverage Ratio (after the application of any cap on Level 2B and Level 2 assets and caps on cash inflows)	22

Annex 2

Instructions for completion of the LCR common disclosure template

Rows in the template are set and compulsory for all banks. The table in Annex 1 provides an explanation of each line of the common template, with references to the relevant paragraph(s) of the Basel III LCR standard. Key points to note about the common template:

- Each dark grey row introduces a section of the template (HQLA, cash outflows and cash inflows) and does not require any value to be reported.
- The light grey rows represent the broad categories of the subcomponents of the LCR in the relevant section.
- The unshaded rows represent subcomponents within the major categories of cash inflows and outflows. The relevant subcomponents to be included in the calculation of each row are specified in Annex 1.
- No data should be entered in the cross-hatched cells.

Figures entered in the template must be averages of the observations of individual line items over the financial reporting period (ie the average of components and the average LCR over the most recent three months of daily positions, irrespective of the financial reporting schedule). The averages are calculated after the application of any haircuts, inflow and outflow rates and caps, where applicable. For example:

$$Total\ \boldsymbol{unweighted}\ stable\ deposits_{Qi} = \frac{1}{T} \times \sum_{t=1}^{T} (Total\ \boldsymbol{unweighted\ stable\ deposits})_t$$

$$Total\ \boldsymbol{weighted}\ stable\ deposits_{Qi} = \frac{1}{T} \times \sum_{t=1}^{T} (Total\ \boldsymbol{weighted\ stable\ deposits})_t$$

where T equals the number of observations in period Qi.

Weighted figures of HQLA (line 1, third column) must be calculated after the application of the respective haircuts but before the application of any caps on Level 2B and Level 2 assets. Unweighted inflows and outflows (lines 2–8, 11–15 and 17–21, second column) must be calculated as outstanding balances. *Weighted* inflows and outflows (lines 2–21, third column) must be calculated after the application of the inflow and outflow rates.

Adjusted figures of HQLA (line 22, third column) must be calculated after the application of both (i) haircuts and (ii) any applicable caps (ie cap on Level 2B and Level 2 assets). *Adjusted* figures of net cash outflows (line 23, third column) must be calculated after the application of both (i) inflow and outflow rates *and* (ii) any applicable cap (ie cap on inflows).

The LCR (line 23) must be calculated as the average of observations of the LCR:

$$LCR_{Qi} = \frac{1}{T} \times \sum_{t=1}^{T} LCR_t$$

Not all reported figures will sum exactly, particularly in the denominator of the LCR. For example, "total net cash outflows" (line 22) may not be exactly equal to "total cash outflows" minus "total cash inflows" (line 16 minus line 20) if the cap on inflows is binding. Similarly, the disclosed LCR may not be equal to an LCR computed on the basis on the average values of the set of line items disclosed in the template.