



KOREA FEDERATION OF BANKS

www.kfb.co.kr

9, 3-gil, Myeong-dong, Jung-gu, Seoul, 100-021, Korea T. 82-2-3705-5245 F. 82-2-3705-5215

October 10, 2013

Basel Committee on Banking Supervision
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

E-mail: baselcommittee@bis.org

Subject: KFB comments on *Liquidity coverage ratio disclosure standards*

Dear Sir or Madam,

The Korea Federation of Banks (KFB) is a bankers' association that represents and promotes the interests of the Korean banking industry as a whole. Our membership comprises banks both domestic and international, operating in Korea.

Thank you for providing the opportunity to industry stakeholders to comment on the "*Liquidity coverage ratio disclosure standards*". Having sufficient understanding of the background behind this consultation paper, the KFB and our member banks have reviewed the paper. The following are our comments on the document.

Revisited the Liquidity coverage ratio disclosure standards

The latest draft for the disclosure standard suggests that the LCR is calculated as an average of the daily value (i.e., The LCR (line item 23) must be calculated as the average of daily observations of the LCR as mentioned in Annex 2). This standard, however, is impracticable to comply with according to our current calculation system.

Reasons why the LCR calculation as a daily average is infeasible

- **Issue of data collection**

LCR is currently estimated on a consolidated basis, and therefore, data on consolidated overseas branches and local entities are required. Yet, such data is impossible to obtain in a short period of time due to a time difference with other countries, and IT system implementation. There are limitations on collecting validated data on the SPC (Special Purpose Company) owned by banks or underlying assets for indirect investment instruments in a short period of time.

Even for the data that is obtained, the BS (Balance Sheet) could be altered later if follow-up corrections are made subsequently due to input error, IT error, and customer requests. Entity types (e.g. large corporation, small business) and relation stability are subject to change constantly depending on the balance in the customer account and transactions. Thus, calculation on the basis of daily values could be inaccurate.

Ultimately, presenting inaccurate LCR could lead to ratio management, reputation risk, and supervisory audit issues.

- **The Issue of IT system in the banking sector**

Calculating LCR as an average of daily values requires storing all the banking data as daily values, and this means the system of the overall banking sector needs to be modified across the board. Also, it would require immense costs and an excessively tight schedule for the system operation commencement, even if the operation is commenced starting from the year 2015. After such a change in the system, the repository system could be excessively overloaded, and this, in turn, could lead to an overload of another system related with customers within a bank.

Conclusion

The document on LCR disclosure requirements stipulates estimation on a monthly basis at a minimum, and suggests increasing the frequency of reporting during times of stress (clause 162). Considering aforementioned issues related to data collection and IT system, it would be efficient to disclose a precise LCR on a monthly basis except for times of stress when LCR is to be disclosed in a swift manner at discretion of supervisory authorities.

Thank you for providing industry stakeholders with the opportunity to comment on the BCBS's "*Liquidity coverage ratio disclosure standards*". The KFB and its members shall continue to closely follow future developments regarding this work stream. If you have any questions whatsoever about the comments we made, please do not hesitate to contact us.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'YungDae Kim', with a stylized, cursive script.

YungDae Kim
Vice Chairman
Korea Federation of Banks