FINANSTILSYNET
THE FINANCIAL SUPERVISORY AUTHORITY OF NORWAY

NB NORGES BANK

Basel Committee on Banking Supervision
baselcommittee@bis.org

Your ref. Our ref. Oslo,
11 October 2013

# Comments on the Basel Committee on Banking Supervision's consultative document on Liquidity Coverage Ratio disclosure standards

## Joint comments from Norges Bank and Finanstilsynet

## General comments

Norges Bank and Finanstilsynet welcome the initiative taken by the Basel Committee on Banking Supervision to improve the transparency of regulatory liquidity requirements by introducing disclosure standards for the Liquidity Coverage Ratio (LCR) and additional liquidity disclosures.

We support the view that public disclosure improves transparency, reduces uncertainty in the markets and strengthens market discipline. Lack of public information on banks' liquidity conditions may in itself create contagion effects from weak banks to stronger banks. In general, increased transparency should be seen as a natural consequence of the growing complexity of banking activities and regulation.

Our response will mainly focus on the disclosure requirements for the LCR. However we also see the need for more concrete recommendations on additional liquidity disclosures.

**Finanstilsynet**
**Postal address**
P.O.Box 1187 Sentrum
NO-0107 Oslo
**E-mail**
post@finanstilsynet.no

**Norges Bank**
**Postal address**
P.O.Box 1179 Sentrum
NO-0107 Oslo
**E-mail**
central.bank@norges-bank.no

**Comments on Section 2: Disclosure requirements**

The common template

According to the consultative document, banks will be required to report their LCR according to a common template. It is suggested that data are presented as simple averages of daily observations over the previous quarter.

In addition we strongly recommend that the LCR and its components are presented as of end-quarter, thereby introducing two extra columns in the common template: total unweighted value, end-quarter and total weighted value, end-quarter. This will make it easier to compare LCR data with balance sheet information in banks' quarterly reports. Furthermore, data as of end-quarter are normally of better quality than banks' daily balances.

The proposed common template has only one row for the LCR numerator, i.e. total high-quality liquid assets (HQLA). We suggest three rows for the numerator: (i) Level 1 assets, (ii) Level 2 assets and (iii) total HQLA.

We support the structure of cash outflows and inflows in the common template.

Additional information on the LCR

In addition to the common template, banks will be required to provide sufficient qualitative discussion around the LCR. This will facilitate a greater understanding of the results and data, and enable comparison between banks. The Committee provides several examples of such qualitative information. To ensure that banks provide sufficient information, we recommend that some of the qualitative discussion points should be specified as the minimum information required.

The information that we suggest should be mandatory is presented below (the numbering is equivalent to the one used in the consultative document). The qualitative discussion of these items should be supplemented by some quantitative information. Banks should discuss:

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

The main drivers of the LCR results should be discussed, including intra period changes.

*(c) the composition of HQLA.*

The composition of HQLA should be specified and quantified, e.g. Level 1 and Level 2 assets broken down by asset classes.

If the bank has qualifying Level 2 assets beyond the Level 2 and Level 2B caps, these extra assets should also be quantified.

Furthermore information on the use of alternative liquid assets, according to the ALA treatment for jurisdictions with an insufficient supply of liquid assets in their domestic currency, should be provided.

*(f) currency mismatch in the LCR*

In the common template, data are to be presented in a single currency, i.e. as an aggregate of all currencies. According to the Committee's LCR standard of January 2013, banks are expected to be able to meet their liquidity needs in each currency and maintain HQLA consistent with the distribution of their liquidity needs by currency. We therefore recommend that banks present the LCR separately for each significant currency, including the home

currency.

**Comments on Section 3: Guidance on additional disclosures**

The Committee recognises that the LCR is only one measure of a bank's liquidity risk position and that "disclosure of other quantitative and qualitative information will provide market participants with a broader picture of banks' liquidity risk position and management and will promote market discipline".

We welcome the initiative for more concrete recommendations on additional liquidity disclosures. The aim should be to develop a general standard for liquidity disclosures, e.g. building on the "Principles for Sound Liquidity Risk Management and Supervision" of 2008, with more quantitative information to ensure consistent and comparable information across banks.

In our opinion, banks should disclose information about their funding structure. This should at least include information on term structure, concentration of funding sources, different types of deposits (in particular less stable deposits not backed by a deposit guarantee), and volume of outstanding wholesale funding in different markets and currencies.

We welcome further work on additional liquidity disclosures.

Yours sincerely,

for
Ole-Jørgen Karlsen
Head of Section
Banking and Insurance Supervision
Finanstilsynet

Sindre Weme
Director
Financial Stability
Norges Bank

Copy: The Norwegian Ministry of Finance