Basel Committee on Banking Supervision

BANK FOR INTERNATIONAL SETTLEMENTS

Press release

Press enquiries: +41 61 280 8188
press@bis.org
www.bis.org

Ref no: 1/2013

6 January 2013

Group of Governors and Heads of Supervision endorses revised liquidity standard for banks

The Group of Governors and Heads of Supervision (GHOS), the oversight body of the Basel Committee on Banking Supervision, met today to consider the Basel Committee's amendments to the Liquidity Coverage Ratio (LCR) as a minimum standard. It unanimously endorsed them. Today's agreement is a clear commitment to ensure that banks hold sufficient liquid assets to prevent central banks becoming the "lender of first resort".

The GHOS also endorsed a new Charter for the Committee, and discussed the Committee's medium-term work agenda.

The GHOS reaffirmed the LCR as an essential component of the Basel III reforms. It endorsed a package of amendments to the formulation of the LCR announced in 2010. The package has four elements: revisions to the definition of high quality liquid assets (HQLA) and net cash outflows; a timetable for phase-in of the standard; a reaffirmation of the usability of the stock of liquid assets in periods of stress, including during the transition period; and an agreement for the Basel Committee to conduct further work on the interaction between the LCR and the provision of central bank facilities.

A summary description of the agreed LCR is in Annex 1. The changes to the definition of the LCR, developed and agreed by the Basel Committee over the past two years, include an expansion in the range of assets eligible as HQLA and some refinements to the assumed inflow and outflow rates to better reflect actual experience in times of stress. These changes are set out in Annex 2. The full text incorporating these changes will be published on Monday 7 January.

The GHOS agreed that the LCR should be subject to phase-in arrangements which align with those that apply to the Basel III capital adequacy requirements. Specifically, the LCR will be introduced as planned on 1 January 2015, but the minimum requirement will begin at 60%, rising in equal annual steps of 10 percentage points to reach 100% on 1 January 2019. This graduated approach is designed to ensure that the LCR can be introduced without disruption to the orderly strengthening of banking systems or the ongoing financing of economic activity.

The GHOS agreed that, during periods of stress it would be entirely appropriate for banks to use their stock of HQLA, thereby falling below the minimum. Moreover, it is the responsibility of bank supervisors to give guidance on usability according to circumstances.

The GHOS also agreed today that, since deposits with central banks are the most – indeed, in some cases, the only – reliable form of liquidity, the interaction between the LCR and the provision of central bank facilities is critically important. The Committee will therefore continue to work on this issue over the next year.

GHOS members endorsed two other areas of further analysis. First, the Committee will continue to develop disclosure requirements for bank liquidity and funding profiles. Second, the Committee will continue to explore the use of market-based indicators of liquidity to supplement the existing measures based on asset classes and credit ratings.

The GHOS discussed and endorsed the Basel Committee's medium-term work agenda. Following the successful agreement of the LCR, the Committee will now press ahead with the review of the Net Stable Funding Ratio. This is a crucial component in the new framework, extending the scope of international agreement to the structure of banks' debt liabilities. This will be a priority for the Basel Committee over the next two years.

Over the next few years, the Basel Committee will also: complete the overhaul of the policy framework currently under way; continue to strengthen the peer review programme established in 2012 to monitor the implementation of reforms in individual jurisdictions; and monitor the impact of, and industry response to, recent and proposed regulatory reforms. During 2012 the Committee has been examining the comparability of model-based internal risk weightings and considering the appropriate balance between the simplicity, comparability and risk sensitivity of the regulatory framework. The GHOS encouraged continuation of this work in 2013 as a matter of priority. Furthermore, the GHOS supported the Committee's intention to promote effective macro- and microprudential supervision.

The GHOS also endorsed a new Charter for the Basel Committee. The new Charter sets out the Committee's objectives and key operating modalities, and is designed to improve understanding of the Committee's activities and decision-making processes.

Finally, the GHOS reiterated the importance of full, timely and consistent implementation of Basel III standards.

Mervyn King, Chairman of the GHOS and Governor of the Bank of England, said, "The Liquidity Coverage Ratio is a key component of the Basel III framework. The agreement reached today is a very significant achievement. For the first time in regulatory history, we have a truly global minimum standard for bank liquidity. Importantly, introducing a phased timetable for the introduction of the LCR, and reaffirming that a bank's stock of liquid assets are usable in times of stress, will ensure that the new liquidity standard will in no way hinder the ability of the global banking system to finance a recovery."

Stefan Ingves, Chairman of the Basel Committee and Governor of the Sveriges Riksbank, noted that "the amendments to the LCR are designed to ensure that it provides a sound minimum standard for bank liquidity – a standard that reflects actual experience during times of stress. The completion of this work will allow the Basel Committee to turn its attention to refining the other component of the new global liquidity standards, the Net Stable Funding Ratio, which remains subject to an observation period ahead of its implementation in 2018."