

CONSULTATION PAPER

P018 - 2015

October 2015

Consultation Paper on Liquidity Coverage Ratio Disclosure Requirements

MAS

Monetary Authority of Singapore

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1 Preface

1.1 In November 2014, MAS issued Notice 649 to update our liquidity regulations for banks. In particular, the Liquidity Coverage Ratio (“LCR”) requirement was introduced for domestic systemically important banks in Singapore (“D-SIBs”).¹ MAS is hereby consulting on a set of proposed disclosure requirements to complement the LCR requirement.

1.2 The proposed disclosure requirements closely mirrors those promulgated by the Basel Committee on Banking Supervision (“BCBS”) for internationally active banks. It comprises a common LCR disclosure template to promote consistency and comparability of liquidity disclosures by banks, and accompanying qualitative disclosures to help users understand the information published by banks. It also includes guidance on additional qualitative and quantitative disclosures that banks are encouraged to disclose in order to provide market participants with a broader understanding of the reporting bank’s liquidity risk profile and management.

1.3 The proposed LCR disclosure requirements are intended to take effect from 1 January 2016, with banks being required to comply with these disclosure requirements from the date of the first reporting period after 1 January 2016.

1.4 MAS invites comments on these proposals, in particular our approach to the specific areas highlighted in this consultation paper, by 9 Nov 2015. We would appreciate that you use the “Template for public submissions to consultation papers” published together with this consultation paper for your submission to ease our collation efforts. Electronic submission is encouraged, although written comments may also be submitted to:

Specialist Risk Department
Monetary Authority of Singapore
10 Shenton Way
MAS Building
Singapore 079117
Email: liquidity@mas.gov.sg

¹ The media release for the D-SIB framework can be accessed [here](#).

Please note that all feedback received will be published and attributed to the respective respondents unless they expressly request MAS not to do so. As such, if you would like (i) your whole submission or part of it, or (ii) your identity, or both, to be kept confidential, please expressly state so in your submission to MAS. In addition, MAS reserves the right not to publish any submission received where MAS considers it not in the public interest to do so, such as where the submission appears to be libellous or offensive.

2 Specific Areas for Comment

2.0.1 In addition to the draft MAS Notice (attached as Annex A) setting out our proposed disclosure requirements, MAS would like to seek specific comments on the following proposals.

2.1 Scope of Application

2.1.1 In Singapore, MAS has adopted a two-tier liquidity requirement framework for our banks. D-SIBs will have to meet the LCR requirement, both on an all-currency and a Singapore Dollar (“SGD”) basis. Banks that are not assessed to be systemically important in Singapore may elect to comply with the LCR requirement or choose to remain on the Minimum Liquid Assets (“MLA”) framework, which has been modified to include an all-currency requirement alongside the existing SGD requirement.

2.1.2 Given that market participants will likely be keen to better understand D-SIBs, given their systemic importance, and how they compare to their peers in the local market, MAS proposes to impose the LCR disclosure requirements on a standalone basis to all locally incorporated D-SIBs, whether headquartered in Singapore or overseas.

2.1.3 However, we propose that the LCR disclosure requirements not apply to D-SIBs that are foreign bank branches. Such disclosure is less meaningful as the LCR disclosures are best understood when read in conjunction with a bank’s published financial statement, which would not be available for D-SIBs that operate as branches in Singapore.

Question 1: MAS seeks comments on our proposal to impose the LCR disclosure requirements on all locally incorporated D-SIBs, regardless of whether they are headquartered in Singapore or otherwise; and for foreign bank branches to be exempt from this requirement.

2.2 Retention Period

2.2.1 In determining a suitable retention period for the publicly available archive containing banks' past LCR disclosures, we note that there exists a fundamental trade-off between operational cost and availability of historical data. An archive with a shorter retention period generally requires less resources to maintain, but may make it more difficult for the market to access historical disclosures.

2.2.2 MAS proposes to mandate a five year retention period for the archive, in line with the record retention periods specified in Section 199(2) of the Companies Act, as well as the archival retention period specified in MAS Notice 637. The additional cost incurred by the reporting bank in maintaining the archive for five years is unlikely to be material as the information are simply archived without the need for any additional computation or analysis.

Question 2: MAS seeks comments on our proposal to impose a retention period of five years for banks' publicly available archive of LCR disclosures, in line with the record retention period specified in Section 199(2) of the Companies Act and that used in MAS Notice 637.

2.3 Reporting Currency

2.3.1 With regard to the reporting currency for the proposed disclosures, MAS proposes that the reporting currency for the all-currency LCR disclosure follows that used in the financial statements, to facilitate ease in cross referencing between the two documents which are meant to be read together.

2.3.2 MAS further proposes that the reporting currency for disclosing the SGD LCR numbers be made in SGD, regardless of the reporting currency of the financial statements. This recognizes that the SGD LCR disclosures contain only items that are denominated in SGD, and hence it would make sense to report it in that currency.

Question 3: MAS seeks comments on our proposal to align the reporting currency of the all-currency LCR disclosure requirements to that of the reporting banks' financial statements. Reporting currency of the SGD LCR disclosure will always be in SGD.

2.4 Treatment of Country-Level Groups

2.4.1 Under MAS 649, banks and merchant banks may seek MAS' approval to comply with the LCR requirement on a country-level group basis, provided they can demonstrate that liquidity risk is effectively managed on a country basis for the banks concerned. This would include, inter alia, the effective implementation of a clear and common country wide liquidity management strategy, framework, policies and processes, as well as ensuring that effective liquidity support across related entities are in place.

2.4.2 If a locally incorporated D-SIB is approved to comply with the LCR requirement at the country level, LCR disclosures for the subsidiary on a stand-alone basis may not be meaningful. These standalone LCR disclosures for the D-SIB would not provide a complete picture of how liquidity is being managed for the D-SIB at the country level, and could provide misleading information on the liquidity risk profile of the D-SIB concerned. If disclosures are mandated for such a D-SIB on a stand-alone basis only, the market would also lose sight of the country-level LCR numbers that the regulators consider as most meaningful for that D-SIB entity.

2.4.3 On the other hand, disclosure of the country-level LCR information for such a D-SIB may also not provide a complete picture as no country level financial statements are available to be read in conjunction with the aggregated country level LCR information. On balance, MAS is of the view that the disclosure of the aggregated LCR information for the country level group may be more important in making the LCR disclosure meaningful to the data users.

Question 4: MAS seeks comments on our proposed disclosure requirements for locally incorporated D-SIBs not headquartered in Singapore, and that are subsequently approved to comply with LCR on a country level basis. Specifically, we are interested to receive comments on the following:

(i) Would data users find, for such D-SIBs, the standalone or the aggregated country level group LCR information more useful?

(ii) As data providers, do such D-SIBs have specific concerns on disclosing the country-level group data in addition to the standalone data of its subsidiaries, and are there alternative suggestions on how to avail meaningful LCR information to users?

Annex A

[DRAFT AND SUBJECT TO CHANGE]

MAS 6xx

NOTICE TO BANKS

BANKING ACT, CAP 19

LIQUIDITY COVERAGE RATIO (“LCR”) DISCLOSURE

Introduction

- 1 This Notice is issued pursuant to section 55 of the Banking Act (Cap. 19) (the “Act”) and applies to every bank incorporated in Singapore which has been notified by the Authority that it is a domestic systemically important bank (“D-SIB incorporated in Singapore”)².
- 2 This Notice sets out requirements for a D-SIB incorporated in Singapore to disclose quantitative and qualitative information about its Liquidity Coverage Ratio (“LCR”) –
 - a) in the case of a D-SIB incorporated in Singapore that is headquartered in Singapore, at the banking group level;
 - b) in the case of a D-SIB incorporated in Singapore that is not headquartered in Singapore and which has not obtained the approval of the Authority pursuant to paragraph 4 of MAS Notice 649 to comply with the requirements set out in that Notice on a country-level group basis, the bank standalone (“solo”) level; and
 - c) in the case of a D-SIB incorporated in Singapore that is not headquartered in Singapore and which has obtained the approval of the Authority pursuant to paragraph 4 of the MAS Notice 649 to comply with the requirements set out in that Notice on a country-level group basis, at both solo and country-level group level.³

It also sets out guidance on disclosure of non-mandatory quantitative and qualitative information that a D-SIB incorporated in Singapore is encouraged to make. Together, these disclosures are intended to facilitate market participants’ understanding of the liquidity risk profile and management of the D-SIB incorporated in Singapore, and thereby promote market discipline.

² More information on the D-SIB framework can be found at <http://www.mas.gov.sg/news-and-publications/media-releases/2015/mas-publishes-framework-for-domestic-systemically-important-banks-in-singapore.aspx>

³ Pending responses from public consultation

Definitions

3 In this Notice

“LCR Disclosure Template” refers to the template set out in Appendix 1; and

“regulatory report” means any publically available report (including returns) which the D-SIB incorporated in Singapore is required to submit to any public authority or publish pursuant to any written law or law of a foreign country.

4 The expressions used in this Notice shall, except where defined in this Notice or where the context otherwise requires, have the same meaning as in the Act and paragraph 17 of MAS Notice 649.

Public Disclosure of Quantitative Information and Qualitative Information

5 A D-SIB incorporated in Singapore shall publish –

- a) information relating to its LCR in the format of the LCR Disclosure Template⁴ (“quantitative information”) in accordance with the instructions provided in Appendix 3; and
- b) information relating to its LCR for the purpose of enabling market participants to better understand and analyse the quantitative information (“qualitative information”),⁵

at the same time as the publication of its financial statements, irrespective of whether the financial statements are audited.

6 A D-SIB incorporated in Singapore shall –

- a) publish the quantitative information and qualitative information in its published financial statements; or

⁴ Explanations for the respective items in the LCR Disclosure Template are set out in Appendix 2.

⁵ Examples of the qualitative information are:

- a) the main drivers of its 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 sources of funding;
- e) derivative exposures and potential collateral calls;
- f) currency mismatch in the LCR;
- g) 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 Disclosure Template but which the institution considers to be relevant for its liquidity profile.

- b) provide a direct and prominent link in its published financial statements to the quantitative information and qualitative information –
 - i) on its website; or
 - ii) in any of its regulatory reports.

- 7 A D-SIB incorporated in Singapore shall make available on its website, or in its regulatory reports, an archive of all quantitative information it has published for a period of not less than 5 years.

- 8 A D-SIB incorporated in Singapore shall present the quantitative information–
 - a) with respect to all-currency LCR, in the same currency as its published financial statements and;
 - b) with respect to Singapore Dollar LCR, in Singapore dollars.

- 9 A D-SIB incorporated in Singapore shall –
 - a) present the quantitative information as simple averages of daily observations over –
 - i) the previous quarter, if it is reporting on a quarterly basis;
 - ii) each of the two preceding quarters, if it is reporting on a semi-annual basis; or
 - iii) each of the four preceding quarters, if it is reporting on an annual basis, and
 - b) publish the number of data points used in calculating the average figures.

Guidance on Additional Public Disclosure of Non-Mandatory Quantitative Information and Non-Mandatory Qualitative Information

- 10 A D-SIB incorporated in Singapore is encouraged to disclose –
 - a) information relating to its internal liquidity risk measurement and management framework to better quantify its liquidity risk (“non-mandatory quantitative information”)⁶; and
 - b) information to enable market participants to better understand its internal liquidity risk management and positions (“non-mandatory qualitative information”).⁷

⁶ Non-mandatory quantitative information could include, but is not limited to:

- a) key monitoring tools as defined under the Basel III liquidity risk framework;
- b) customised measurement tools or metrics that assess the structure of the bank’s balance sheet;
- c) metrics that project cash flows and future liquidity positions, taking into account off-balance sheet risks which are specific to that bank;
- d) concentration limits on collateral pools and sources of funding (both products and counterparties);
- e) 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
- f) balance sheet and off-balance sheet items broken down into maturity buckets and the resultant liquidity gaps.

Effective Date

- 11 This Notice shall take effect on 1 January 2016. A D-SIB incorporated in Singapore shall comply with this Notice from the date of the first reporting period after 1 January 2016.

⁷ Non-mandatory qualitative information could include, but is not limited to:

- 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;
- c) liquidity risk mitigation techniques;
- d) an explanation of how stress testing is used; and
- e) an outline of contingency funding plans.

Appendix 1

LCR Disclosure Template

		TOTAL UNWEIGHTED ⁸ VALUE (average)	TOTAL WEIGHTED ⁹ 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 ¹⁰ VALUE			
21	TOTAL HQLA		
22	TOTAL NET CASH OUTFLOWS		
23	LIQUIDITY COVERAGE RATIO (%)		

⁸ Unweighted values must be calculated as outstanding balances maturing or callable within 30 days (for inflows and outflows).

⁹ Weighted values must be calculated after the application of respective haircuts (for HQLA) or inflow and outflow rates (for inflows and outflows).

¹⁰ 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).

Appendix 2

Explanation of the LCR Disclosure Template

Row number	Explanation	Relevant paragraph(s) of LCR standards
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	21-30
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)	33-41, 45, 58
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	33-38, 40-41, 45, 58
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	33-36, 39-41, 45, 58
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	42-57
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.	46-55
7	Non-operational deposits are all other unsecured wholesale deposits, both insured and uninsured	55-57
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	58
9	Secured wholesale funding is defined as all	60-63

	collateralised liabilities and general obligations	
10	Additional requirements include other off-balance sheet liabilities or obligations	64-79
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.	64-70
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	71-72
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.	73-79
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	80-81, 89
15	Other contingent funding obligations, as defined in the standard	82-88
16	Total cash outflows: sum of lines 2–15	
17	Secured lending includes all maturing reverse repurchase and securities borrowing agreements	92-98
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	102-103, 105-106

	business customers, other wholesale customers, operational deposits and deposits held at the centralised institution in a cooperative banking network	
19	Other cash inflows include derivatives cash inflows and other contractual cash inflows.	104, 107-109
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)	21-30
22	Total net cash outflows (after the application of any cap on cash inflows)	31
23	Liquidity Coverage Ratio (after the application of any cap on Level 2B and Level 2 assets and caps on cash inflows)	17

Appendix 3

Instructions for Completing the LCR Disclosure Template

Rows in the template are set and compulsory for all banks. The table in Appendix 9 provides an explanation of each line of the common template, with references to the relevant paragraph(s) of the Basel III LCR standard in this Notice. 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 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 (i.e. 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:

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

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

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 17–20, second column) must be calculated as outstanding balances. *Weighted* inflows and outflows (lines 2–20, third column) must be calculated after the application of the inflow and outflow rates.

Adjusted figures of HQLA (line 21, 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 22, 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:

$$\text{LCR}_{Qi} = \frac{1}{T} \times \sum_{t=1}^T \text{LCR}_t$$

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.



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