October 11, 2013

Comments on the Basel Committee on Banking Supervision's Consultative Document:
Liquidity coverage ratio disclosure standards

Japanese Bankers Association

We, the Japanese Bankers Association, would like to express our gratitude for this opportunity to comment on the consultative document: *Liquidity coverage ratio disclosure standards*, released on July 19, 2013 by the Basel Committee on Banking Supervision.

We hope that our comments below will be of assistance and offer an additional point of reference as you work towards finalizing the framework.

General Comment

The Liquidity Coverage Ratio (LCR) is a measure designed to indicate whether banks have sufficient liquidity to be resilient during periods of stress. Although we agree that public disclosure of the LCR will enhance market discipline by improving transparency at normal times, during periods of stress, on the other hand, it will most likely to limit the usability of high-quality liquid assets (HQLA) and thereby to increase market procyclicality.

Taking the above-mentioned trade-off effect into account, the Consultative Document sets out an exception in paragraph 6, stating that, during periods of stress, it would be entirely appropriate for banks to use their stock of HQLA, thereby falling below the minimum requirement. But it does not provide any tangible support, and only states that supervisors will have discretion to subsequently assess such situations, and adjust their response flexibly. Supervisors may consider, as a specific measure, disclosing the fact that they have authorized banks for not meeting the LCR requirements temporarily. However, when certain banks "appropriately" fall below the requirement, it is still inevitable for market participants to presume that these banks may be facing a severe liquidity shortage relative to other banks, even if it was caused by market stress. Such situation may cause undue deterioration of banks' cash flows.

In order to dispel such concerns, the BCBS and national supervisors need to have continuous dialogues with banks and market participants across jurisdictions for the better understanding of using HQLA during periods of stress, prior to implementing disclosure requirements of the LCR.

Specific Comments

○ Implementation date of disclosure requirements

It is requested that the BCBS consider setting the effective date of LCR disclosure requirements after the implementation date of the LCR, allowing a reasonable lead-time.

The LCR will be introduced on 1 January 2015, but the minimum requirement will be set at 60% and rise in equal annual steps to reach 100%. If its disclosure requirements become effective simultaneously, it may be difficult for market participants to assess the liquidity positions of banks from the disclosed results of LCR, since there will not be an established assessment approach readily available. It is expected that there would be a more concrete view among market participants on how to assess the LCR after some time, perhaps by the time comprehensive analysis/ assessment report on the LCR results will be published by the BCBS. The BCBS should not require public disclosure of the LCR by individual banks during this period of time.

○ Disclosure items

We support the Consultative Document stating the objective of providing qualitative information as enabling market participants to gain a more thorough understanding of quantitative information, and we also support its approach of giving latitude to each bank in determining which items to disclose.

For items provided as examples, the Consultative Document states that, where significant to the LCR, banks may discuss disclosure of such items. It is, however, necessary to note that users of disclosed information, such as rating agencies and investors, may conceive that all examples are required disclosure items, so long as they are provided in the BCBS document. In addition, since examples illustrated in paragraphs 16 and 20 are too detailed as compared to the quantitative information required, we consider that these should be deleted. It is also requested to clearly note that whether and what to disclose under additional quantitative information, specified in paragraph 19, is at the sole discretion of each bank. [1]

○ Simple average of daily observations

The Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tool published in January 2013 defines that the frequency of calculating the LCR should be "at least monthly (para. 162)." As for calculating the LCR, "monthly" has been agreed as the minimum required frequency internationally, although it is clear that operational capacity to increase the frequency in stressed situations is prerequisite. Consequently, figures subject to ongoing disclosure,

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[1] The metrics illustrated in paragraphs 16, 19, and 20 include some metrics similar to those illustrated as supervisory monitoring tools in *The Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tool*. The BCBS should distinguish "additional quantitative information that banks may consider disclosing" from "monitoring tools," which will be mainly used for communication between banks and supervisors and are not aimed to be disclosed at all times, so that market participants will not be confused.

including those at normal times, should also use monthly-based figures.

As compared to figures used for internal management purposes, expectation for accuracy (precisely reflecting positions as at the disclosure date) in figures disclosed externally, for example to investors, is high. In calculating the LCR, daily figures have limitations in their ability to reflect the position as at the disclosure date relative to monthly figures. Hence it is considered difficult to ensure equivalent levels of accuracy. Moreover, sufficiency for internal controls needs to be reviewed before using such daily figures for disclosure purposes. Therefore, we believe using daily figures for disclosure data lack feasibility.

In addition, one of the purposes for requiring the average of daily observation may be to eliminate manipulation over remaining maturities of funding transactions as at the disclosure date (so called window-dressing.) However, banks only have limited trading tools (e.g. inter-bank transactions) to enable them to manipulate remaining maturities. Meanwhile, monitoring metrics that will be implemented as a complementary measure to the LCR require banks to report to their supervisors "contractual maturity mismatch" using detailed grids, together with "concentration of funding" by showing the composition ratio in each funding instrument. For these reasons, we consider that the room for window-dressing is already substantially covered, and disclosing simple average of daily observations is not deemed to be necessary.

○ **Disclosure using the common template**

(1) Granularity of disclosure

It is understood that the common template is designed by the BCBS working group to provide "minimum requirement." There is, however, a concern that detailed information may focus discussions on issues that may be insignificant, distracting from actual cash flow issues and thereby fuelling anxiety over the soundness of banks. Consequently, further changes to the common template should be considered carefully. Moreover, since liquidity disclosures are also being discussed in other areas, it is requested that the BCBS give due regard to the trade-off effect mentioned in our "General Comment."

(2) Inclusion of the column for minimum requirement

The LCR will be introduced on 1 January 2015. However, the minimum requirement will be set at 60% and rise in equal annual steps to reach 100% on January 1, 2019. During this phase-in period, it is requested to include the minimum requirement column in the template. The addition of this column is expected to play a role in avoiding any misunderstanding by visualising the level of minimum requirement (x%, instead of 100%).