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Basel III Framework on Liquidity Standards

As proposed in the [First Bi-monthly Monetary Policy Statement, 2014-15](#) announced on April 1, 2014, the Reserve Bank of India today released on its website [the Guidelines](#) on Liquidity Coverage Ratio (LCR), Liquidity Risk Monitoring Tools and LCR Disclosure Standards. Reserve Bank had placed the draft guidelines on Liquidity Risk Management and Basel III Framework on Liquidity Standards on its website in February 2012 for comments and feedback. The LCR would be binding on banks from January 1, 2015; with a view to provide a transition time for banks, the LCR requirement would be minimum 60% for the calendar year 2015, i.e. with effect from January 1, 2015 and rise in equal steps to reach 100% on January 1, 2019, as per the time-line given below:

	January 1 2015	January 1 2016	January 1 2017	January 1 2018	January 1 2019
Minimum LCR	60%	70%	80%	90%	100%

A Quantitative Impact Study (QIS) conducted by the Reserve Bank as on December 2013 on a sample of banks to assess their preparedness for the Basel III Liquidity ratios indicates that the average LCR for these banks varied from 54% to 507%.

Background

It may be recalled that based on the documents 'Principles for Sound Liquidity Risk Management and Supervision' as well as 'Basel III : International Framework for

Liquidity Risk Measurement, Standards and Monitoring' published by the Basel Committee on Banking Supervision (BCBS) in September 2008 and December 2010 respectively, the Reserve Bank had placed the [Draft Guidelines](#) on Liquidity Risk Management and Basel III Framework on Liquidity Standards on its website in February 2012 for comments and feedback. Taking into account the comments and feedback received, the guidelines on Liquidity Risk Management were issued vide [circular DBOD.BP.No.56/21.04.098/2012-13 dated November 7, 2012](#). It was mentioned therein that as the Basel III liquidity standards were at that time subject to an observation period / revision by the BCBS with a view to addressing any unintended consequences that the standard might have for financial market, credit extension and economic growth, the final guidelines on Basel III liquidity framework would be issued once BCBS revises the framework.

The BCBS has since published 'Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools' in January 2013. Further, the 'Liquidity Coverage Ratio Disclosure Standards' have been published by the BCBS in January 2014. The revisions to the LCR document by BCBS incorporate amendments to the definition of HQLAs and net cash outflows. The changes to the definition of the LCR also 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.

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