Response Document –

Liquidity Coverage Ratio: Public Disclosure Requirements

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1. *What, if any, unintended consequences might result from a covered company publicly disclosing its LCR and the components used to calculate its LCR, specifically in terms of liquidity risk?*

   Below are the scenarios which require public disclosure (both quantitative and qualitative aspects) of LCR apart from usual quarterly reporting cycle:

   a. Whenever there is a rating downgrade of a financial institution (which is responsible for calculating and reporting LCR), then a public disclosure of LCR and its details is required. If the rating downgrade of a financial institution happens in between the quarterly reporting cycle, then that institution should report its LCR details (both quantitative and qualitative aspects) immediately (within 10 business days from the day on which rating downgrade has occurred). The reporting period in this situation should be from the start of the current calendar quarter till the date on which rating downgrade has occurred. Average weighted and unweighted amounts should be calculated from the start of the current reporting quarter till the date on which rating downgrade has occurred. The qualitative aspects should focus on the impact of rating downgrade on the liquidity profile of the institution.
   Example: If the rating downgrade of a financial institution occurs on May 20th, then a public disclosure of LCR is required with reporting date from April 1st (second calendar quarter which becomes the current reporting quarter) till May 20th (including the date on which rating downgrade has occurred).

   b. If LCR falls below the Required Level (as per the levels required during the transition period) for a financial institution (which requires daily calculation of LCR) for three consecutive days, then a public disclosure of LCR is required with reporting date from the start of the current calendar quarter till the third day of the three consecutive days for which LCR has been below the Required Level. Also, supplemental information should be provided which includes the LCR details (weighted and unweighted amounts) for just the three consecutive days for which LCR has been less than the Required Level. The qualitative aspect of public disclosure should focus mainly on the reasons for the fall in LCR below the Required Level and measures to be taken to improve the ratio. Public disclosure should be within 10 business days from the third consecutive day on which LCR is less than the Required Level.
   Example: If the LCR is below the Required Level for three consecutive days i.e. May 20th, 21st, 22nd then a public disclosure of LCR is required with the reporting date from April 1st (starting of the second quarter calendar month which becomes the current reporting quarter) till May 22nd (including the third day of three consecutive days for which LCR has been below the Required Level). In supplemental information, the LCR details (average weighted and unweighted amounts) should be provided only for the three consecutive days (May 20th, 21st, 22nd). The qualitative aspect of LCR in this situation should focus on the reasons for which the LCR has been below the Required Level and measures taken to improve the ratio.

      If LCR falls below the Required Level (as per the levels required during the transition period) for a financial institution (which requires monthly calculation of LCR) for any single month, then a public disclosure of LCR is required with reporting date from the start of the current calendar quarter till the current month for which LCR has fallen below the Required Level. Also, supplemental information should be provided which includes the LCR details (weighted and unweighted amounts) for the current month for which LCR has been less than the Required Level (this supplemental information is required only if the start of the current calendar quarter month and the month for which LCR is less than the Required Level are not the same). Public disclosure should be within 10 business days from the last business day of the month for which LCR is less than the Required Level.
      Example: If LCR is less than the Required Level for a month (say June), then a public disclosure of LCR is required with reporting date from April (start of second calendar quarter month) till the month of June (including the month for which LCR has been less than the Required Level). In the supplemental information, the LCR details (average weighted and unweighted amounts) should be provided only for the month for which LCR is less than the Required Level (i.e. only for the month of June in this case). Suppose the LCR is less than the Required Level in the month of April, then the supplemental information is not required (as the required data is already reported in the main disclosure template). The qualitative aspect of LCR in this situation should focus on the reasons for which the LCR has been less than the Required Level and measures to be taken to improve the ratio.

Once the transition period of LCR is completed and a fully phased-in LCR is implemented then the Required Level of LCR would be 100%.

2. Under what circumstances, if any, should the Board require more frequent or less frequent disclosures of a covered company's LCR and certain components used to calculate its LCR? What negative effects may result should the Board require a covered company to disclose qualitative or quantitative information about its LCR or certain components used to calculate its LCR with 30 days prior written notice?

a. Minimum public disclosure frequency should be quarterly. I recommend the frequency of public disclosure of LCR should not be reduced irrespective of how strong/stable the economy or financial institutions are.
   If the Federal Reserve senses economic instability or financial distress (conditions reflecting the adverse or severely adverse scenarios of the Federal Reserve's Stress Tests) then the frequency of reporting should increase to monthly (for adverse economic scenario of Stress Tests) and weekly (for severely adverse economic scenario of Stress Tests).

b. As most of the financial institutions are already calculating LCR on a daily basis, disclosing LCR information with a 30 day prior notice should not have any negative effects.