

BANGLADESH BANK

Website:www.bb.org.bd

Head Office
Post Box No.-325
Dhaka.

Department of Off-site Supervision

DOS Circular No.-01

Date: 01/01/2015

Chief Executives
All Scheduled banks in Bangladesh

Implementation of Basel III Liquidity Ratios

Bangladesh Bank has declared the road map for implementing the Revised Regulatory Capital Framework for banks in line with Basel III in Bangladesh starting from the year 2015. According to the revised road map issued vide BRPD Circular No. 18/2014, banks have to maintain the minimum standard Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) from January 2015. The minimum standard for LCR shall be greater than or equal to 100 and for NSFR it shall be greater than 100. It may be mentioned that, all scheduled banks are already familiar with these ratios since they have reported these several times, although in an experimental basis, in 2014. In order to further facilitate the reporting process, a "Guidance Note on Liquidity Coverage Ratio (LCR) & Net Stable Funding Ratio (NSFR)" is attached with this circular ([Annexure-1](#)). Banks have to submit information (both soft and hard copy) to Department of Off-site Supervision (DOS) regarding LCR and NSFR in the following manner :

- a) Statement Regarding Liquidity Position- to be submitted monthly, based on the balances of last day of the reporting month, within 15th of the following month.
- b) Statement Regarding Funding Position- to be submitted quarterly, based on the balances of last day of the reporting quarter, within 15th of the following month.

Two reporting formats (Macro) have been prepared for this purpose and banks are advised to collect the formats from DOS.

This circular is issued with immediate effect.

Sincerely yours,

Sd./-

(S. M. Rabiul Hassan)
General Manager
Phone: 9530093

Bangladesh Bank
(Department of off-site Supervision)

Guidance Note on Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)

Liquidity Coverage Ratio:

LCR or Liquidity Coverage Ratio is a new liquidity standard introduced by the Basel Committee. This standard is built on the methodologies of traditional liquidity coverage ratio used by banks to assess exposure to contingent liquidity events. LCR aims to ensure that a bank maintains an adequate level of unencumbered, high-quality liquid assets that can be converted into cash to meet its liquidity needs for 30 calendar days. LCR goes beyond measuring the need for liquid assets over the next 30 days in a normal environment. It measures the need for liquid assets in a *stressed* environment, in which deposits and other sources of funds (both unsecured and secured) run off, to various extents, and unused credit facilities are also drawn down in various magnitudes. These runoffs are in addition to contractual outflows.

The equation:

$$\text{LCR} = \frac{\text{Stock of high quality liquid assets}}{\text{Total net cash outflows over the next 30 calendar days}} \geq 100\%$$

Definitions for the LCR:

The calculation of the LCR requires three important quantities to be defined:

- A. Total value of stock of high quality liquid assets
- B. Total cash outflows, next 30 days (stressed scenario)
- C. Total cash inflows, next 30 days (stressed scenario)

LCR requirement is met if A is greater than B – C; that is, if high quality liquid assets exceed net cash outflows under the stressed scenario. (To make the metric even more conservative, C is capped at 75 percent of B.)

Stock of high quality liquid asset (SHQLA):

The following components are included in the computation of SHQLA -

1. Cash on hand (Lcy + Fcy)
2. Balance with BB (Lcy+ Fcy, excluding lien)
3. Un-encumbered approved securities (excluding lien)

Capital maintained with BB by the foreign banks in the form of local currency, foreign currency or Govt. securities will not be included in the computation of SHQLA (Stock of high quality liquid asset).

Net Stable Funding Ratio:

NSFR or Net Stable Funding Ratio is another new standard introduced by the Basel Committee. The NSFR aims to limit over-reliance on short-term wholesale funding during times of abundant market liquidity and encourage better assessment of liquidity risk across all on- and off-balance sheet items. The minimum acceptable value of this ratio is 100 percent, indicating that available stable funding (ASF) should be at least equal to required stable funding (RSF). ASF consists of various kinds of liabilities and capital with percentage weights attached given their perceived stability. RSF consists of assets and off-balance sheet items, also with percentage weights attached given the degree to which they are illiquid or "long-term" and therefore requires stable funding. The time horizon of the NSFR is one year. Like the LCR, the NSFR calculations assume a stressed environment.

The equation:

$$\text{NSFR} = \frac{\text{Available amount of stable funding (ASF)}}{\text{Required amount of stable funding (RSF)}} > 100\%$$

Definitions of the NSFR:

The calculation of the NSFR requires two quantities to be defined:

- A. available stable funding (ASF) and
- B. required stable funding (RSF).

NSFR is met if ASF exceeds RSF, that is if $\text{ASF/RSF} > 1$ or 100%.

To facilitate the calculation and reporting of LCR and NSFR, Bangladesh Bank will provide a reporting template (macro) with necessary instructions. The standard "Run-off factors" and "Weight factors" are generally applicable for all banks, which for the time being are not disclosed. Banks are advised to develop methodology to determine their own "Run-off factors" and "Weight factors" for future use.

Liquidity Coverage Ratio (LCR)

1. Customer Deposit (excluding Financial Institutions):

a. Current:

All deposits from customer those are current in nature and 10% of Savings deposit shall be included.

b. Savings:

90% of customer's saving account balance shall be reported.

c. Fixed (less than 1 month):

Fixed deposits from customer with maturity one month or less, without considering the renewal option, shall be reported.

d. Fixed (more than 1 month):

All fixed deposits from customer with maturity one month and above shall be reported.

Note: Interest accrued on above accounts shall be included.

2. Deposit from Financial Institutions:

a. Current:

All deposits from financial institution those are current in nature shall be reported.

b. Fixed (less than 1 month):

Fixed deposits from financial institution with maturity one month or less, without considering the renewal option, shall be reported.

c. Fixed (more than 1 month):

All fixed deposits from financial institution with maturity one month and above shall be reported.

Note: Interest accrued on above accounts shall be included.

3. REPO:

Interbank REPO amount and REPO with Bangladesh Bank, drawn portion of ALS (Assured Liquidity Support), ELA (Emergency Liquidity Assistance) shall be reported.

4. Other borrowings and placement received:

Call and other borrowings (in home and in abroad) in the form of placement or any other way shall be reported.

5. All other monetary liabilities issued by the bank that do not fit into one of the above categories:

Demand Liabilities

Outstanding Bills, Payment Orders, Telegraphic Transfer & MT, Outstanding Drafts, Draft Payable Account, Demand Draft, Hajj Deposit, Bonus scheme Remittance Payable, Branch Remittance Payable, Bills Payable, Certificate Payable, Foreign Currency Deposit account, Unsold balance of NCFD account, Convertible Taka account, Margin on L/Cs, Margin on

Guaranties, Security Deposit accounts, Unclaimed Dividend/Dividend Payable, Credit Balance and adjustment account, Sundry deposit accounts, any other miscellaneous deposit payable on demand.

Time Liabilities

Employees' Provident Fund Account, Staff Pension Fund, Staff Guarantee or Security Fund, Contribution towards Insurance Fund, Margin account-Foreign Currency, Liabilities towards Foreign banks/Correspondence bank, Bi-lateral trade liabilities, any other miscellaneous liabilities payable on notice or after a specific period.

6. Undrawn portion of lines of credit (continuous loans):

Undrawn portion of Cash Credit (CC) and Overdraft (OD) shall be reported.

7. Undrawn portion of lines of credit (Term loans):

Undrawn portion of fixed term loan shall be reported.

8. Amounts outstanding of commercial letters of credit (settlement date within the next 30 days):

Outstanding L/C maturing within next 30 days and total outstanding sight L/C (without considering other options) shall be reported.

9. Amounts outstanding of guarantees, standby letters of credit, performance bonds, bid bonds, Acceptances and similar instruments.

10. All contractual cash outflows within the next 30 days:

The contractual outflows such as dividend, vendor payment, payment for construction etc. shall be reported. Outflows related to operating cost and payment obligations (interest etc.) for deposits shall not be included.

11. Loans to financial institutions, such as reverse repos, backed by assets that are considered high-liquid:

The amount of loans provided (e.g. interbank reverse repo etc.) to financial institution those are secured by high liquid assets shall be reported here. High Liquid Assets are Government Securities (T. Bills and T. Bonds).

12. Loans to financial institutions backed by assets that are not considered high-liquid:

The amount of loans provided to financial institution those are secured by assets (e.g. fixed deposit receipt) shall be reported.

13. Principal and interest receivables, on performing Term loans, from all non-financial customers within the next 30 days:

Principal and Interest receivable (according to loan repayment scheduled) on performing term loans provided to customers (other than Banks & NBFIs) shall be reported.

14. Cash on hand (Lcy+Fcy):

Cash on hand in the form of both Local and Foreign Currency (equivalent BDT) shall be reported.

15. Balance with Bangladesh Bank:

(All balances shall be reported without any deduction)

a. Local Currency Total (Total TK. current account balance with BB)

Lien with BB as Capital

Lien with BB for other purposes

b. Foreign Currency Total (Total FC clearing account balance with BB)

Lien with BB as Capital

16. Book value of unencumbered eligible GOVT. Securities in HTM portfolio (T. bill & T. bond):

(All balances shall be reported without any deduction)

Book value of unencumbered Government Treasury bill, Treasury bond, and Bangladesh Bank bill classified as Held-to-maturity (HTM) shall be reported.

Book value of securities marked as Capital with BB

17. Book value of other unencumbered eligible GOVT. Securities in HTM portfolio:

Other securities, eligible for SLR and BGIIB (Bangladesh Government Islami Investment Bond) shall be reported. Balance Kept with Islamic Refinance Account (only for banks based on Islami Shariah) and Reverse repo with Bangladesh Bank shall also be reported.

18. Market Value of unencumbered eligible GOVT. Securities in HFT portfolio (T. bill & T. bond):

Unencumbered Government Treasury bill, Treasury bond, and Bangladesh Bank bill classified as Held-for-trading (HFT) shall be reported.

Market Value of securities acquired under Reverse repo:

Securities acquired under reserve repo as mentioned in serial No. 11 shall be reported.

Net Stable Funding Ratio (NSFR)

1. Regulatory Capital (consolidated):

Regulatory Capital as on last quarter under Basel-II (excluding all revaluation reserves) shall be reported.

2. Customer Deposit (excluding Financial Institutions):

a. Current:

All deposits from customer those are current in nature and 10% of Savings deposit shall be included.

b. Savings:

90% of customer's saving account balances shall be reported.

c. Fixed (1 month or less):

Fixed deposits from customer with maturity one month or less, without considering the renewal option, shall be reported.

d. Fixed (more than 1 month to less than 1 year):

All fixed deposits from customer with maturity one month and above shall be reported.

Note: Interest accrued on above accounts shall be included.

3. Deposit from Financial Institutions:

a. Current:

All deposits from financial institution those are current in nature shall be reported.

b. Fixed (1 month or less):

Fixed deposits from financial institution with maturity one month or less, without considering the renewal option, shall be reported.

c. Fixed (more than 1 month to less than 1 year):

All fixed deposits from financial institution with maturity more than one month and above shall be reported.

Note: Interest accrued on above accounts shall be included.

4. Liabilities with a remaining maturity of one year or more (excluding those mentioned in 2, 3, 5 and 6):

Employees' Provident Fund Account, Staff Pension Fund, Employees' Security Deposits, Staff Guarantee or Security Fund, Contribution towards Insurance Fund, Margin account-Foreign Currency, Liabilities towards Foreign banks/Correspondence bank, Bi-lateral trade liabilities, any other miscellaneous liabilities payable on notice or after a specific period.

5. All other monetary liabilities (excluding those mentioned in 2,3,4 above and amounts owed to financial institutions):

Outstanding Bills, Payment Orders, Telegraphic Transfer & MT, Outstanding Drafts, Draft Payable Account, Demand Draft, Hajj Deposit, Bonus scheme Remittance Payable, Branch Remittance Payable, Bills Payable, Certificate Payable, Foreign Currency Deposit account, Unsold balance of NCFD account, Convertible Taka account, Margin on L/Cs, Margin on Guaranties, Lockers Key Security Deposits, Security Deposit accounts (amount deposited by

Supplier of stationary and furniture etc. as security), Unclaimed Dividend/Dividend Payable, Credit Balance and adjustment account, Sundry deposit accounts, any other miscellaneous deposit payable on demand.

6. Amount owed to financial institutions:

Call money or similar type (e.g. Placement received) borrowing shall to be reported.

7. Residential Mortgages, regardless of maturity, those qualify for the 50% RW under Basel II Standardized Approach:

Claims fully secured by residential property (excluding staff loans/Investment) that carry 50% risk weight under Basel II capital requirement for credit risk on balance sheet exposures shall be reported.

8. Loans to non-financial client other than natural persons or small businesses with a residual maturity of less than a year:

Amount of loan provided to non-financial corporate customers shall be reported.

9. Other Loans to non-financial clients with remaining maturity of one year or more, those qualify for the 50% RW under Basel II Standardized Approach:

Claims on public sector entities (excluding equity exposure) and claims on corporate (excluding equity exposure) that carry 50% risk weight under Basel II capital requirement for credit risk on balance sheet exposures shall be reported.

10. Loans to natural persons or small businesses with a residual maturity of less than a year:

Amount of loan provided to Individual Customer and Small Business shall be reported.

11. All loans (excluding those mentioned from 7 to 10 and 21 to 22) with a residual maturity of one year or more:

12. Cost price of debt securities (excluding those issued by other FIs) with a residual maturity of one year or more:

Debt securities include Treasury Bonds (BGTB) and other Treasury Bonds as well as Bangladesh Govt. Islami Investment Bond (if any).

13. Cost price of debt securities (excluding those issued by other FIs) with a residual maturity of less than one year:

These include Treasury Bills, Treasury Bonds (BGTB) and other Treasury Bonds as well as Bangladesh Govt. Islami Investment Bonds with a residual maturity of less than 1 year.

14. Undrawn portion of lines of credit (continuous loans):

Undrawn portion of Cash Credit (CC) Loan and Overdraft (OD) Loan shall be reported.

15. Undrawn portion of lines of credit (Term loans):

Only undrawn portion of fixed term loan shall be reported here.

16. Amounts outstanding of commercial letters of credit:

Outstanding L/Cs (including sight L/C), without considering other options shall be reported.

17. Amounts outstanding of guarantees, standby letters of credit, performance bonds, bid bonds, acceptances and similar instruments:

18. Debt securities, regardless of maturity, issued by other financial institutions/corporate or individual institutions (cost price):

Investment in sub-debt instruments, corporate bonds, commercial papers and similar instruments issued by other financial institutions shall be reported.

19. Fixed assets (Cost Price):

Fixed assets at cost price stated in last audited balance sheet shall be reported.

20. Other Investments:

a. Non traded equity securities (cost price)

Non traded equity securities such as; preference share, sponsor share, CDBL share etc. are to be reported.

b. Mutual Fund Unit (cost price)

c. Capital provided to own subsidiaries

d. Publicly-traded equity securities (cost price)

21. Loans to, and deposits in, other financial institutions in Bangladesh:

a. Loans

Loans provided to other financial institutions including own subsidiary shall be reported.

b. Deposits/Placement

Funds deposited/Placement with other financial institutions including own subsidiary shall be reported.

22. Loans to, and deposits in, other financial institutions outside Bangladesh:

a. Loans

Loans provided to other financial institutions outside Bangladesh including own subsidiary and Off-shore Banking Unit (OBU) shall be reported.

b. Deposits/Placement

Funds deposited/Placement with other financial institutions including own subsidiary and Off-shore Banking Unit (OBU) shall be reported.

23. Claims on Bangladesh Bank:

Funding under refinancing scheme, such as; EDF, Agricultural loan etc. shall be reported.

24. Cash on hand (Lcy+Fcy):

Cash on hand in the form of both Local and Foreign Currency (equivalent BDT) shall be reported.

25. All other assets not mentioned above:

Balance with BB plus other financial assets not mentioned above shall be reported.