

Response to feedback received

Liquidity Risk

Introduction

Bank Negara Malaysia (the Bank) issued today the *Liquidity Risk* policy document for financial institutions. This policy document incorporates feedback received during the consultation period to refine the proposals from the exposure draft issued on 23 August 2023.

The Bank received responses from 41 respondents during the consultation period. Respondents were broadly supportive of the principles and requirements in the exposure draft. Other comments and suggestions for clarification, where relevant, have also been incorporated in the policy document.

Bank Negara Malaysia
15 October 2024

1. Effective date of the policy document

Feedback received

A large number of respondents requested for an implementation timeline longer than the proposed 6-month timeline in the exposure draft. While liquidity risk management practices in the banking industry are found to be generally in line with the proposals in the exposure draft, respondents cited the need for additional time to implement systems enhancements, update policies and procedures, as well as facilitate manpower planning to ensure meaningful compliance with the requirements in the policy document. This also includes to formalise and codify existing internal practices across business lines, branches and subsidiaries to ensure that they are fully in line with the requirements of the policy document.

BNM's response

- 1.1 The requirements of the Liquidity Risk policy document will take effect 12 months post-issuance of the policy document, except for paragraph 18.5 on voluntary public disclosure of LCR positions which will take effect on 1 January 2025. Specifically on the voluntary public disclosure of LCR positions, the requirement will take effect for LCR positions as at 31 December 2024 and onwards, which are disclosed on or after 1 January 2025.
- 1.2 The Bank has assessed that a 12-month implementation timeline is appropriate and provides sufficient time for financial institutions to complete the necessary steps to ensure meaningful compliance with the requirements in the policy document, both at the entity and group level.
- 1.3 The Bank expects that financial institutions make reasonable and meaningful progress in ensuring full compliance during this transition period. Individual financial institutions which face challenges in implementing the policy document within the stipulated timelines are encouraged to engage the Bank, as appropriate.

2. Concentration limits for counterparties and funding providers

Feedback received

A number of respondents highlighted challenges in implementing concentration limits for counterparties and funding providers, in particular against groups of funding providers which may exhibit correlated behaviour (e.g. concentration within economic sector or geographical area).

- 2.1 The lack of diversified funding, among other factors, had contributed to the collapse of Silicon Valley Bank (SVB) in early 2023. SVB's deposit base was heavily concentrated in customers from sectors and entities which exhibited highly correlated behaviour, thus heightening SVB's funding concentration risk. With this observation in mind, the exposure draft sets out an expectation for financial institutions to consider establishing concentration limits to better manage any risks arising from such exposures, particularly for groups of funding providers which may exhibit correlated behaviour.
- 2.2 While agreeing on the benefits of diversified funding sources, respondents to the exposure draft cited that there are structural features of Malaysia's funding landscape which create challenges for financial institutions to fully diversify their funding sources, and even more so in establishing and implementing concentration limits.
- 2.3 Noting these challenges and the feedback received, the expectation for financial institutions to manage concentrations against groups of funding providers which may exhibit correlated behaviour has been further clarified in the policy document. In particular, paragraph 12.4 of the policy document sets out that financial institutions should *monitor* funding exposures to establish whether there is a concentration towards groups of funding providers which exhibit correlated behaviour (e.g. economic sector, geographical area). While not mandated, financial institutions should *consider establishing* concentration limits to manage such concentrations, if deemed appropriate. The Bank expects that a financial institution determines appropriate measures to manage and control such concentrations, in line with its board-approved liquidity risk appetite.

Other policy issues

3. Requirement for any voluntary public disclosures of liquidity coverage ratio (LCR) positions by financial institutions be based on the simple average of monthly or daily LCR observations

- 3.1 The Bank notes that a number of financial institutions currently make voluntary public disclosures of their year-end and/or quarter-end LCR positions, typically in financial reports and/or investor presentations. While there is no requirement in Malaysia at present for financial institutions to publicly disclose their LCR positions, many do so for market transparency reasons.
- 3.2 Going forward, the implementation of Basel III Pillar 3 will involve the Bank mandating and prescribing the format of detailed public disclosures of the LCR¹. Pending the implementation of Basel III Pillar 3 in Malaysia, the Liquidity Risk policy document sets out broad expectations for financial institutions which voluntarily disclose their LCR positions to publish LCR positions based on the simple average of monthly or daily observations. The policy document further requires that such averages be calculated based on observations representative of the relevant financial reporting period, with the average being derived from no fewer than 12 observation points².
- 3.3 For example, if a financial institution publicly discloses its financial year-end LCR position for a financial report, the LCR should be calculated as the simple average of either 12 monthly observations or 365/366 daily observations. Meanwhile, the disclosure of a quarter-end LCR position for a quarterly financial report should be calculated as the simple average of the 90 or so daily observations in that quarter.
- 3.4 The requirement on the voluntary public disclosure of LCR takes effect on 1 January 2025, and would apply to voluntary public disclosures of LCR positions, including 2024 positions, which are disclosed on or after 1 January 2025. Financial institutions which elect to disclose their LCR positions must disclose the LCR as a simple average, starting with the reporting of their 31 December 2024 LCR positions.

¹ As indicated in Regulatory Calendar 2024, the Bank plans to consult the industry on Basel III Pillar 3 on or after 2028.

² Under the Basel Committee on Banking Supervision's Basel III Pillar 3 rules, financial institutions must disclose their LCR positions as a 90-day daily average figure on a quarterly basis.