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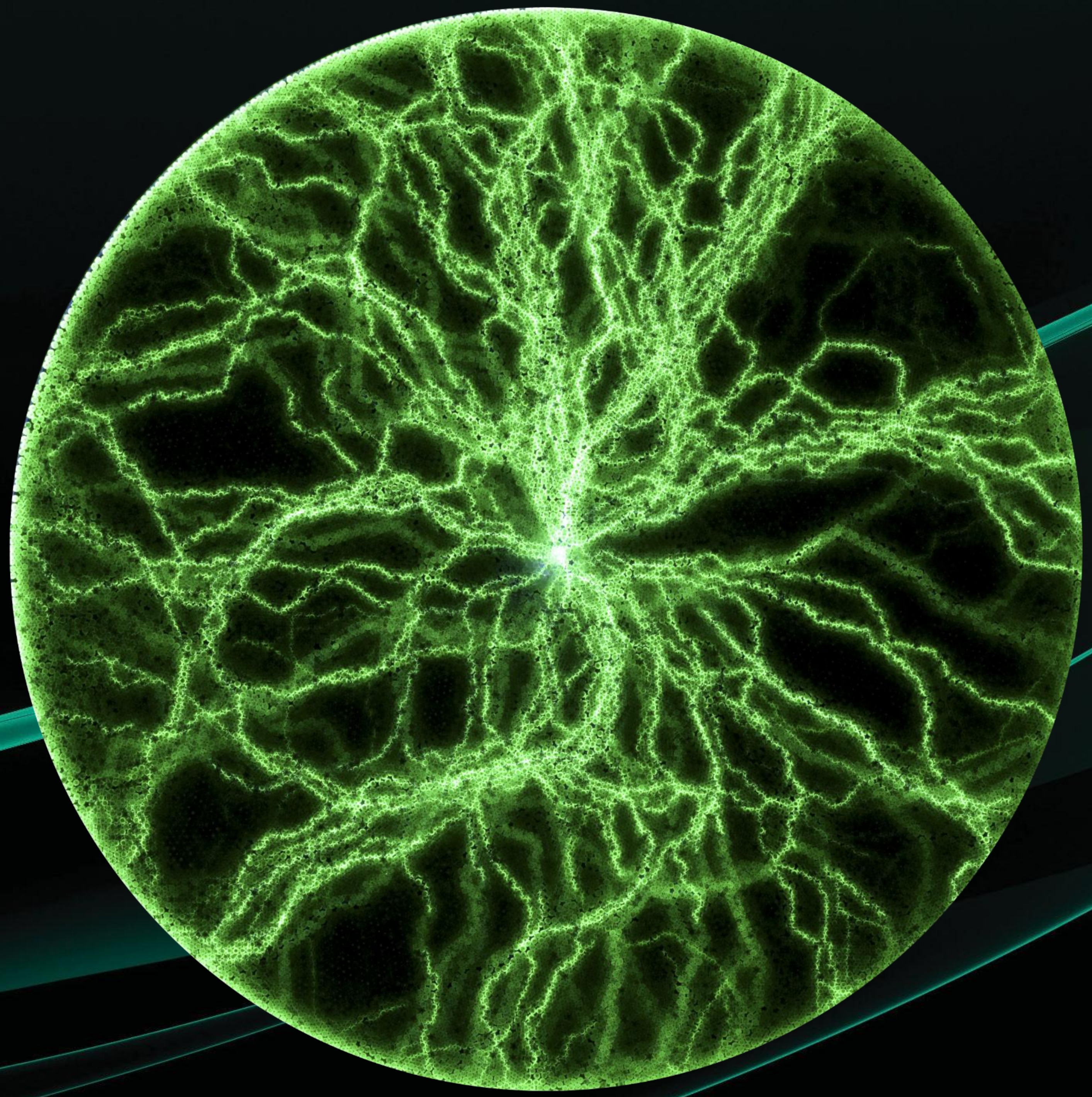


Navigating through Liquidity Coverage Ratio and Net Stable Funding Ratio

Sustaining growth through compliance and value creation

In response to the 2008 global financial crisis, Basel Committee on Banking Supervision (BCBS) introduced the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) as part of Basel III framework to ensure banks maintain sufficient liquidity and stable funding during crisis.

2008

Principles for sound liquidity risk management and supervision

- Guidance is provided by BCBS, which emphasises the importance of assessing the adequacy of a bank's liquidity risk framework and its level of liquidity.

2013

Liquidity Coverage Ratio

- The LCR ensures sufficient High-Quality Liquid Assets (HQLA) to cover 30 days of cash outflows in a stressed market environment.

2014

Net Stable Funding Ratio

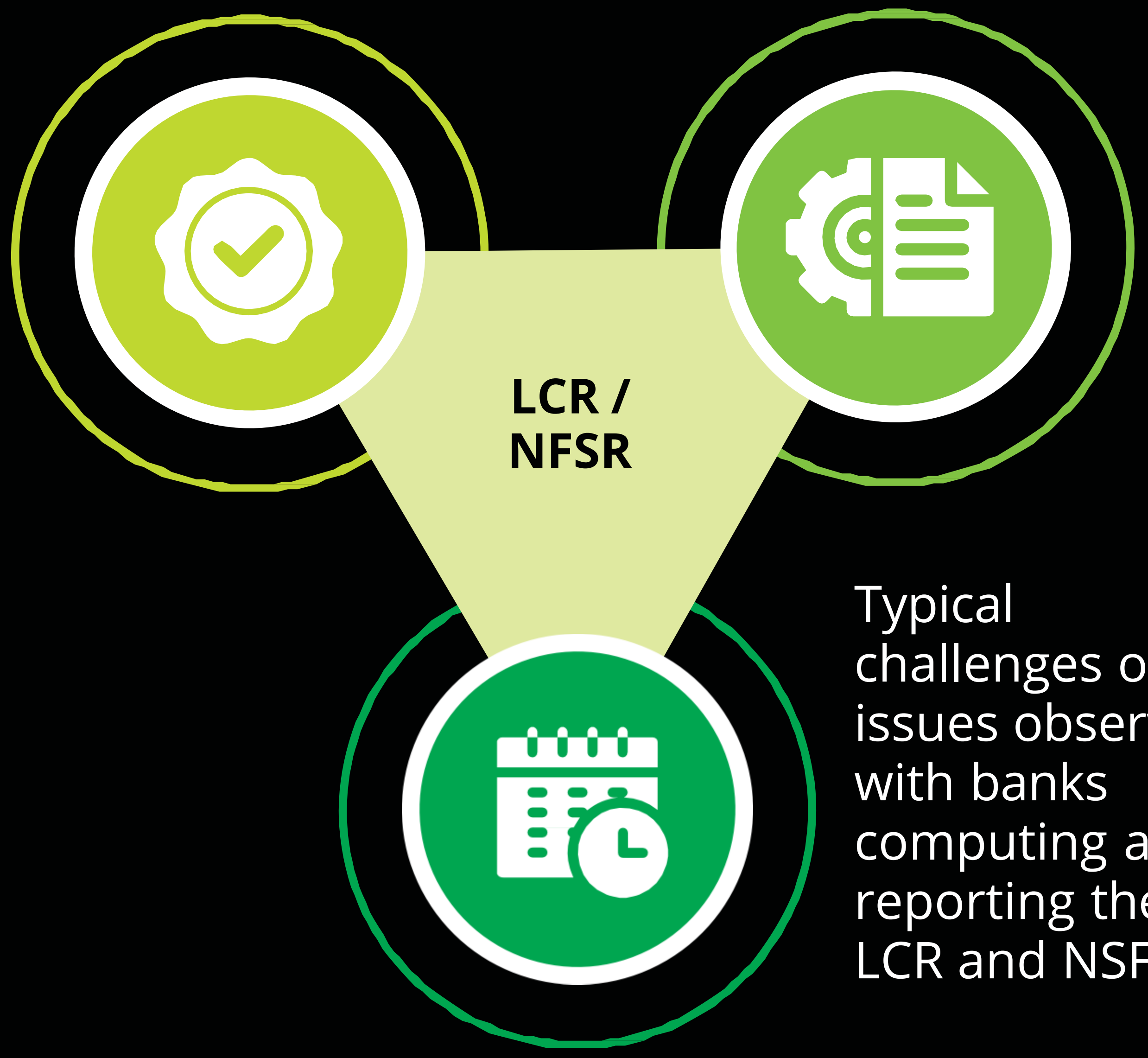
- Complements LCR and aims to reduce funding risk over a time horizon of up to one year.
- The NSFR ensures a bank's available stable funding meets the required stable funding.

"Compliance drives trust, value creation drives growth"

LCR and NSFR have been effective introduced by BCBS since 2013 and 2014 respectively and meeting these requirements has become standard practice for banks. However, there are opportunities for banks to go beyond compliance and create value for growth.

Operational challenges in meeting LCR and NSFR requirements

The operational challenges faced in computation and reporting to the regulator can be largely divided into three main segments:



Typical challenges or issues observed with banks computing and reporting the LCR and NSFR.

01 Data quality / Standardisation

Data issues in computation and inconsistencies:

- Dependencies on multiple sources with no golden source.
- Issues in critical data fields at onboarding stage which are critical for reporting.
- Inconsistent definitions and the interpretations across the regulatory reports.

02 Methodology / Transformations

Observed range of issues while translating the rules for cash outflows, inflows, Available Stable Funding (ASF) and Required Stable Funding (RSF):

- Treatment for operational deposits.
- Deposit categorisation into stable / less stable.
- Derivatives flows – netting, global vs local margin agreements, look back approach, etc.
- Treatment of products with optionality risk.
- Conservative calls taken while transformation in the system around derivatives, off balance sheet.

03 System limitation / Reporting

- Static data for items which are generally refreshed on monthly basis – Risk Weighted Assets (RWA) information, undrawn commitments.
- Hardcoded rules in the systems.
- Reporting challenges on daily basis.
- Lag in reporting from the strategic systems leading to delayed action.

Common root causes of misreporting

1

Lack of preparer & reviewer process / segregation of duties

Inadequate segregations of duties and failure in detecting errors during the preparation and review of the statutory and regulatory reporting process.

2

Misinterpretation of statutory and reporting guidelines

Misinterpretation or inadequate understanding of the statutory and reporting guidelines.

3

Inadequate reconciliation performed

Lack of reconciliation to source files / other statistical reporting to ensure completeness and accuracy of the reporting figures.

4

Absence / not updated or inadequate SOP

Absence of constantly updating the SOP based on the latest process in the preparation and submission of the reports to regulators.

5

Data issues: Duplication / incomplete / inconsistency

Many financial institution (FI's) store multiple copies of the same data across different files and systems, including legacy systems. With limited insights on how data is processed through various systems, this is likely to result in inefficiencies and increased operational costs due to data redundancy, reconciliation challenges, and compounded data cleanup efforts.

6

Over-reliance on manual approach

Inaccurate reporting due to the report preparer's over-reliance on manual approach.

Deloitte's standard review methodology

Process flow

A Sources F1	B ETL Rules	Reporting tool F2					Reporting F3
Various source systems		B Data layer	C Configuration	D Calculation	D Results	E Reporting	E Report submissions

Detailed review approach

1. Functional interpretation review

Review approach

A Data preparation
- Identify key data elements from source systems required for classifications and calculations

B 1st level review – Functional interpretation
- Review the key source system data elements identified, against the functional interpretations of policy documents from regulator, to ensure accurate implementation of Extract, Transform and Load ("ETL ") rules

2. Configuration and calculation review

C 2nd level review – Configurations
- Review the asset classification and calculation rules against the policy document prescribed by the regulator
- Review the entity and consolidated level configurations to ascertain accurate application of calculation rules

D 3rd level review – Calculation results
- Perform sampling review of calculation for each items

3. Report review

E 4th level review – Report population
- Review reports against the calculation results to ascertain accurate data population
- Review timeliness of report submission against the stipulated timeline

4. Controls review

Evaluate governance and test the **control design effectiveness and operating effectiveness** for the indicative controls (shown on the right) residing in:
- F1: Source systems
- F2: Reporting process

F1 Controls in source systems report-production controls
- Business verification

F2 Controls in reporting tools Report-production controls
- Reconciliation
- Exception report
- Manual adjustments

F3 Reporting Report-production controls
- Preparer and reviewer controls prior to reporting submission

How Deloitte can help

As regulatory expectations around liquidity risk management continue to evolve, FI's must ensure their LCR and NSFR frameworks remain robust, accurate, compliant and value-adding. Achieving this requires a structured approach that strengthens governance, enhances reporting efficiency, and builds capabilities.

We offer a suite of services to support you in meeting these challenges. Our independent assessment and gap analysis helps identify compliance gaps and areas for improvement, ensuring alignment with regulatory requirements. Through enhancement and automation of reporting process, we optimise data accuracy, automation, and reconciliation processes to improve reporting efficiency and reliability. Lastly, our capabilities building initiatives empower teams with the necessary knowledge to maintain long-term compliance and operational excellence.

Independent assessment and gap analysis

Enhancement and automation of LCR and NSFR reporting process

Competencies and capabilities building

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