

ABM: Commercial banks have sufficient liquidity

> Says loan-to-fund ratio and loan-to-fund-equity ratio better measurement for liquidity than loan-to-deposit ratio

KUALA LUMPUR: The Association of Banks Malaysia (ABM) yesterday said the funding and liquidity conditions of commercial banks in Malaysia are within acceptable levels, alluding to concerns highlighted by a news report last week.

"It is important to note that misleading reporting on asset and liability positions may misrepresent the liquidity situation in the marketplace and may cause concern among the business community and the public," it said in a statement.

The increase in banking sector loan-to-deposit ratio (LDR) has been driven by anticipated moderation in deposits growth since 2011 but has remained relatively stable, hovering between 86.7% and 89.3% over the last three years.

ABM said the LDR is a simplistic measurement that does not take into account increased sophistication by banks in Malaysia to diversify its sources of funding beyond the deposits and interbank markets to include bond and equity, and

other financial instruments.

It said LDR has become less relevant in light of developments in the financial system over the last 10 years.

Traditionally, banks relied primarily on customer deposits as a major source of funding, however, since the mid-2000s, the proliferation of alternative investment products available to the average consumer coupled with lower savings and higher consumer activism has reduced the relative stability of customer deposits. This resulted in a shift to a broader funding base by the banks.

While deposits remain the main source of funding for banks, the banking sector continues to raise medium-term funds to better manage maturity and currency mismatches.

It said, to address the limitations of LDR, the regulators have introduced other indicators of liquidity risk such as the Liquidity Coverage Ratio (LCR), the loan-to-fund ratio (LTF) as well as the loan-to-

fund-and-equity ratio (LTFE) in 2015.

ABM said the LTF and LTFE, available in Bank Negara Malaysia's *Monthly Statistical Bulletin*, are better measurements of liquidity as they reflect the broader based funding of banks.

The LTF includes issuances of debt securities in the denominator and provides a more comprehensive assessment of the banks' funding structure while the LTFE includes equity.

The LCR standard ensures that banks have sufficient high-quality liquid assets that can be used to satisfy liquidity needs in a 30-day severe stress environment and considers a broader range of factors that can affect funding stability, such as the type of counterparty, transaction tenor and redemption features of a specific product.

For commercial banks, the LCR stood at 142% as at June 2017, which is well above the minimum transitional requirement of 80% in 2017.

It should also be noted that almost all banks maintained LCR levels above the fully phased-in requirement of 100%, which will only take effect in 2019.