Liquidity Coverage Ratio (LCR) Explained

A key Basel III requirement for short-term liquidity resilience

The Formula

$$\text{LCR} = \frac{\text{Stock of High Quality Liquid Assets (HQLA)}}{\text{Total Net Cash Outflows over 30 days}}$$

Regulatory Threshold

LCR must be ≥ 100%

To ensure institutions can survive a 30-day liquidity crunch

What's in the Formula?

High-Quality Liquid Assets (HQLA)

Assets that can be quickly converted into cash with little or no loss of value, even in times of market stress.

Examples: Sovereign bonds, central bank reserves, top-rated corporate debt.

Net Cash Outflows

Projected cash outflows (like deposit withdrawals) **minus** projected cash inflows (like loan repayments).

Over a **30-day** stressed scenario. Assumes a market-wide liquidity shock.