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## **BCBS Consultative document regarding monitoring indicators for intraday liquidity management**

The Division Bank and Insurance of the Austrian Federal Economic Chamber, as representative of the entire Austrian banking industry, appreciates the possibility to comment on the document "Monitoring indicators for intraday liquidity management" and would like to submit the following position:

### **General Remarks**

The consultation paper addresses „internationally active banks“. Therefore, it is important that the proportionality principle is taken into account and that the application of the envisaged provisions will not be extended to all banks. The effort which would go hand in hand with an extensive application (i.e. including all banks) would be disproportionate to the added value. In such a case it would at least be necessary to put in place exceptional provisions with regards to liquidity networks in so-called decentralized banking sectors (savings banks, mutual banks).

Although it is pointed out in the introductory part of the consultative document that the envisaged measures should not be considered as additional ratios to the Basel III liquidity ratios, the proposed measures have to be considered as de facto additional requirements.

Notwithstanding that the Basel III liquidity ratios have so far not focussed on the intraday liquidity, it has to be stated that with the assumptions and requirements embedded in the Basel III liquidity framework concerning the liquidity buffer sufficient counterbalancing capacity is guaranteed. This ensures adequate reserves are built up in order to manage payment obligations both in normal and in stress scenarios.

## Detailed Comments

The aim of the reporting template in its current version is an information basis rather than it representing a steering-relevant evaluation. The required implementing effort bears no relation to the benefit of implementing the envisaged measures.

The envisaged stress assumptions may lead to a duplication of work and misunderstandings in connection with the LCR assumptions.

A detailed description about which stress factors in which form have to be applied on intraday payment flows is not contained in this document.

It must be mentioned that realtime-monitoring (technical as well as operational) is almost impossible, because the template assumes a determination of highest and lowest level of liquidity within each hour of a working day. In order to determine these values a realtime monitoring rather than monitoring based on a target date has to be carried out. This type of monitoring would produce significant amounts of data and would impact heavily on IT resources, because the payment infrastructure, treasury, risk management and IT within a bank would be affected considerably.

In certain banks most payment transaction accounts are partly maintained (sometimes up to 90%) by so-called correspondence banks (*agents*). A statement of account is normally provided only the following day. The daily statement of accounts provided by the correspondence bank does not contain any date of account movements, merely valuta-based information on a daily basis is available. The accounting (ARCTIS) in the main bank (*principal*) is solely carried out as a mirror-booking (*Spiegelbuchung*), where statements of exact dates corresponding with the individual movements are not possible. A historical query with exact dates about payments being made based on the current systems is not possible thus far.

The requirements with regards to hourly analysis of payment flows (indicators 1 and 2) as well as additional analyses on this basis (indicators 7 and 8) cannot be fulfilled so far because of missing information about the exact date of payment flows at the correspondence banks, because of missing automatical transmitting facilities (for instance via Swift) and because of an unavailable mapping of this information in the own systems. Fulfilment of these requirements can only be reached if an industry-wide additional software with specific capabilities to fulfil the specific technical requirements is developed. An implementation of such a system would affect the bank itself as well as correspondence banks and other service providers who process the payment transactions.

It is not certain whether the requirements set out in indicators 3, 4, 5, and 6 would also be required regularly during the day. If this were the case, the fulfilment of these requirements would not be possible either.

In order to guarantee the reporting requirements based on the stress scenarios it is necessary to be able to calculate the ratios also in a normal case. However, given that a calculation is not possible in a normal case, the fulfilment of these reporting requirements for the stress scenarios cannot be fulfilled either.

Furthermore, it is important to mention that banks have already made provisions to ensure an intraday ability to pay. With regards to the liquidity disposition on a daily basis it is taken account of most urgent critical payments, the remaining payments are carried out sequentially according to the available coverage by credited deposits. Information about the exact dates of the payment transactions made is only available in rare cases.

Significant preparation time would have to be allowed for real time monitoring implementation.

Scope of reporting: There is no differentiation according to the type of payment systems used in the bank. Many Austrian banks are direct participants of Euro Payment Transactions via Target 2, in foreign currencies however only as indirect participants. For an indirect participant it is almost impossible to collect realtime data about payments made as well as payment volumina at a definite time, because an indirect participant only has access to information about the date of sending the payment order but not information about the date when the correspondence bank executes the order. Likewise information about intraday volumina from correspondence banks is not known.

The envisaged provisions are therefore not suitable or reasonable for all different business models of banks.

In conclusion we would like to point out that an implementation of this monitoring process in the proposed form would require an enormous technical, financial and personnel effort, which would bear no relation to the benefit and moreover would partly not be feasible.

#### **Technical Aspects / Risk Aspects:**

In the following part a detailed breakdown of technical aspects is given (these are to be defined more precisely). Moreover, the missing level of detail regarding risk aspects will be addressed.

#### **IT Impacts:**

- More details for fulfilling the requested reports are needed
  - Chap. 4 and 5 "payments sent / payments received": payments might be either bank transfers or collections; different payment flows for the same transactions are resulting out of that:  
Case 1 means that money will be transferred from Bank A to Bank B, in opposite;  
Case 2 means that money will be transferred from Bank B to Bank A.  
We are assuming that payment flows are more relevant than transaction flows.  
Additional remark on that assumption: Contrary to the above mentioned cases, are only payments relevant for filling the template?
- Clarifying which payment systems have to be taken into account:
  - Is it required to use a final RTGS system like "T2"?
  - Are in addition clearing systems relevant which are doing their settlement across these systems?
  - Or are only "correspondence banking relationships" relevant?
  - This information is important as automatic executing systems (which are doing "batch" payments / executing to fixed times) might distort the hourly statistic as

requested in the template: e.g. payments will be executed at 9 a.m, at 12 a.m and at 5 p.m, for the rest no payments might be observed.

- Clarifying on measurement of "largest five financial institutions"
  - Fixed set of counterparts
  - Changing counterparty out of daily business volume
- Clarification of measurement unit (e.g. "EUR Mio.") within the Excel template
- Especially more detailed information of the reporting scope is required. Should banks of a decentralized sector also be included?
- More detailed distinction about the requested currencies
  - Within the paper no clarification about currencies which need to be reported is given, might it be in terms of materiality compared to total balance sheet, the "largest five", or something else.

#### Risk perspective:

A more detailed explanation of "intraday liquidity risk" is required. Despite paragraph 11 "intraday liquidity", there is no clarification what the risk perspective should be. In addition it would be useful to give more details about the goal of the template, e.g. which information is expected out of it.

As a general comment it could be more appropriate to split what is considered intraday liquidity risk in two different major areas:

- 1) the ability to timely manage the liquidity sources, cash or collateral;
- 2) the ability to monitor the capability to timely access the settlement systems for the requested amount.

Among the indicators proposed by BCBS, we would prioritize the ones that provide an indication of the capability of a bank to timely fulfil its obligations:

- Time-specific and other critical obligations (iv)
- Intraday throughput (viii)

Despite the need for further clarity on the definitions of the so-called critical payments and the events that lead to failure of such payments, we would argue that the two indicators mentioned above are not only useful to monitor the effectiveness of the settlement systems' access, but also to monitor to which extent a financial institution could cause a systemic problem, when it is not able to timely fulfil its critical obligations (CLS, Margin Calls, SSS).

The other indicators provide valuable information but some of them, in our opinion, are more valid for a static analysis rather than a dynamic analysis, and could be provided with a different frequency (for example on a quarterly basis).

#### Identifying of stress scenarios:

Paragraphs 33 to 39 are containing general statements about the required stress scenarios. As the definition of that is similar, but not equal to Basel III - LCR required stress scenarios "Market Crisis" and "Name Crisis", a more detailed explanation is required to avoid misunderstanding and misinterpretation of the different scenarios. In addition it might be

more efficient to set scenarios equal to Basel III - LCR so as to avoid any kind of redundancy.

Paragraphs 42 to 44 are related to required stress indicators. In general we appreciate the possibility to take such a variety of indicators into account. Nevertheless to some extent they might be misinterpreted. For instance, volatility in daily maximum does not say anything about a perspective stress situation, especially the last day of the month might show some fluctuating volumes.

In general there is no consideration of the individual business models of the banks, e.g. an investment bank will have a complete different intraday liquidity management / risk management than a corporate or a retail bank. Therefore a detailed explanation on how the information gathered by the template will be interpreted is appreciated. In addition a distinction due to the different types of banks would be highly appreciated too.

#### Concerns

It will also be important to understand the actual use of these indicators by competent authorities. If authorities intend to issue new mandatory parameters, these will most likely adversely impact the intraday-liquidity-operations thus causing a potential concentration of payments later in the day. In any case harmonization and a level playing field across borders will become of the utmost importance. It should therefore be made clear by supervisors that the indicators are only and exclusively intended as monitoring tools; any kind of common limitation with respect to the intraday activity would further decrease the participants ability and/or their willingness to execute payments in a timely manner, therefore increasing the intraday liquidity risk.

#### Reporting frequency:

As in paragraph 58 stated a monthly data delivery is required. Given the fact that within the template also hourly indications are requested it might be misinterpreted how often reporting has to be done.

- Are the maximum values within the respective month requested?
- Is it required to send each month several templates, one for each day?

Further analysis could be necessary on: i) the reporting time frequency for some indicators ii) some further evaluation on the effectiveness of the application of all the suggested stressed scenarios, iii) the comparability of the results, since the outcomes of some calculations will depend, to a certain extent, on the individual technical infrastructure of the bank, iv) the scope and treatment of payments in foreign locations.

We suggest to clarify explicitly that the monitoring indicators should be limited to the most relevant currencies as the cost and benefit analysis can be very unbalanced for currencies where activity is not meaningful in terms of relative and absolute risk terms.

It could be helpful to have a better understanding about BCBS views' concerning banking groups and tasks to consolidate reporting for subsidiaries that access payment and settlement systems in various ways and jurisdictions, preventing divergent home and host supervisory reporting requirements (e.g. in the definitions, in the reporting lags and frequencies etc.).

It would also be helpful if it is explicitly confirmed that the assets eligible for intraday liquidity sources coincide with those eligible for central banks' credit operations.

Kindly give our remarks due consideration.

Yours sincerely,

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