

6th September 2012

**Assiom Forex- The Financial Markets Association of Italy response to  
BCBS Consultative Document on  
“Monitoring indicators for Intraday Liquidity Management”**

*ASSIOM FOREX - counts more than 1,500 members from about 450 financial institutions, promoting and helping the professional growth of the financial operators through their education, the spread of technical advices and market practices , contributing to the development and integrity of the domestic financial markets in an extremely dynamic and competitive international environment.*

*The Association promotes the analysis, study and research of technics, instruments and subjects pertaining to the financial markets. It encourages the relationship with the Monetary and Supervisory Authorities, both national and international, as well as with the market management companies and other companies operating in the financial markets. The Association strengthens the relationship with national and international organizations and with bodies of the EEC, in order to improve the activity of its members.*

**General Comments**

Importance of the proposed indicators: we agree that the eight indicators represent a comprehensive and complete set of elements for looking at how banks' intraday liquidity is managed. At the same time a lot of details are lacking and not all monitoring indicators can be deemed equally important.

Monitoring usage of the indicators: we welcome the statement that “the proposed indicators are for monitoring purposes only and do not represent the introduction of new standards around intraday liquidity management”.

Harmonisation vs flexibility: the set of proposed indicators for monitoring purposes will have to be harmonized across countries .Normal and stress scenarios will have to be both considered and will have to be applied to all specific features (business model, risk appetite, risk tolerance etc.)

We deem important an assessment of the relative weights of financial institutions participating in every system and we wonder whether it could be appropriate to establish concentration thresholds over which the participation to a given system could be considered relevant or not.

Considerations on implementation issues: detailed information on the envisaged reporting requirements is of fundamental importance in order to determine the efforts needed, the timing expected for the go-live of the monitoring and the decision on the field of prioritizing investments for complying to the new principles.

New burdens to banks' IT systems are very likely to be experienced owing to the overall new set of data that will have to be produced.

In fact, a huge mass of data will have to be drilled down with higher frequency. Against this background, it would be definitely more economical and efficient that data-collection should see the involvement of clearing systems and central banks.

The potential overlapping in the production of the new set of indicators with LCR/NSFR could pose a serious strain on IT systems and infrastructures.

That said, it will also be important to understand the actual use of these indicators by competent authorities. If they have a different objective in mind, harmonization and level playing field across borders will become of the utmost importance.

Labelling any new indicator as Requirement will quite certainly lead to a "run for compliance" that will probably increase systemic risks amongst participants.

Furthermore, the need for paying due consideration to the different size and business models of institutions will have to be ensured.

Intraday liquidity sources: we strongly advocates that assets eligible for intraday liquidity sources coincide with those eligible for central banks' credit operations.

Intraday money market tools: The document states that intraday money markets are already active in a limited number of jurisdictions; we strongly emphasize the importance to assess the potential development of a liquid and efficient intraday liquidity market (fee-based ?), that acknowledges the participation of critical participants or direct participants in settlement systems.

Efficiency could be looked after thanks to the promotion and support by regulators and, practically speaking, this new intraday market could be hosted in electronic platforms already existing.

The possibility that regulators ease capital requirements on these transactions that could be finalized to reduce the liquidity risk arising during ordinary intraday activity will boost the efficient take off of this relevant potential market.

## **ASSIOM FOREX feedback on some specific questions**

### **Question 1. Do the proposed indicators adequately capture the intraday liquidity risk run by banks?**

Intraday liquidity risk could materialize into two different ways and, as a consequence, its mitigation could be measured as:

- 1) the ability to timely manage the liquidity sources, cash or collateral;
- 2) the ability to monitor the capability to timely access (and for the requested amount) the settlement systems in order to cover the intraday liquidity needs in a smooth and efficient way.

Based on the above assumptions, ASSIOM FOREX agrees that all the elements that could impact on a daily liquidity risk and settlement management are included in the various indicators, with two major caveats:

- not all elements have the same “strength” and represent appropriate measures of the real intraday liquidity risk that a financial institution runs;
- there may be situations whereby single big customer outflow transactions could in some way distort the analysis of the aggregate or where high value payments settled through correspondent banks could affect the capacity of the bank to fund its intraday liquidity position.

As a matter of fact, the relevance of some components are quite different for direct and indirect participants of a RTGS system and some prioritisation may be helpful.

Among the indicators proposed, we would prioritize the ones that provides an indication of the capability of a bank to timely fulfil their obligations:

*Time-specific and other critical obligations*  
*Intraday throughput*

Despite some further clarity on the definitions of the so-called critical payments will be more than welcome, we consider the two above indicators as highly relevant not only for the sake of monitoring the effectiveness of the settlement systems’ access but also to assess to which extent a financial institution could cause a systemic problem, should it be not in a condition to fulfil its critical payments.

The remaining measures proposed will provide useful information but some of them lack the “dynamic components” and should therefore be more appropriately reported with lower frequency, in order to avoid excessive costs vis-à-vis the advantages brought by their adoption.

We would also suggest to monitor the RTGS availability or other IT systems where a technical failure could result in the bank’s inability to receive or pay funds.

As a final comment, we strongly believe that each “critical” institution should set up:

- a coordinated and centralized “monitoring point” where all the information impacting the liquidity risk are collected and elaborated;
- forecasting tools and backtesting capabilities that serves the purpose of monitoring the divergences between the expected final balances in different systems/accounts and the real end-of-day balances with central banks, nostro agents/correspondent banks, clearing and SSSs;

## **Question 2. Are the stress scenarios identified in the paper comprehensive?**

The described stressed scenarios could be considered, in general, comprehensive from a descriptive point of view, but many more details are needed to provide a more aware answer;

A lot of definitions should be more properly detailed.

In this respect, we deem the consultation paper highly qualitative and we do expect further technical and quantitative guidance to be provided.

Among the most interesting example of “combined indicators” proposed in Annex 3, we highlight the importance of indicator #2, whereby the impact of an intraday liquidity stress is compared with the bank’s daily maximum available intraday liquidity.

### **Question 3. Is the proposed scope of application of the indicators clear?**

The scope of application is providing helpful elements. However we would like to highlight a number of concerns:

- the actual use of these indicators by competent authorities (Monitoring tool vs Regulatory Requirement);
- the difference between direct and indirect participation. It's clear that indirect participants may be forced to accept restrictions from direct participants, in light of their need to improve the performance on certain indicators. The consequence would be a worsening of the performance of indirect participants and, more importantly, the reduction of the efficiency of the overall payment system and an increase in the systemic risk ;
- the treatment of transactions done between intra-group entities and a better understanding about BCBS views' concerning the G-SIBs task to consolidate reporting for subsidiaries that access payment and settlement systems in various ways in different jurisdictions
- the definition of intraday credit facilities, firmly keeping in mind that reporting institutions could be at the same time direct participants in some systems and indirect in others ;
- the transferability of eligible securities balances on a cross-currency and a cross-system basis: the document leaves the specific definition to national supervisors' satisfaction but this could generate disparities between countries, so a more detailed definition would be welcome.
- the reporting time frequency for some indicators;
- some further evaluation on the effectiveness of the application of all the suggested stressed scenarios;
- the comparability of the results, since the results of some calculations will depend, to a certain extent, on the individual technical infrastructure of the bank;
- the scope and treatment of payments in foreign locations;
- whether the monitoring indicators are to be applied to all currencies (non meaningful currencies should be treated with a much “lighter” approach”;

### **Question 4. What, if any, implementation challenges would the proposed reporting requirements present to banks?**

The challenges ahead are of different nature; but on top of them, lies the impact on the IT systems as well as the expected IT tasks and efforts that seem to be overly demanding. Some of the proposed indicators bear a cost-benefit trade-off that looks largely unbalanced. At least three out of the set of proposed indicators (5, 6 and 7) will, in our opinion, not bring too much value while requiring complex data mining and extensive data-warehousing. A phase-in period, allowing for a sort of observation phase, could be required in order to check the usefulness of such indicators.

As we have already mentioned in the general comments, double reporting should be strongly avoided and , under this perspective ,some form of consolidation or efficient

transmission of data already available at the central banks/SSSs/ RTGS systems should be envisaged.

A time frame for a gradual implementation of the new proposals, that gives priority to the production of Basel III metrics, should be strongly aimed for.

**Question 5. Are the different monitoring and reporting requirements for direct and indirect payment and settlement system participants clear?**

The indications are pretty clear but some need for details and clarification remain:

- the real distinction between direct and indirect participation, from the moment that a firm can have at the same time both classifications referring to different system and the implications of implement the indicators are quite different depending on the status of the participation;
- for which values and which currencies the monitoring and reporting requirements are requested.

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