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11 September 2012

Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel
Switzerland

Dear Committee Secretariat,

Monitoring indicators for intraday liquidity management

The Australian market is well run and serves all levels of participant due to the combination of roles played by the Reserve Bank of Australia (RBA), the major Australian trading banks, the Australian Prudential Regulation Authority (APRA) and the Australian Payments Clearing Association (APCA). The RBA provides a robust liquidity tool, the Reserve Bank Information and Transfer System (RITS), which facilitates and monitors intraday liquidity operations using Real Time Gross Settlement (RTGS) protocols. This has been in place since 1998, with continuous and ongoing improvements being made to ensure an increasing proportion of payments are cleared on a real time basis. Some banks also have their own internal payment monitoring and management systems.

Banks which operate an exchange settlement account (ESA)[1] with the RBA are required to keep their account in credit at all times. Where intraday outflows occur before expected inflows, the intraday repo market operates efficiently to provide intraday liquidity in a timely and cost effective manner. The level of liquid assets currently held in Australia by each major trading bank is over 1.5 times their average daily gross outflows, giving more than sufficient capacity to cover timing mismatches throughout the day.

In addition, the four major banks support the intraday market by using intraday repo to ensure that sufficient liquidity exists at the start of the day to commence making payments which effectively "kick off" RTGS. There are also improvements in train to mitigate the risks relating to the large "net deferred" settlement amounts each morning, including placing timeframes within which these amounts must be settled after they are known from overnight batch runs, and throughout the day.

Given the current processes and infrastructure, adequate data and monitoring indicators on the payment system are already available to the RBA, and it would seem unnecessary for banks which operate an ESA to report data to APRA separately. The RBA is directly involved in monitoring intraday liquidity. It collects data and reports on payment activities, and conducts frequent discussions with industry. Any extra reporting required would be likely to duplicate this information and the costs involved in collating, reporting and analysing the data would appear to be unjustified at this stage.

For most banks, the only way to record intraday movements would be to take snapshots of the account screen at regular intervals during the day. There may be points during the day at which snapshots might

[1] Note that not all banks in Australia have their own ESAs. They rely on correspondent banks, who may not be able to provide relevant data (in the form of timed transactions) to their bank clients, in order for those banks to satisfy the proposed reporting obligations.

be taken where outward obligations peak, but that doesn't mean that they have to be settled immediately. In addition, comparisons between countries will be difficult. For example, the "same day settlement" nature of bank bills in Australia is not common and will mean that the report will look different from other countries' reports.

Overall, intraday liquidity management in Australia is already very well managed, and banks' credit policies provide further support. If a customer does not have funds in their account, then the bank will not put the outward payment in RITS until it gets credit approval.

Our responses to the Committee's consultation questions are attached,

Yours sincerely,

Tony Burke

Responses to consultation questions

Q9(i). Do the proposed indicators adequately capture the intraday liquidity risk run by banks?

Large international banking groups are involved in settlements across many jurisdictions in many currencies in their own name and on behalf of customers. The proposed indicators adequately capture the risks implied for intraday liquidity. However, gross inflows and outflows measured by the "Total payments" simply measure the institution's size in the market place and would be a measure of system risk rather than liquidity risk.

Intraday emphasis is currently skewed towards customer credit limits rather than net RITS balances. An inadvertent consequence of placing controls on intraday exposures could result in participants temporarily withholding funds to manipulate cash levels, which could potentially result in a flurry of settlements right before the RITS deadline while "circles" of cash are untangled. This behaviour would increase settlement risk, which would be counterproductive for the ultimate goal.

Q9(ii). Are the stress scenarios identified in the paper comprehensive?

An operational stress could also be introduced to ensure banks are prepared for communication and processing around operational events to prevent these issues creating an own stress scenario. Under an operational stress, liquidity may be plentiful but not if the organisation cannot participate in the clearing process.

Q9(iii). Is the proposed scope of application of the indicators clear?

The proposed scope is clear. Further clarity around the total payments measure may be required as this does not appear to be an indicator of liquidity risk.

Q9(iv). What, if any, implementation challenges would the proposed reporting requirements present to banks?

A real time feed of all payments systems across all currencies into a single reporting solution would represent a massive challenge for all organisations and would be a largely duplicated cost to the industry if all participants solved for it individually.

Ideally, the delivery of these outflow/inflow indicators could be solved by the respective clearing systems as a reporting feature of that system. That would provide a standard solution for all industry participants.

Indicators of available liquidity sources and usage, customer profiles and requirements for intra book payments would still need to be solved by each institution and aggregated with clearing house reports.

It would be preferable for timelines for the submission of the monthly reporting to provide for the consolidation of all sources of information across all time zones.

In addition, the provision of data on a currency where the bank is not a direct clearer will be very dependent on the capabilities of the clearing agent used. An issue in this case is how the clearer manages its own and other bank flows. Examining timing data for the customer bank could be very misleading. For example a bank (say A) may inject liquidity into its clearing account with another bank (B) but the clearing bank B could use the funds for its own purposes before making A's payments. A's payments could be on time but later than what was actually possible.

Q9(v). Are the different monitoring and reporting requirements for direct and indirect payment and settlement system participants clear?

A clear distinction is made for direct and indirect participants in the reporting requirements, but note the last paragraph in the response to Q9(iv) above.