Paris, September 14th, 2012

BNP PARIBAS comment on BCBS consultative document on Monitoring indicators for intraday liquidity management

BNP Paribas appreciates the opportunity to provide comments on the Basel Committee on Banking Supervision's ("BCBS") consultative document regarding monitoring indicators for intraday liquidity management sent last July 14th.

BNP Paribas supports the initiative of the Basel Committee on Banking Supervision to open the debate on the intraday liquidity as the concept remains quite complex and generally accessible only to some specialised treasury and payment departments.

Banks with direct participation (clearer), ancillary systems, CCPs, SWIFT and Central banks are already to both manage and monitor intraday liquidity and can certainly contribute actively to a better understanding and eventual supervision of such activities.

We thus encourage further education and dedicated national and international working groups to share operating intraday liquidity management, information, systems specificities and codes of conduct with banks, Financial Markets Infrastructures, supervisors and regulators before imposing new reporting requirements.

BNP Paribas manages and monitors its intraday liquidity to meet payment and settlement obligations in line with Principle Eight of the Sound Principles (BCBS, Principles for Sound Liquidity Risk Management and Supervision, Principle Eight, 2008 and 2010).

General comments

1. Basic principles

We have observed that the consultation document does not provide any definition nor basic principles about intraday liquidity risk and we are concerned about being imposed a very broad scope of implementation demanding heavy developments that may not fit with the Industry practices that have not shown so far any significant weaknesses.

By observation within our multiple international treasury centers, **there is no common intraday liquidity definition** while supervisors may be tempted to impose a definition and requirements across systems obeying in reality to different rules and practices.

This may not prove very efficient and we agree with the text proposal (iii-55) that every home supervisor should decide the basic intraday liquidity management requirements but it is our suggestion to do it **after reviewing banks actual practices and examining local payment systems.**

Making a difference between **direct and indirect participant** is essential. **Only direct participants or clearers are exposed to intraday liquidity management**. This distinction is also linked to domestic and non-domestic currency indicators and most notably indirect participants (correspondent banks executing payments in non-domestic currencies) don't influence a specific bank's intraday liquidity management. Any metrics to measure indirect participants' role will likely be meaningless as they settled their flows according to their internal queuing systems.

In the case of direct participants, those having a critical participation in the clearing systems should be part of national and/or international working group to exchange on payment systems and intraday liquidity management practices

For the purpose of elaborating metrics reporting and defining intraday risk, we would recommend not using the notion of **<u>indirect</u>** participant that is actually misleading. Banks can only be participants or correspondent agents but not indirect participants. A correspondent bank provides access to payment systems on behalf of his clients (an in particular for clearing banks but in non-domestic currencies) and, to this end acts as a direct participant. The correspondent bank does not play any role in the direct participant's **intraday liquidity** framework.

Making another difference between **time critical payments, Large Value Payment Systems (LVPS) and client payments** would be very useful to better measure the utility of all proposed metrics.

Time critical payments (eg. CLS Bank and CCPs margin payments) are time specific and need to be executed in a particular time along the business day.

According to the World Bank (2011), from a total of 142 countries surveyed as of December 2010, 116 (83%) have a RTGS system for their LVPS. **Large Value Payment Systems** operate differently in every country but the majority are settled using reserve account balances at their respective central bank and **are not intraday time critical** as they don't have to be settled in a particular time during the day (eg. Target2 and with the exception of the UK RTGS CHAPS).

International RTGS systems such as Target2, Fedwire and CHAPS, were set-up as to be irrevocable in nature, meaning that once a payment was entered in the system, execution was guaranteed (protecting participants from one defaulting party). Consequently, due to reputational risks it is very rare to observe fails from participants.

Thus time critical payments and RTGS systems operate differently having different operating functioning and requiring specific monitoring metrics.

Finally, **reporting client payments does not reinforce the intraday liquidity framework** (as intraday liquidity is limited to proprietary transactions) and in many jurisdictions data protection will limit client's transparency and data use.

2. Rationale for requiring indicators and their potential use

The consultative document lists a set of indicators for looking on a monthly basis at banks' intraday liquidity and requires the collection and delivery of highly sensitive data but there is little detail on why the metrics are required and how the data gathered from these indicators is intended to be used by the regulators. Are there any plans for public information disclosure?

We are much concerned about metrics publication and potential misleading interpretations including by supervisors.

At BNP Paribas Group, we don't believe that intraday liquidity represents a new risk to be specifically addressed in comparison to other well known and managed risks related to Financial Market Infrastructures such as liquidity, credit and operational risks. It is our belief that for many years most commercial banks (in particular those clearing their domestic currency) have a developed capability to manage intraday liquidity in real-time. Those monitoring and management developments have also been made by national RTGSs as they usually provide (and in some cases discuss bilaterally with banks) intraday metrics in real-time.

Given the resulting investments efforts (human, systems, etc.), the complex and very detailed data-collection and reporting requirements that this consultation could generate, we wonder how the information will be interpreted by non-specialist supervisors, what additional unknown risks are expected to be mitigated and what will be the utility for regulators of imposing new additional detailed data knowing that at the end they might not help clearing banks to manage intraday liquidity more efficiently.

Ideally any potential new investment efforts should help primarily banks to better manage their intraday liquidity. Instead we believe that this consultation gives too much emphasis on specific and sometimes unnecessary and cross-border metrics instead on focusing on the potential gaps and requirements that industry participants could express to reinforce sound principles of intraday liquidity management.

We believe that any potential quantitative and qualitative new requirements should be discussed first with critical participants to Large Value Payment Systems (eg. In Target2 participants holding over 2% of cash flows of a RTGS system are considered as critical participant) before imposing to banks metrics that will appear meaningless, not available or confidential in some jurisdictions or ancillary payment systems.

Thus we question whether those reporting requirements to banks are proportionate to the risk BCBS intends to address. We are also **worried about any potential unintended consequences of the new imposed metrics** (as for example behavioural changes such as participants delaying payments) .

In relation to collecting intraday liquidity from all clearing centers of the same group, we believe that cross-border collection including affiliates does not bring any group pattern as it responds to a different commercial business model operating under local payment systems having its specificities and so are not homogenous with other countries or areas (Eurosystem).

As RTGS or local payment systems operate in a different way across countries (typically within Target2, although it is a single payment platform in the same currency, national payment systems, practices and access to liquefy assets are different so are respective participants behaviours) the intraday liquidity management is based on a local entity view and it is connected to local payment systems.

As a consequence **the "additivity" of the different local intraday liquidity metrics at a group level is nonsensical**.

As intraday liquidity is **immediate cash flows management** we don't understand the use for regulators to analyse intraday liquidity metrics and behaviour patterns through figures observed 30 days behind. In case of a behaviour change during that observation period it cannot be considered as a repetitive pattern. Banks need to receive further information to understand the merits to receive ex-post comments of their payments patterns as we don't believe that payment behaviours are deemed to be constant over time.

Finally and surprisingly the text does not mention any proposed actions to reinforce or analyse local RTGS and international ancillary systems capacity to face technical issues and to address cascade of payment fails in case of system breakdown.

We thus urge BCBS to embrace a different rationale by reinforcing the solidity of the related High Value payment systems (local RTGS) and ancillary systems (CLS in particular) and establish any appropriate solutions to avoid systemic risks. As a reminder Target2 does have a back-up system in case of technical problem but without memory which means that banks re-open their account (have their balance) with a zero outstanding amount.

This structural technical lack of Target efficiency forces European banks to have a minimum collateral buffer dedicated to prevent any potential issue.

3. Scope of participants

We believe the scope of participants is too large and part of them seems to us irrelevant for intraday liquidity management. Banks acting as Clearer (direct participants) and Financial Market Infrastructures (FMI) should be exclusively involved in improving and monitoring Intraday liquidity.

4. Data availability

In terms of data availability and completeness, we recommend local supervisors to contact their respective National Central Banks as well as payment and settlement systems based in their country. Indeed payments data routed through FMIs where the bank is a direct participant, will be most likely available from the FMI itself.

Many central banks and major payment infrastructures have deployed (or should be encouraged to) real-time reporting capabilities accessible to banks. Thus they should have the capacity to monitor most payment flows (including collateral potential use) and deliver very detailed metrics.

On the other side payments routed through correspondent banks are more difficult to access and estimate accurately as we can't control the timing process between the moment the instruction is given and when the payment is made or submitted to other parties/local payment systems.

5. Data protection

The reporting proposed includes sensitive information (for example the level of intraday credit lines and usage on the top 5 clients) thus we raise our concerns in terms of use of client's related information and disclosure on both local and cross-border basis. We would appreciate further developments on how supervisors would consider dealing with this sensitive topic.

6. Currency scope

BCBS requires providing new indicators for all currencies used by the bank. In major cases an institution is clearer of his domestic currency and uses a correspondent bank for other currencies.

A difference must be made between international active banks managing currencies on a centralised way (typically investment banks) and other banks having affiliates or branches (typically international commercial banks) managing their intraday liquidity according to local RTGS system so totally independently from their parent company. Indeed for a parent company reporting intraday metrics from their affiliates or branches to his home regulator does not reinforce the intraday liquidity risk framework.

We thus believe this cross-currency requirement is not proportionate to the risk taken and inappropriate and we suggest that any future reporting requirement should only apply to the currency of reference of the bank or its jurisdiction.

7. Double duty

The intraday liquidity needs (lag of receivables to payables create a deficit in liquidity) are matched with a buffer. As stated earlier, they correspond to intraday credit risk on the institutions generating the lag ie. not meeting their payment obligations. The buffer allowed continuation of the payment function but if it turns out the expected payments are not received, the buffer may be used to obtain overnight liquidity with the Central Bank. The intraday buffer is not differentiated from the overnight one.

Note also that the ECB and Eurosystem National Central Banks can't offer tools to segregate payment flows nor the Liquidity buffer. Thus payments done can't be classified between overnight and intraday so it would be impossible to allocate one payment to a Liquidity buffer and another to an intraday buffer. These elements should prevent from the idea to encourage two distinctive concepts of Liquidity buffer.

8. Going forward

BNP Paribas group advises the creation at local level and supervisor level (eg. ACP for French banks and ECB as European regulator level) of industry working groups including regulators participation to inform regulators and banks non-specialist teams, to share on the way banks operate and manage currently their intraday liquidity, to define ways to reinforce intraday mechanisms from the respective participants (banks, RTGS or Central Banks, ancillary systems, SWIFT, etc.) and finally decide whether a monitoring framework is required and justified.

Overall before collecting any intraday liquidity metric it is important to inform regulators, to define which objectives supervisors want to achieve and determine the potential impact of the required metrics on the participants' behaviour. It will be then easier to identify the most reliable and accurate data providers.

<u>Specific Comments</u>

1) We welcome the point (6) stating that "the proposed indicators do not represent the introduction of new standards around intraday liquidity management.".

2) Definition of Intraday liquidity sources and needs

(12) Should we include in the resources the collateral deposited in the various systems such as CCPs or other Securities Settlement Systems (SSS)?

We question why payments to SSS on behalf of clients should be included in the liquidity needs. Indeed should the bank have intraday liquidity issues it may postpone client payments to a later stage during the day or even request a pre-funding from its clients?

Clearing systems not operated by Central banks should also be included.

3) Indicators

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

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

Monitoring and reporting requirements must be consistent with local RTGS and must be meaningful for the jurisdiction where banks are based and acting as a direct participant. Monitoring correspondent banks metrics is generally meaningless as it does not impact banks intraday liquidity. A metric is considered as useful only in the situation when a bank can lever it for an enhanced liquidity management framework.

Also most probably Central banks but in particular Banque de France provides already a great deal of indicators that are shared and commented on bilateral basis between domestic banks and the Banque de France. So the production of this metrics are already (or must be) available by most local RTGS as banks available in real-time by banks.

As stated in the general comments it is up to the local regulator to decide if its domestic banks do not manage safely their intraday liquidity and propose in cooperation with banks the more convenient indicators.

- **(i-15) Daily maximum liquidity requirement:** In order to be able to provide this information we need to receive real time information on any movements on our account. This information is available for our euro central bank account only. However for currencies where we use correspondent banks, this information is not available. We also have direct central bank account in HUF, PLN, AUD, HKD, SGD and CHF. For those currencies the local systems don't provide the necessary information either. We think that this information (when available) should be provided directly by Central banks or alternatively Clearing systems. Also this metric (20) does not appear to be relevant for payments made through correspondent banks.

- **(i-21) Available intraday liquidity**: Same comments as previous metric. This information is available within central banks (RTGS) and for example European banks and National Central Banks monitor this metric on real-time basis and a permanent way along the business day.

- **(iii-23) Total payment**: French banks are already required to provide "balance des paiements reporting" We see here the risk of double reporting.

- **(iv-24) Time specific and other critical obligation**: As stated in the General principles comments, payments to time specific and irrevocable payment systems are very rarely missed and closely monitored so we don't see the real value of setting up two components (25). Instead, we should limit our monitoring in either the most critical ancillary systems (eg. CLS, CORE-STET. This metric will make sense to be monitored and isolated by critical ancillary system) or be focused on the non time specific and irrevocable but not on all type of payments with a very much (and unnecessary)level of detail (95th percentile).

- **(v-26) Value of customer payments made on behalf of financial institution customers:** What is the definition of financial institution and hence the scope of entities included? We manage our intra-day credit exposure vis-à-vis our clients however we do not monitor the value of payment made on behalf of clients. Information is not available to produce this indicator. More generally we question the relevance of this indicator if the bank manages its exposure towards its clients. So (as stated in the general comments) this metric will not influence bank's way to optimise their intraday liquidity risk.

- **(vi-27) Intraday credit lines:** Intraday credit lines granted to customers are all uncommitted. In other words, banks requiring intraday cash temporarily might not get it from the lending bank or agent. We are therefore concerned about the real benefits of this metric and by any disclosure of that confidential information. Confidentiality of this data is critical for all participants.

- **(vii-28) Timing of intraday payment and intraday throughput:** The "timing of intraday payments" indicator can be misleading, particularly if it is planned to be compared with payment behaviour across different jurisdictions and currencies. Apart from the UK RTGS system (eg.CHAPS) where payments are distributed from the morning till 2pm, we are not aware of other local RTGS requiring a strong concentration of payments by time slots (eg. the US's Fedwire systems is concentrated at the end of the day and Target2 has no timing obligation but participants make mostly payments in the morning).
  The intraday throughput indicator is pretty much linked to previous indicators and will depend on every RTGS jurisdiction operating functioning and "Codes of conduct".

  Local and international codes of conduct are respected and allow making certain payments by a certain time slot in the day (eg. Euro1; Heathrow rules, etc) and do not require regulators to impose banks to pay their clients in specific time slots.

  So a comparative utilization across multiple jurisdictions will not be meaningful.

  Also, the **throughput for indirect participants** to the settlement system is dependent on the corresponding direct participant as banks control the payment instructions given but do not control the timing of the settlement is made by the correspondent bank.

  Therefore, it is proposed that **this metric is not required for indirect participants**.

4) Stress scenarios

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

As intraday liquidity is the gap between incoming and outgoing daily payments we believe that it is difficult to model stress test scenarios in every jurisdiction as all systems operate differently. Also it is impossible to predict precisely the timing one incoming payment will arrive into our bank account. The question is if it is worthy to set up stress test scenario when you can't measure incoming payments timing.

But more importantly, as stated in our general comments about the rationale, we outline the confusion of concepts between counterparty risk and intraday liquidity risk. That is clearly the case on the 4 scenarios suggested. They are about all types of risks (credit, reputation, operational, etc) but intraday liquidity. Thus we think that the stress scenarios are not comprehensive.

Instead we should embrace stress test scenarios under an overnight risk management approach that is already included in the LCR and not to be treated separately.

In relation to the specific scenarios, note that under scenario 3 (customer stress) this credit risk is addressed by the management of intraday credit lines and we question how this scenario can provide additional comfort to regulators.

Also scenario 2 is equivalent to the scenario 3 if the counterparty is a bank's client. If the counterparty is one of the correspondent banks used by a bank, the risk is addressed by the implementation of the Liquidity Business Continuity Plan (BCP). The existence of a BCP for liquidity being already required it is unclear what additional comfort would bring this scenario. Finally if the counterpart is neither a client nor a correspondent bank, the liquidity stress will be handled through the various payment systems and SSS. In case of securities, SSS have implemented an auto-collateralisation framework that significantly reduces the impact on the payment systems and their participants of any intraday liquidity stress.

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

Several challenges and burdens are at stake as massive IT requirements would be required while limited and specialized human resources are already mobilised to implement Basel3 LCR guidelines that will shortly switch to CRD4 adaptation as soon as more visibility will be given to the final text.

But also are of high concern data availability and confidentiality at international level. We then risk facing new legal risks from clients that will refuse to be mentioned, etc.

Finally as already mentioned Central banks and other clearing systems are capable to provide a great deal of granular and “reliable” information.

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

The proposed metrics and reporting requirements are too universal to fit correctly with all the jurisdictions. Instead, local regulators should identify with critical local clearers the most appropriate metrics to guarantee the respect of sound principles for the benefit of banks sounds principles and not for the benefit of disposing too detailed and costly information that will be unnecessary for banks.

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