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September 14, 2012

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

Gentlemen:

Re: CBA[1] Comments on consultative document:
"Monitoring indicators for intraday liquidity management"

We appreciate the opportunity to review the Basel Committee's consultative document, *Monitoring indicators for intraday liquidity management*. We recognize that the eight indicators proposed in this document are for the supervisory monitoring of a bank's intraday liquidity risk management, and build on previous Basel Committee liquidity guidance (i.e. the 2008 *Principles for Sound Liquidity Risk Management and Supervision*, and 2010's *Basel III International framework for liquidity risk measurements, standards, and monitoring*).

Overall, we see this consultation as an evolutionary process to deepen understanding of risk management practices for intraday liquidity. From a prudential supervisory framework point of view, we believe that the objective should be for banking supervisors to ensure that individual banks measure, forecast, and manage intraday liquidity in a way that is appropriate for their business model. While the general content of the consultative document is understood, we recommend that it would be more practical to focus on a few key supervisory monitoring indicators, while allowing each bank to determine its appropriate intraday liquidity risk management tools, including specific stress scenarios and use of the other proposed monitoring indicators.

We welcome the opportunity to share our experiences with the operational considerations and requirements related to intraday liquidity risk. From a macroeconomic monitoring perspective to assess overall risk in the system, we expect that a source for much of the analytical information is already available in established payment and settlement systems, such as the Large Value Transfer System (LVTS) and the Canadian Depository for Securities (CDS). As such, payments

[1]The Canadian Bankers Association works on behalf of 53 domestic banks, foreign bank subsidiaries and foreign bank branches operating in Canada and their 274,000 employees. The CBA advocates for effective public policies that contribute to a sound, successful banking system that benefits Canadians and Canada's economy. The Association also promotes financial literacy to help Canadians make informed financial decisions and works with banks and law enforcement to help protect customers against financial crime and promote fraud awareness. www.cba.ca.

associations (such as the Canadian Payment Association) could participate in the data extraction process. This would enable standardized reporting across all institutions in a given jurisdiction. If payments associations agreed to support these efforts, and to the extent that information is required that cannot be provided by the payment associations, sufficient time would be required for banks to build system interfaces to create automated extraction processes.

We provide our comments on some key issues below, and offer a detailed response on the consultative draft and its five questions in the attached appendix.

Intraday Liquidity Indicators

As intraday liquidity requirements are only one aspect of a bank's liquidity risk framework, we question the need for eight indicators given that overall liquidity risk will be monitored with two measures (e.g. Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)). However, we believe that the first two indicators would be most useful for intraday liquidity supervisory monitoring purposes:

- <u>Daily maximum liquidity requirements</u>, which would assist in the establishment of minimum balance amounts necessary to meet intraday liquidity requirements; and

- <u>Available intraday liquidity</u>, which would allow the supervisor to assess whether a bank has sufficient intraday liquidity available on a daily basis to meet its normal intraday liquidity requirements.

We recommend a phased-in approach to implementation for the two indicators listed above. The six other indicators, while possibly important for an individual bank's internal assessment of intraday liquidity requirements, would be difficult for a supervisor to interpret across institutions and thus likely to be of dubious value on a system-wide basis. Assessment based on timing of payments, specific obligations, value of customer payments, and regular throughput payments are by their nature idiosyncratic, and thus make it difficult to compare between organizations or to establish common supervisory indicators. It is essential to understand that each bank will have different daily liquidity requirements as a result of its unique business model,the inter-relationships with ancillary systems, and cross-settlement system liquidity needs. These areas would be addressed individually with the regulator within the existing supervisory framework assessment process.

Stress Scenarios

We believe that the stress scenarios identified in the paper are comprehensive, but scenarios in the absence of available empirical data relative to the event become simply arithmetic exercises with results largely influenced by survivor bias. We understand that the suggested scenarios were not intended to develop comparisons between individual banks, but to identify areas of further investigation to highlight trends on a system-wide basis. We believe however that an individual bank's exposure to intraday liquidity risk would be more appropriately addressed in conjunction with the banks' internal liquidity adequacy and/or enterprise stress testing assessment program. Alternatively the central bank can periodically request information in conjunction with industry-wide stress test exercises (e.g., OSFI / Bank of Canada annual stress test). To ensure useful output, regulators should provide guidance as to assumption ranges and/or provide direction on factorsfor scenarios or conditions they require banks to consider. Ultimately, we do not believe that separate intraday liquidity stress tests are warranted on a stand-alone basis.

For individual bank intraday liquidity supervisory management, we believe it would be difficult for regulators to devise a uniform stress test that would be applied to banks consistently. We welcome the flexibility in determining appropriate stress scenarios provided in paragraph 32 of the consultative document. As such, we recommend the stress test scenarios not be included as part of this specific supervisory monitoring process. Instead, we recommend that stress testing requirements should be part of the overall risk management framework that is not only documented in a bank's policies and standards,but also subject to supervisory review on a bilateral basis in the normal course. Thus, stress testing results could inform the establishment of a liquidity buffer.

Proportionality and Priorities

The consultative document recognizes that practices differ across banks and jurisdictions (paragraph 46), and that banks should discuss the appropriate application of the indicators with their local supervisors (paragraph 51). We believe that banks should be allowed to determine the measurement of accounts based on an appropriate level of materiality within a jurisdiction, especially since better monitoring of system-wide exposure is a key driver for establishing these indicators. This could be limited to banks that are key providers of intraday liquidity as measured by their transaction volume/values (e.g. large Canadian banks who participate in LVTS and CDS). To warrant the effective development of appropriate data, we would welcome further discussion with the supervisor to streamline requirements and tailor reporting on our institutions' business lines and payment systems characteristics. Materiality should be addressed and reporting limits set. For example, materiality could be applied according to:

- Currency requirements: Monitoring by currency would not be required if a currency represents less than 5-10% of total funding or intraday position;

- Reporting requirements: Reporting would be limited to a more consolidated level (i.e. rather than legal entity level) to reduce overall reporting burden;

- Low-payment volumes: These would be excluded if there is relatively small risk; one example is that normal U.S.-based personal and commercial banking operationshave relatively low intraday liquidity risk exposure when compared to a large U.S.-based investment bank.

- Volume thresholds: If a firm's volume relative to the total system volume is below a certain threshold, the firm would be exempt from the need to report.

The current paper suggests the same level of reporting for each of the above situations, which is difficult to justify based on the level of risk.

Resources are currently limited since liquidity risk managers are focused on the development of new Basel III sound principles and metrics (i.e. LCR and NSFR). It would be helpful for the industry to digest Basel III before moving on to the next phase. Moreover, once all banks reach compliance on the LCR requirements, the pool of available liquid assets could be more than sufficient to cover any intraday collateral requirement. Given these priority items, we question why it is necessary to expand intraday liquidity analytics and indicators at this time. We recommend a time frame for implementation of the intraday liquidity indicators that recognizes other measures in progress (i.e. not before the LCR is implemented in 2015).

Operational Challenges and Market Impact

While the suggested reporting regime is on a monthly basis, implicit in the indicators is a requirement for real-time monitoring of collateral and liquidity holdings, and enhanced monitoring of payment streams. Building this reporting capability would be a complex undertaking. Moreover, we believe that the implied risk might more easily be mitigated by ensuring adequacy of intraday liquidity reserves. Additional payment-level details will require firms to source external data from correspondent bank providers and to construct data warehouses to consolidate payment information from multiple processes and systems. New technical infrastructure, data governance processes, systems data interfaces, and staffing would be required to meet the reporting requirements. Given that this would involve a multi-year initiative of undetermined but substantial magnitude, we recommend a staged, phased-in approach for the monitoring regime based on areas of largest risk exposures and/or based on findings derived from earlier stage analysis and monitoring results.

Further clarification on ancillary systems feed capture is required; it would be helpful to clarify that the focus is on large value payment systems instead of low-volume transactions and other types of payment and settlement systems (such as those for small payments, securities, derivatives, etc.). Discussion with the local supervisor will be necessary to ensure appropriate indicators are reported for institutions that are both direct and indirect clearers across multiple currencies in various jurisdictions (both branches and subsidiaries). We believe that a materiality threshold should be established with the supervisor and a reporting cut-off instituted (e.g. perhaps establish a threshold based on a yearly average volume per day).

Establishing comparative metrics has the potential to drive liquidity conservation behaviour, notably the maintenance of long intraday debit balances, which could lead to reduction of liquidity in the system as a whole. While we agree that the indicators capture the primary liquidity variables to be monitored, the real risk is determined by the combination of assumptions on payment behaviour, correspondent bank provider behaviour, collateral mobilization, and collateral eligibility assumptions. In short, before we proceed to a standardized reporting metric regime, we believe that first there should be a period of review of governance frameworks, their impact to internal-based measurement, and stress testing of high-risk areas based on regulatory principles.

We thank you for taking our comments into consideration and look forward to future discussions on these issues.

Sincerely,

Attachment: Detailed comments
CC:

- Brad Shinn, Director - Liquidity, Market Risk & Operational Risk, Capital Division, OSFI;
- Doug Sannuto, Managing Director, Capital Markets & Risk Assessment Services, OSFI;
- GraydonPaulin, Research Director, Financial Stability Department, Bank of Canada;
- VirginieTraclet, Assistant Chief - Financial Institutions Division, Financial Stability Department, Bank of Canada

CBA comments on *Monitoring indicators for intraday liquidity management*

CBA Members' Comments and Requests for Clarification
(i) Do the proposed indicators adequately capture the intraday liquidity risk run by banks?
As outlined in the cover letter, we believe that the first two indicators would be most useful for supervisory monitoring and comparison between banks.
(ii) Are the stress scenarios identified in the paper comprehensive?
We believe that the stress scenarios are comprehensive and align with our general scenarios, but given their idiosyncratic nature would have most value if used for internal risk management assessment bilaterally with the prudential regulator as part of the supervisory framework instead of reported as part of a supervisory monitoring requirement for systemic risks. Perhaps systemic concerns could be leveraged from each jurisdiction's existing macroeconomic stress testing regimes. For the supervisory review, depending on the bank, additional scenarios that could be considered include: ▪ Scenario descriptions that involve the liquidity effects of intraday margin calls. This factor is relevant to both the "Own Stress" and "Market-wide" stress scenarios. ▪ Close-out and end-of-day settlement risk, including within the ancillary settlement systems. ▪ Effect on payments of an indirect clearer (IC) if its direct clearer (DC) suffers a stress event. This would be a different scenario for an IC than for "a major financial institution counterparty" suffering an intraday stress event. The third scenario, which defines a customer bank of a correspondent bank agent stress, is too ambiguous in the estimation of its ramifications on the reporting bank. We believe it is superfluous and should be removed. Since a bank needs to assess a variety of liquidity risk drivers (e.g. funding risk; cross currency risk; intra-group risk) under a comprehensive liquidity adequacy and/or enterprise stress testing assessment program, we question the need for a bank to specifically evaluate intraday liquidity under various stress scenarios.

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(iii) Is the proposed scope of application of the indicators clear?
While we understand that the focus is on monitoring, we believe that materiality and application issues will need to be discussed and clarified with the supervisor, such as: ▪ Should a host regulator have the option of requesting intraday indicators for only the resident branch or for the parent, inclusive of the branch? ▪ The CAD$ portion of the application should be adapted to the LVTS context. Most of the risks of intraday liquidity are mitigated by the real-time risk-control mechanism of LVTS. ▪ If the focus is on large-value transactions, what other ancillary settlement systems payment flows are to be included/excluded? Further clarification on ancillary payment and settlement systems feed capture will be needed. Discussion with the local supervisor will be needed to ensure appropriate indicators are reported for institutions that are both direct and indirect across multiple currencies in various jurisdictions (both branches and subsidiaries). ▪ We are concerned about the coverage of the metrics to all accounts and currencies regardless of materiality. ▪ What, if any, consolidation will there be in the reporting by legal entity, jurisdiction, and currency? There are many potential combinations and permutations of settlement activity to be reported independently by multinational banks. Materiality needs to be considered.
(iv) What, if any, implementation challenges would the proposed reporting requirements present to banks?
▪ Real-time intra-day liquidity reporting across all payment systems would be required to meet these reporting requirements. New technical infrastructure, data governance processes, systems data interfaces, and staffing would be required to meet the reporting requirements. Given the extent of overall regulatory ask with respect to liquidity, the ability to meet the requirements as outlined in the paper will require a minimum of 18 months to two years of additional time to implement given the need to research available tools, plan implementation, and execute. ▪ The requirement to record "internalized payments" may require substantial investment in legacy systems and operational procedures. ▪ Reporting of foreign currency transactions for financial institution customers may be very challenging depending on the final nuances for payment reporting. There will be systems enhancement requirements to both internal and external settlement systems to provide required reporting. Discussions with national associations (e.g. Canadian Payment Association (CPA)) should take place to create industry-wide clearing systems reporting. This will enable standardized reporting across all institutions in a given jurisdiction.

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- There will be substantive implementation challenges at the gross payment calculation level. Where it is possible to obtain net cash positions with either direct clearer or correspondent banks (with some not insignificant level of effort), assembling gross payments by counterparty across payment mechanisms feeding into one account is a substantive platform-wide data collection exercise and standardization effort. There is also an assumption that DC's can supply IC's with the level of information required to complete the measures.

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

- Many banks will be both direct participants in one or more national payment systems and indirect participants in foreign payment systems through their correspondent banking relationships. Where collateral is managed across these systems, it is unclear how stress scenario reporting would occur for both direct and indirect participation.
- It is also important to set a level of materiality/reporting exemption in regards to the processing foreign currency through correspondent banks.
- Given the inclusion of ancillary payment and settlement systems as critical time payments to direct clearing, will metrics be reported on payment flows for these systems as well?

I. INTRODUCTION (pages 1 – 3)

C. Definition and constituent elements of intraday liquidity (page 3)

- Reporting of secured credit lines is likely redundant. Assets that would secure these lines would reduce collateral available for repo funding and/or central bank liquidity financing.
- Intraday liquidity needs arising from margin owed to counterparties and central counterparty institutions are liquidity needs that are not mentioned.
- Please clarify expectations regarding unencumbered liquid assets (i.e. is it expected that encumbrances are monitored intraday, or is it expected that banks will use the end-of-day pool of liquid assets required under LCR?).
- Please clarify what is meant by contingent intraday liquidity liabilities to customers.

These intraday liquidity sources are geared to Direct Clearers (DCs) that deposit funds at central banks and participate in overnight money markets.

CBA Members' Comments and Requests for Clarification
From an IC perspective, intraday liquidity sources that are missing include: ▪ unencumbered marketable securities that can be easily sold with a same day settlement horizon; ▪ balances sitting at securities custodian accounts that can be used for same day settlement; ▪ client funds deposited intraday (that will settle in the overnight process); ▪ clearing lines; ▪ unencumbered liquid assets that can be freely transferred to an IC's DC. It should be noted, as well, that while an IC will know what their clearing line is with its DC, it will not always know the dollar limit of its intraday credit line. Question: If a client deposited a cheque for $10,000 at an IC and then instructed the IC to wire the funds out, under what category would the $10,000 cheque be captured as an "intraday liquidity source"?
II. THE INTRADAY LIQUIDITY MONITORING INDICATORS (pages 4 -13)
A. The set of monitoring indicators (page 5)
As outlined in the cover letter, we believe that first two indicators would be most useful for supervisory monitoring purposes. The six other indicators are idiosyncratic, and thus difficult to compare between organizations. In addition: ▪ The hourly indicators do not capture intraday net debit and credit transactions in securities clearing and settlement systems, which can be driven by both money market (repo) and securities trading activity. These transactions are only captured in the indicators when funds exchange occurs, late in the business day. This was highlighted as a scope issue on monitoring of flows within ancillary systems. ▪ While significant investment is needed to provide hourly monitoring on payments and liquidity throughout the day, the largest potential for intraday liquidity risk occurs in the late day when Canadian Depository for Securities (CDS) and Depository Trust and Clearing Corporation (DTCC) settle and when intraday margin is required. Within North America, end-of-day positions may yield most of the benefit at a fraction of the cost of hourly monitoring.

CBA Members' Comments and Requests for Clarification

- The "*sample intraday liquidity monitoring return*" includes a requirement to report the 5th and/or 95th percentile for most indicators. It is unclear what reporting is being proposed. As an example, the 95th percentile of "*Gross Value of Payments Sent*" could be interpreted as the "lowest average day for the month" (i.e. 95th percentile of 22 daily averages of gross value). An equally valid alternative interpretation is the "total value of small payments during the month" (i.e. Gross value of payments sent where the individual payment is in the 95th value-percentile of all payments for that month). This issue affects most indicators proposed in the consultative document.
- While these indicators may be sufficient, they are based on historical data and, therefore, there is not an implied requirement for monitoring against projected activity. Members should have processes, limits, and policies in place to control their intraday exposures across settlement systems. We question the focus on measurement and reporting of previous experience, given that forward-looking management of intraday activity is also a necessary tool.

(i) Daily maximum liquidity requirements *(page 5)*

- The consultative document indicates that "*liquidity positions should be calculated on actual settlement times, rather than on submission times…*" When applied to correspondent banking relationships, this may be a difficult distinction in regard to certain types of payments. Some forms of cross-border wire payment are revocable prior to cover being confirmed. The process of confirming a cover payment can make the timing of finality uncertain even when debits/credits have been applied to banking balances. (See: Bank of International Settlements, Due Diligence and Transparency Regarding Cover Payment Messages Related to Cross-Border Wire Transfers, May 2009).
- While this is a reasonable indicator to monitor, we do not necessarily agree with the anticipated conclusions. It should not be assumed that a positive net cumulative position arises because a bank is relying on payments to be received first; the DC may be stacking or advancing its own payments not in the control of the IC. We need to be careful not to create a behaviour that may lead to payment grid-lock. Also, measures should be projected against daily expectations and not a "normal" day.
- LVTS is the reference system for CAD$ liquidity reporting, and we believe that this is one area where the CPA could contribute to provide the requested information.
- What will be the time stamp frequency? What risk is captured by increased frequency? While systems challenges are being met, every two hours will be sufficient for historical pattern purposes. Where net payment flows in a payment system may in part not be collateralized on a dollar-to-dollar basis (e.g. Tranche 2 of LVTS-survivor pay principle), what should be tracked (i.e. net payments or net collateral requirements)?

CBA Members' Comments and Requests for Clarification

- **Paragraph 16:** Many of the DCs systems are not "real time" (i.e. an IC cannot determine intraday the change in the opening balance on its account).
- **Paragraph 18:** Even for a small IC, the swing in intraday payments can be large. If a financial institution has proven it can manage its intraday liquidity position, why would the minimum liquidity requirement be the largest negative net cumulative position? This could potentially be a large cost for the FIs.
- **Paragraph 20**: For an IC, payments made across the bank's account held at their DC usually only pertain to LVTS transactions. This should probably include payments made to the IC at the IC's branches as well.

(ii) Available intraday liquidity *(page 6)*

- The ability to mobilise collateral through the central bank or repo to a correspondent may not be timely enough or alter the correspondent's denial of credit or ability to process payments any faster. It is not generally possible to know with certainty what credit has been granted or will be granted, nor is it strategic to divulge this information. Both of these ambiguities may have unintended consequences of forcing committed lines or cash balances, which will pull more liquidity from the system as commitments need to be secured under the Liquidity Coverage Ratio (LCR) and correspondent balances are not deemed a stable sources of funding.
- Given that it would be difficult to compare across institutions, instead of an average of available liquidity balances, perhaps a more useful alternative measure would be a distribution of how many times the institution's exceed its internal limits or floors.
- **Paragraph 21**: If available intraday liquidity included the ICs outbound clearing (clients deposits into their accounts at the IC), monitoring intraday liquidity is very difficult. If it did not, the IC might be required to hold a larger amount of liquidity than a DC. As the cost of liquidity is high, this would make the IC less competitive within the market place.

(iii) Total payments *(page 7)*

- Please clarify which "payment and settlement systems" are referenced in the description; is the focus on large transfer systems?. Is this in reference to the national large-value payment systems such as Large Value Transfer System (LVTS), Fedwire Electronic Transfer System (Fedwire), Clearing House Interbank Payment System (CHIPS), Clearing House Automated Payment System (CHAPS), and Trans-European

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Automated Real-time Gross Settlement Express Transfer System (TARGET 2), or does it also include foreign exchange, securities, and derivatives settlement systems?

- The correspondent will have to provide the information, thus placing the burden on correspondent banks and direct clearing banks and potentially the ancillary systems to provide the key information for the metrics for all reporting banks. Two separate systems may need to be kept in sync. Our suggestion is to work with what the bank can control, which is its own payment instructions as the source for throughput and payment analysis, but the bank can elect the one of its choosing for all metrics.
- **Paragraph 23**: Would numbers be double counted? Do an IC's wires show up in its DC's totals?

(iv) Time-specific and other critical obligations *(page 7)*

- Reporting on failed critical payments is likely to be unhelpful since incidents are rare and due to operational rather than financial issues. It is normal to have "fail" or "disputed" payments clear in the normal course of business; what is the utility of having a metric that is typically nul?
- Time-specific payment are currently identified and prioritized to insure compliance with the Bank of Canada schedule. Data aggregation of those payments as required by Bank of International Settlement would have to be done manually since no automated process is in place.
- The need to understand failed time-critical payments while providing some operational risk insight is not a risk we feel should be monitored through liquidity returns and does not fit the data model that the other metrics are driven from (e.g. time-based payment flows).

(v) Value of customer payments made on behalf of financial institution customers *(page 7)*

We request clarification on the definition of "*5 largest financial institution customers (by value*)". What "value" is being specified? This could mean gross payment value, asset value, or any of a number of measures of customer value. Does this also include internalized payments for all banks, other than the five largest?

The indicators focus on a "System (or group of systems)" while payments on behalf of a bank's customers may span multiple currencies and thus multiple "systems". In any one system, these foreign currency payments may either not be reflected (if balances are held in the foreign currency), or may be reflected as a payment by the bank (e.g. to Continuous Linked Settlement (CLS) rather than as a payment from the bank's customer). Foreign exchange transactions can have a material intraday liquidity effect.

CBA Members' Comments and Requests for Clarification

(vi) Intraday credit lines extended to financial institutions customers *(page 7)*

Please clarify the definition of "*5 largest financial institution customers (by value)*". What "value" is being specified? This could mean gross payment value, asset value, or any of a number of measures of customer value.

(vii) Timing of intraday payments *(page 8)*

- The "average time of settlement" indicator has dubious value. In North America, the payments that have the largest potential variability occur in the early and mid-morning (CLS settlement, overnight deposit redemption), and in the late afternoon (i.e. DTCC, LVTS, Fedwire, overnight deposit repayment). As such, the "timing" indicator may be as much an indicator of the net magnitude of a few settlement payments at each extreme of the day, as an indicator of timing of payments.
- This is not a good indicator for liquidity management as the indicator is a factor of value and timing, but does not give consideration to time-sensitive payments. A sizeable time-sensitive payment could skew this indicator. Additionally, measuring the timing of payments does not give consideration to when the payment was originated. Finally, payments by order of customers may not be set up by customer until late in day.
- The CPA already has a payment transmission schedule where participants use its best effort to complete at least 40% of volume and 25% of value by 10h30. We question the needs for a more granular methodology.
- Current systems restrictions do not allow for such reporting. We also currently do not have the ability to calculate timing of payments through correspondent banks in foreign currencies. In many cases, statements are only received the next business day or at month end.

(viii) Intraday throughput *(page 8)*

- This is not related solely to intraday management of liquidity and as such should not be monitored. Changes in behaviour can relate to changes in funding position (i.e. long versus short), or changes in funding composition (i.e. items that settle through Real Time Gross Settlement (RTGS) versus an ancillary payment service (i.e Canadian Depository for Securities (CDS) / Continuous Linked Settlements (CLS)). Analysis may become superficial without a full understanding of the underlying business day. Time sensitive payments and Gross Payments are already measured.

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- The CPA already has a payment transmission schedule where participants use its best effort to complete at least 40% of volume and 25% of value by 10h30. We question the needs for a more granular methodology.
- Systems limitations, specifically with foreign correspondents, currently do not allow for such reporting
- Would intraday throughput be reportable on a next-day basis once all commitments are known, or on a dynamic basis as commitments change through out the day?
- Will banks be expected to gather this information daily? Will the reporting requirement be a monthly average? What would a regulator do with this information, even in a stressed situation?

B. Intraday liquidity stress scenarios

As a general matter, we believe it would be difficult for regulators to devise a uniform stress test that would be applicable to banks in a consistent manner. We recommend the stress test scenarios not be included and reported on frequently as part of this specific monitoring process. Instead we believe the stress considerations should inform the establishment of a liquidity buffer that is documented in the bank's policies and standards, which would be subject to supervisory review on a bilateral basis in the normal course. To a certain level, we believe that intraday liquidity stress tests are already included in the recovery portion of the Living Will. If supervisors use the stress scenarios as the basis of determining an appropriate level of asset reserves, differing scenario assumptions between institutions would have profitability and competitive implications that would influence interpretation of the scenarios.

The descriptions of the stress scenarios leave much room for interpretation, reducing the ability for a supervisor to judge relative firm risk under stressed scenarios. For example, for a counterparty stress event such as the default of Lehman Brothers, some institutions may consider only the payments from Lehman, where others would consider the broader implications, blurring the lines between "Counterparty" and "Market-wide" scenarios. Using different examples and assumptions, all the stress scenarios are capable of being combined in various proportions. We believe that guidance or standardisation on the construction of stress scenarios is required given the wide range of potential interpretations that could be made by reporting banks. Examples of areas open to interpretation include:

- Factor change in gross payments received vs. paid by payment or counterparty type;
- Degree of loss of correspondent bank credit;
- Ability to mobilise collateral or assume expansion of eligible collateral. One example is that in certain stressed environments, eligible payment

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system collateral could be extended to permit systems to operate smoothly. From Nov 2008 until Feb 2010, LVTS participants were allowed to use their CAD$ non-mortgage loan books to collateralize payments. This would likely be the case if faced with similar systemic stresses again and materially increases payment capacity.

Many banks will be both direct participants in one or more national payment systems and indirect participants in foreign payment systems through their correspondent banking relationships. Where collateral is managed across these systems, it is unclear how stress scenario reporting would occur for both direct and indirect participation.

Other Indirect Clearer (IC) issues include:

- **Paragraph 34:** Should a DC reduce an IC's credit line, it becomes a stress event and not necessarily an "intraday" stress event. This should be covered off in the FI's Liquidity Contingency Plan that would be required under OSFI's B6 Liquidity Guidelines.
- **Paragraph 38**. Once again, this would be a "stress event" which would not necessarily be restricted to an "intraday" event.
- Regarding scenarios (ii) and (iii), it would be impossible for an IC to measure or test this. Unless reference is made to a specific payment (where the stressed bank is our counterparty), an IC would have no way of monitoring where the payments originate. Given there is no data on where individual payments come from, it would be impossible for the IC to stress test them for intraday liquidity events. In reality, most incoming intraday payments come in on behalf of its clients, not for the IC. Payments involving other FIs might relate to security sales (when dealing with an FI's security dealer); however, if payment is not received on a security sale, the security is not released and could be easily sold to a different counterparty.

C. Key application issues

There needs to be guidance on how to treat the intraday period being monitored for banks that may have operations and/or relationships spanning the globe. It would be helpful if the consultative document was more specific in regard to whether host supervisors should have the option of requiring foreign branches to report intraday indicators for only the foreign branch, or for the parent institution inclusive of the branch. We believe access to information specific to the foreign branch only would be most appropriate.

Further discussion with the supervisor will be needed to streamline asks and tailor reporting to our institution's business lines. Materiality will need to be addressed and reporting limits set.

CBA Members' Comments and Requests for Clarification
D. Reporting frequency and granularity
Payments have to be monitored on an individual currency basis. Is this requirement intended for all currencies or only for significant currencies? The requirement to report the 5th and 95th percentile is unclear in regard to what population of statistics that should be used. It would be clearer if the reporting requirement was described as the "Maximum Day" or "Minimum Day" (of the month), should this be the intent of the proposed indicator. We believe that banks should be allowed to determine measurement of accounts and instances based on materiality.