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14 September 2012

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Mr. Wayne Byres
Secretary General
Basel Committee on Banking Supervision
Bank for International Settlements
Centralbahnplatz 2
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Dear Mr. Byres,

DB's response to the Basel Committee on Banking Supervision on monitoring indicators for intraday liquidity management

We welcome the opportunity to provide feedback on the Committee's proposed indicators as we see the management of intraday liquidity to be key to overall liquidity risk management.

As the Committee stated not all elements of the proposed framework will be relevant to a bank's intraday liquidity or appropriate to the business it operates. We therefore recommend that the framework for intraday liquidity is based upon the characteristics of the institution and its need and ability to control, manage and accurately report intraday liquidity.

As such we believe it is appropriate to differentiate between direct participants in the clearing and payments systems and correspondent banking (CB) services in respect of both the indicators and implementation timetable.

Direct system participants

Where banks are asked to monitor and report intraday liquidity in respect of direct memberships in clearing and settlements systems, the ability to provide a complete data set is high. That said, we generally support the indicators as proposed by the Committee, however we wish to raise two issues, which we think require further consideration:

- Daily maximum liquidity requirement - Given that banks may run net negative positions for significant parts of the day, they might be incentivised to manage the reported values down by delaying outbound payment flows in order to meet the requirement, potentially leading to systemic risk, rather than risk mitigation.
- Intraday credit lines – The indicator might result in leading correspondent bank providers to a more conservative approach on intraday limits which in turn could negatively affect payment through-put and overall market liquidity, hence increasing systemic risk.

For global firms, harmonisation of supervisory requirements across regulators and supervisors is highly desirable. As a number of the payments and settlement systems already operate highly sophisticated statistical databases, it is suggested that these data bases are leveraged to become the golden source of data, or to supplement information available from individual firms. For that to happen the Committee would need to establish the final list of indicators, to be adopted by national supervisors and incorporated into the management information systems of clearing and settlement systems.

Correspondent banking services

In CB the ability to manage and report the required data is constrained by a dependency on counterparties. For example, reporting on the actual settlement time for payments executed on behalf of clients is challenging. That is due to different operational models used by CB service providers and the fact, that some IT applications from CB providers are not yet migrated to real time processing. As such the deliveries to the oversight may not be useful or comparable. Furthermore, there exists no golden source of information to which the CB could refer.

Before setting an implementation date, the Committee should decide upon the set of the relevant indicators given the described dependency on the counterparties.

We recommend that the Committee should both differentiate as to required indicators and fix different implementation timetables for direct payment and settlement system participants versus CB services.

Our detailed comments are attached in the Annex. We would be happy to meet with the Secretariat of the Committee to discuss further any of the points raised in our response.

Yours sincerely,

Andrew Procter
Global Head of Government and
Regulatory Affairs

ANNEX I – Specific questions raised by the Committee

(i) *Adequacy of the proposed indicators:*
Please refer to our general remarks and specific comments on the indicators. While the indicators to various degrees represent a reflection of intraday liquidity risk, they may be more or less meaningful and accurate depending on whether they are used and applied by the direct versus indirect models (CB). It might be more effective for the purpose of identifying and ultimately mitigating significant risk to focus on fewer indicators.

(ii) *Stress scenarios:*
The stress scenarios seem comprehensive and logical. We would like to better understand the purpose of the reporting to understand which scenarios are critical. The importance of strong engagement with market experts on stress scenarios is paramount.

(iii) *Scope of application of indicators:*
Please refer to our comments in section (i) above.

(iv) *Implementation challenges:*
While many of the indicators proposed in the consultation document as well as the underlying required data are either already being measured or fundamentally available in the systems of most sophisticated institutions, the complexity of collecting, computing, aggregating and reporting a set of indicators as comprehensive and with a scope as potentially broad as presented in the document should not be underestimated. It should also be considered that the coordination effort required among financial institutions, technology providers, Central Banks, clearing systems and other components of market infrastructure is very significant. It may thus be advisable in the interest of achieving a significant risk monitoring and ultimately mitigation effect to focus on a reduced number of indicators with a less complex scope of implementation relative to direct/indirect participation.

(v) *Direct versus Indirect participant scenarios:*
The proposed requirements are clear, but we kindly refer the Committee back to our comments on challenges specifically pertaining to the indirect participation model in section (i) above.

ANNEX II – Further comments

Section A:

While introductory comments of the consultation document mention that payment and settlement systems should be understood to encompass clearing and settlement systems for securities and derivatives payments, the description of indicators implies that those indicators only relate to transactions conducted through high-value cash clearing systems. It is crucial to be specific and consistent about the scope of systems for each of the indicators.

Section C: 11:

The definition of intraday liquidity sources seems not to consider those scenarios where Clearing Systems are not operated by Central Banks, such as the European Banking Association (EBA) Euro-1 Clearing system in Europe or The Clearing House in the US. Such clearing systems are essential for liquidity efficient settlement of significant payment volumes and thus positions held by banks within those systems are very relevant.

Section 15 – 20: Daily maximum liquidity requirement

This indicator seems to require aggregation of payments over a period of time during the day. It is not clear from the consultation document which aggregation period the Committee has in mind.

The role which Clearing System Operators and Central Banks should play in the determination of this indicator should be outlined. Those entities are best placed to create a consistent reporting across all clearing participants.

It should be further considered that establishing a daily maximum liquidity requirement for correspondent bank scenarios is extremely challenging. While most institutions providing correspondent banking services are well positioned to provide intraday reporting, the delivery of payment and receipt of posting time is not widely established. It is even less common for correspondent banks to report the actual settlement times of payments executed on behalf of clients. It is important to consider that the instructing institution has very little control over the payment release and queue management of the correspondent bank and that the indicator may thus be only marginally meaningful.

Finally, in line with the general remarks submitted at the beginning of our comments, it would be helpful to understand the objective of this indicator. In the absence of context, a potential development of a reporting regime with this indicator could be that banks manage the reported values down by delaying outbound payment flows and as such could contribute to systemic risk rather than risk mitigation. Large clearing banks might currently run net negative positions for significant parts of the day, particularly at the beginning of the clearing day and thus be a significant source of liquidity to other participants and the system as a whole.

Section 21-22: Available intraday liquidity:

The evaluation of available intraday liquidity in this model does not take into account the role of netting/net-settlement clearing systems operating with liquidity saving algorithms such as EBA Euro-1 Clearing System or Clearing House Interbank Payments System (CHIPS). Those systems employ highly sophisticated release engines which permit the clearing members to settle amounts that are multiples of the liquidity originally injected into the system. TARGET2, the EUR RTGS system, is built on the basis of a set of "liquidity saving algorithms" and additionally CHIPS also runs a project to introduce liquidity saving mechanisms too. The amount of liquidity a bank maintains in such a system cannot be reflected / evaluated in the same way as liquidity maintained with a Central Bank for purposes of a traditional RTGS system for example. We recommend that the Committee reviews this indicator to reflect the importance of liquidity saving clearing systems.

The timing of the reporting would need to be clarified for international institutions as the "start of the business day" will depend on the currency and entity in question.

Section 24-25: Time-specific and other critical obligations:

It would be helpful if the Committee could provide a more differentiated definition of which obligations are to be considered for the computation of this indicator. One could for example distinguish between obligations which facilitate the bank's own settlement process in another clearing system (e.g. CLS, a CCP, etc.) and time-specific obligations instructed by clients. The latter in particular presents the challenge that a correspondent bank when making a release decision relative to a time sensitive instruction of a client needs to evaluate both credit risk considerations and liquidity considerations. Failed execution of such an instruction due to credit risk management considerations should not be negatively reflected in the evaluation of this indicator. We encourage the Committee to consider the complex risk trade-offs that banks take in these situations. Additionally since the critical measure for this indicator from a liquidity perspective is the value of the transaction, it would be beneficial to eliminate volume reporting and thus avoid additional complexity.

Section 27: Intraday credit lines extended to financial institution customers:

In our experience most intraday credit lines established by banks for clients are not only uncommitted but almost entirely undisclosed. It should be noted that in certain jurisdiction the simple fact of advising a line to a client might constitute a de-facto commitment. By keeping lines unadvised, banks maintain the best degree of flexibility to respond to counterparty/market deterioration effectively and efficiently.

Intraday facilities are provided by banks as a courtesy to their clients with the objective of facilitating the efficient and early settlement of flows in the overall market. The use of this indicator should be revisited or at a minimum very specifically clarified by the Committee as the reporting which is suggested might lead correspondent bank providers to a more conservative approach on intraday limits which in turn will negatively affect payment through-put and overall market liquidity, hence increasing systemic risk.

Section 28 – 30: Timing of intraday payments & intraday throughput:

The value of these indicators is highly dependent on a financial institution's client base and their relative geographic location. Comparative utilization of this indicator across multiple institutions or geographies would be distortive and should be discouraged.

It should also be taken into consideration that the indicators will be influenced to a certain degree by the credit appetite of the institution. As such caution should be paid while using the indicators as the basis for the peer reviews.

While the consultation specifically mentions that the indicator "timing of intraday payments" is relevant only to direct participants, this is not included in the definition of "Intraday throughput". Nevertheless we feel that this indicator is not relevant for indirect participants. As outlined earlier in this document banks have limited influence on the execution timing of their payment flows by their correspondent banks. Measuring and reporting intraday throughput does not appear meaningful in this context.

Section 52: Scope of application: currency

The scope of the reporting requirements considered in the consultation should be scrutinised in order to permit banks to focus on systemically relevant initiatives and eliminate risk from those areas efficiently.

Leaving the determination of a de minimis level to the discretion of individual regulators could create considerable market distortions and should be avoided. It would be preferable that the Committee provide clear and specific guidelines on de-minimis thresholds.

Section 55 & 58: Organisational Structure & Reporting frequency and granularity:

This proposal leaves significant room for local supervisors to be left to determine which institutions will or will not be in scope. It is important for the industry to understand how local supervisors will determine this and whether they apply any rules uniformly. Consistent implementation of the reporting regime is critical to avoid market distortions and the Committee should play a significant role in establishing clarity on fundamental principles and reinforcing the importance of consistent implementation with individual regulators.