A. Introduction

Deutsche Börse Group (DBG) welcomes the opportunity to comment on BCBS consultative document "Monitoring indicators for intraday liquidity management" (BCBS 225) issued on 2. July 2012.

DBG is operating in the area of financial markets along the complete chain of trading, clearing, settlement and custody for securities, derivatives and other financial instruments and as such mainly active through regulated Financial Market Infrastructure providers.

Among others, Clearstream Banking AG, Frankfurt/Main (CBF) and Clearstream Banking S.A., Luxembourg (CBL), who act as (I)CSDs[1], are classified as credit institutions according to the respective national banking regulations and are therefore within the scope of the European Capital Requirements Directive (CRD) which is transposing the international banking rules (Basel II / Basel III and any future regulation most likely as well) into European law. Furthermore, Eurex Clearing AG (ECAG) as the leading European CCP is classified as a credit institution under German law and will most likely be within the scope of the targeted rules. All three named entities are registered Securities Settlement Systems (SSS).

We have prepared our comments with particular focus on the effects on the companies of our group in scope of the regulations which are not comparable to the majority of other banks.

B. Comments

In general, we agree that the management of intraday liquidity risk forms a key element of a bank's overall liquidity risk management.

None the less, we actually doubt that an implementation of the detailed requirements and monitoring metrics as proposed in the consultative paper

(a) is feasible to the extent proposed by BCBS and

[1] (International) Central Securities Depository

(b) will offer an added value to the supervision of the liquidity situation of institutions.

With regard to (a) it has to be stated that the proposed indicators will impact the institution's IT-landscape massively, in case implementation is feasible at all. The necessary data to cope with the requirements are not readily available.

From our perspective and with regard to (b) an intraday monitoring in a highly cash-flow and transaction driven business along a retrospective monthly reporting offers no added value at all. Therefore, we question the real benefit of the information requested considering the implementation efforts and on-going cost of this approach.

A variety of cases demonstrate the underlying problem related to the feasibility of the approach, mainly in the area of deviations between technical processing and legal status:

- Phased transactions out of batch processings which legally are to be regarded as being simultaneously (e.g. securities transactions on certain settlement systems which are booked technically, purchases first and sales at a later point in time, but with the same timing for legal settlement finality. Similar processes are in place at certain cash settlement systems).
- Cash settlements are in general taking place in different technical cycles. Some institutions settle on a constant / real time basis other institutions settle with multiple batches or even one batch per day only. As a consequence, information on cash settlement is depending on implemented technical processes, (e.g. the processing of ATM transactions are booked sometimes one by one straight away after the cash withdrawal and can be seen immediately on the account statement while other banks book for various reasons all transactions of one day in a batch run during the night).
- Cash settlement is often legally just valid at the end of the day and intraday information is seen as being 'information only' without any legal relevance. Other processes – e.g. when rules for finality like under the EU settlement

finality directive are legally binding – have the technical settlement (information delivery) and legal settlement in synch.

- Cash settlement is performed conditional, i.e. reserve the right to be cancelled under certain conditions. This is true for cash collecting via cheques (amounts are in some jurisdictions credited subject to coverage of the amount) or direct debiting (credit to the cash collector but the payment is not secured and can potentially be recalled).
- Information of cash movements on bank accounts is not always (technically) readily available and processing of transactions is performed in the own systems only once the account statements are received (in general the next day but there might be even longer delays in receiving account statements for small or so called “exotic” currencies). For Treasury purposes and intraday liquidity management we find it necessary to have the capabilities to monitor the account balances of major accounts. However, monitoring of movements does not mean to have this information also transferred to the own systems (see also next bullet). Furthermore, we consider focusing on major currencies and accounts as sufficient.
- The ECB cash settlement system Target2 transfers cash balances in the morning away from the accounts and settles the transactions within the system. At the end of the day the remaining balances are moved back to the RTGS “main” account. We wonder how and when the transactions during the day are to be tackled for the intended reporting in such cases (Note: Similar cash processings are in place at other central banks).

Such cases are just examples which underline that a static approach to calculate any intraday cash shortage or excess has no added-value. Out of this we even doubt that any implementation is possible at all. Deriving regulatory ratios out of this or even defining a regulatory limit is a doubtful exercise. An implementation – with doubtful outcome in any case - would require a substantial lead time. Considering the current delays in the process to implement the Basel III rules and also upcoming additional rules like resolution and recovery plans, rules on shadow

banking, revised trading book rules etc. we doubt that an implementation will be possible in the near future.

In consequence, neither from a regulatory perspective nor from an economically perspective the proposed intraday liquidity regime seems to generate any added value. The liquidity management aims to generate a positive net cumulative liquidity position <u>at the end of each working day</u>, including cash flow assumptions and projections intraday. Any cash transaction initiated within a suitable (intraday) liquidity management already currently takes into account available (intraday) lines and financing sources as well as urgency of payments or mandatory transactions (due to defined settlement cycles e.g. out of securities settlement or central bank rules). Therefore, in our understanding the proposed regime could lead to a variety of unnecessary transactions during the day in order to technically respect cash ratios within certain time brackets which are expected not to be a problem by day end. This in turn will negatively impact the money markets and most likely will result in unintended adverse side effects.

In the following we state our comments to some of the proposed indicators:

- The '<u>daily maximum liquidity requirement</u>' is supposed to show the net cumulative intraday liquidity position at <u>any point in the day</u>. Taking our arguments made above into account, this seems to be a useless calculation and therefore a very doubtful figure. State of the art intraday liquidity management in banks is not balance sheet / accounting driven but takes into account cash flow assumptions, projections and expectations and is based on account monitoring (i.e. using information within the system of the correspondence bank which might even not be existing at that point in time in the own systems) as well as pre-advised transactions not yet settled / confirmed.
- Like for the 'daily maximum liquidity requirement' our general concerns and comments are also valid for the '<u>available intraday liquidity</u>'. As timestamps properly reflecting the legal point in time of the cash flow are (at least cur-

rently) only existing to a very limited extend (if at all) within the accounting systems the calculated figure is not really giving useful information. As it is also not taking into account projected and expected cash flows, this is not regarded as being a useful ratio.

- The indicator ‘total payments’ is a misleading one for various purposes. Payment and settlement systems are in general netting transactions and liquidity needs should monitor this. Moreover, banks are also operating such systems (like us as operators of SSSs) and the proposal currently is not clarifying, how system operators should report the transactions cleared and settled via their systems. Any payment has always to sides. Transactions settled (net) within payment and settlement system do reflect the total of the single payment and settlement transactions (gross) they are settling. We cannot see any sense why the gross payments delivered (net) to the payment settlement systems (note, cash transfers are already netted within the bank itself to only send net settlement instructions to the system, which is netting cash flows due to the multilateral relations within its system) is therefore giving any useful information which needs to be reported as a supervisory information.
- ‘Value of customer payments made on behalf of financial institution customers’: As our group companies are security settlement systems (SSS) they, of course, settle huge cash amounts in their systems. As this is not classical corresponding banking we doubt to add value by delivering such figures. Moreover, they are for the (I)CSDs already covered by the ECB blue book. Coverage of cash settlement volumes is already captured in a huge variety of statistical reports banks have to deliver. Before setting up new reporting obligations with some tendency to derive regulatory limits, we strongly urge the regulators and especially the central banks to scan the existing data deliveries and reach a global agreement on how existing information could be used for the purpose envisaged. We wonder why supervisors do not feel in position to understand sufficiently cash flows out of correspondent banking when taking into account the huge amount of data

explicitly delivered within the EU and the Euro-Zone. Before asking for additional data, international harmonization of statistical data collection and its supervisory usage should be analysed!

- The proposed 'intraday credit lines extended to financial institution customers' indicator requires inter alia the value of the credit lines extended to each of the five largest financial institution customers. In our understanding it is totally unclear how to evaluate the largest five financial institution customers (e.g. intraday loans granted on any day, intraday loans granted within one month, loans granted in total within reporting month, deposits taken, transactions volumes in payments, custody holdings, etc.). Taking our general concerns on data capturing and especially differences between technical and legal settlement into account, we doubt that the figure will add value at all.
- The concept of the 'timing of intraday payments' indicator is totally unclear to us. There is no definition how "timing" is measured and as there are ingoing AND outgoing payments, how this will be taken into account. As the explanatory text in paragraphs 28 and 29 is by far insufficient to understand the aim, we cannot comment on the usefulness of the indicator. Also the "sample intraday liquidity monitoring return" in Annex 2 is not useful in that regard. "Average time of settlement" does not lead to useful information. The same is valid to point 5 out of Annex 3 which is dealing with the combination of the 'timing of intraday payments' and the 'daily maximum liquidity need' and requires additional clarification. Taking our general concerns into account, we however doubt to receive any added value of such a figure. In any case, without clear definitions the targeted goal will not be achieved.
- With regard to the "intraday throughput", we just refer to our general comments on the measurement of the timing of a payment.

On top of our dedicated criticism and scepticism on the indicators as such, we also want to comment on the example given in Annex 1 which we do not feel being appropriate to demonstrate the practical workability of the metrics.

- The oversimplified example reflects instructions "send" and "received". A timestamp on sending and receiving (instructions?) however is not mirroring "settled" transactions neither legally nor technically. Settlement happens in the books of another legal entity.
- The very limited number of transactions and the limitation to one settlement location does not at all reflect the complexity of the reality with thousand if not millions of transactions on a huge number of accounts in a variety of currencies and countries. As such, while we clearly see the rationale of the proposal in the example, we cannot see this being implemented in a useful manner under real business conditions.

Altogether, we propose not to require an intraday liquidity monitoring framework with quantitative requirements at all as this is (technically) hard to reach and delivers no real benefits. Contrary, we propose to require a regime which is based on qualitative factors as it is already in place at banks with state of the art liquidity management. Within this framework institutions should receive some flexibility to take into account their liquidity requirements and business models as well as the principle of proportionality. Otherwise, many institutions would face a regulatory burden and the principles of proportionality with regard to size, nature, scope and complexity of their business would be annulled. The qualitative intraday liquidity management requirements to be incorporated into the rule book should give regulators and supervisors enough power, to request tailored solutions and receive proper documentation on the measures put in place without setting static ratios which will never ever deliver the intended outcome but put massive burden on the banks and will show market disruptions.

Having said this, we finally want to point out that adequate stress tests of course should be part of the intraday liquidity management as well as proper contingency plans.

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We hope that our comments given are useful in the further process and are taken up going forward. We are happy to discuss any question related to the comments made.

Eschborn, 14 September 2012

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