



Secretariat of the Basel Committee on
Banking Supervision
Bank for International Settlements
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Brussels, 13/09/2012

Dear Madam,
Dear Sir,

Subject : CD on monitoring indicators for intraday liquidity management

First of all, Febelfin would like to thank you sincerely for the opportunity to share with you some general considerations and suggestions on the proposed monitoring indicators for intraday liquidity risk management. In the second part of our letter we are pleased to reply to the questions of the consultation paper.

1. General observations

By way of overall comment, we would like to emphasise that after reading the consultation document, several issues remain unclear. You will find here below a summary of the questions that are still open in our view.

a. Objectives of the proposed monitoring indicators

It is not clear which intraday liquidity risks precisely the eight indicators aim to monitor. We would also welcome further explanation on the actual rationale beyond (some of) the proposed monitoring indicators and the real supervisory needs.

Although we understand from paragraph 6 of the consultation document that the proposed indicators are for monitoring purposes only and do not represent the introduction of new standards, we are quite puzzled to read a little bit further in paragraph 58 that « banks are expected to report the monitoring indicators to their supervisor on a monthly basis with the proposed LCR reporting requirements ».

In addition, we would like to stress that the possible added value of monitoring indicators to measure the intraday liquidity risks will differ significantly among banks depending on their complexity and business model. Consequently, a « one size fits all »- approach applicable to all banks to monitor the intraday liquidity risks is not justified. Some flexibility will thus be required.

In this context Febelfin which represents 252 members or a very large sample of undertakings active in the Belgian financial industry (among its members are credit institutions, asset managers, investment funds, portfolio managers and investments advisers, stock brokers as well as lease companies, factoring companies, venture capital



and private equity undertakings), would like to mention that it advocates respect for this diversity and is strongly in favour of the application of the Principle of Proportionality within the scope of regulation and supervision.

b. Relation between the proposed monitoring indicators and the LCR

We also wonder whether the supervisors (will) have criteria to determine in which events and under which circumstances the LCR would not allow (anymore) an adequate management of the intraday liquidity risks. Another issue that is also open, regards the possible overlap between the monitoring indicators for intraday liquidity management and the LCR (e.g. in the field of margin transactions).

c. Lack of definitions

The consultation document shows in several areas either a lack of or unclear or incomplete definitions :

- the intraday liquidity risk as such is not defined ;
- the definition of « material » currency is not clear ;
- not more than the distinction among the roles of direct and indirect participants ;
- some definitions need to be completed (e.g. « available liquidity ») ;
- indicator 4 (time-specific and other critical obligations) needs to be clarified ;
- the same goes for the definition of financial customers as mentioned in indicators 5 and 6

As far as it concerns the definition of intraday liquidity risk, we would like to suggest following wording :

“Intraday liquidity risk is the risk that materializes, between the opening and the closing hour of the value date, when:

- the timing of outgoing payment flows precedes the timing of compensating incoming payment flows;*
- the amount of guaranteeing collateral is not sufficient, or not at the right location, or can only be secured at excessive cost to allow normal continuation of payments;*
- intraday overdrafts are not available.*

In other words intraday liquidity risk management is the management of the payment capacity of the bank, a process that ensures that an eventual shortage of funds, visible during the settlement period, is covered within the agreed intraday time-frame of the value day, during normal and stressed circumstances.”

d. Data collection

As the payment-system owners have normally (this is certainly true towards the direct participants) all relevant intraday liquidity data available in their system, we recommend that they would be responsible for the data collection and for the dispatching of the data to the banks, in view of the stress tests to be organized by and at the level of each bank concerned.



2. Responses to the questions of the consultation document

Q1 : do the proposed indicators adequately capture the intraday liquidity risk run by banks ?

See our general observations outlined in 1 a) and 1 d)

Q2 : are the stress scenarios identified in the paper comprehensive ?

See our general observations outlined in 1 c) and 1 d)

Uniform stress tests are in our view not realistic.

As pointed out in 1 a) flexibility is required depending on the complexity and business model of the bank concerned.

Q3 : is the proposed scope of application of the indicators clear ?

- No.
- See our general observation outlined in 1 a).
- The PoP has to be applied.
- Quid conso level ? Does the scope extend to subsidiaries, branches and intragroup transactions ?
- The roles of direct and indirect participants are not well distinguished.
- Is the use of « netting » allowed ?
- The definition of « material currency » is lacking.

Q4 : what, if any, implementation challenges would be proposed reporting requirements present to banks ?

- It will –without any doubt- lead to a multiplication of the reporting burden with an expected overlap towards the LCR,
- while the added value of the monitoring indicators will heavily vary depending on the business model of the banks concerned

Q5 : are the different monitoring and reporting requirements for direct and indirect payment and settlement system participants clear?

- No
- See Q3

We sincerely hope that this letter with its comments and suggestions can assist you in the further development of the monitoring indicators for intraday liquidity management.

Yours faithfully,

Michel Vermaerke
Chief Executive Officer

Daniel Mareels
General Manager