



# FIRSTRAND

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

Dear Sir

**FIRSTRAND BANK LIMITED'S COMMENTS ON CONSULTATIVE PAPER: MONITORING INDICATORS FOR INTRADAY LIQUIDITY MANAGEMENT**

Please find attached FirstRand Bank Limited's comments on the consultative paper issued in respect of monitoring indicators for intraday liquidity management.

We appreciate the opportunity to comment on the consultative document in respect of monitoring indicators for intraday liquidity management.

Please contact us, should you have any questions on our views expressed in this letter.

Yours sincerely

**YVETTE SINGH**  
**PUBLIC POLICY AND REGULATORY**  
**AFFAIRS EXECUTIVE**

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# FIRSTRAND

**To** The Basel Committee  
**From** FirstRand Bank Limited  
**Subject** Consultative Paper: Monitoring indicators for intraday liquidity management  
**Date** 14 September 2012

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## **2. THE RESERVE BANK'S INTRADAY FUNDING AND COLLATERAL POLICY IN THE SOUTH AFRICA MULTIPLE OPTION SYSTEM ("SAMOS") FOR INTRADAY SETTLEMENT**

The Reserve Bank has the following policy on the funding and collateralisation of intraday settlement:

### **2.1 Securing of SAMOS loans**

In line with the Monetary Policy Operational Notice, all intraday loans granted by the Reserve Bank for settlement purposes will have to be fully secured by the pledging of acceptable collateral. In order to allow the Reserve Bank to provide the automated intraday SAMOS loan facility, only acceptable financial instruments may be reserved by the banks for use in SAMOS. Only instruments held in the Reserve Bank or a recognised Central Depository ("CD") may be utilised for this purpose.

### **1.2 Funding of settlement accounts**

Settlement in the SAMOS system is based on the pre-funding principle, in terms of which an interbank fund transfer will be affected only if sufficient funds are available in the paying bank's settlement account. The settlement account can be funded in a number of ways, *inter alia*:

### **1.3 Receipt of payment from another bank**

Payments will be received from the Reserve Bank and participating banks as a result of normal payment transactions between banks or a credit arrangement. In the last-mentioned case, a bank experiencing a liquidity shortage would, therefore, be able to approach another bank for a loan and receive a real-time payment in its settlement account by means of a "credit-push" transaction from the bank granting the credit facility.

### **1.4 Raising of automatic intraday SAMOS loans**

The SAMOS system contains a dynamic collateral-management component which enables a bank to obtain an intraday loan from the Reserve Bank automatically if it has reserved the necessary acceptable financial instruments available in the system for use as collateral. This system also has an option to repay the loan automatically and to release the pledged collateral on receipt of incoming payments.

### **1.5 Collateralisation of intraday SAMOS loans**

Intraday SAMOS loans shall be secured by the same type of collateral as that used under the Monetary Policy Operational Notice. Acceptable Financial Instruments are defined by the Monetary





Policy Operational Notice as Government stock, Reserve Bank debentures, Treasury bills and Land Bank bills (irrespective of maturity). These instruments can be reserved as collateral in the SAMOS system. This collateral will automatically be utilised for securing SAMOS loans, on the conditions determined by the Reserve Bank from time to time, in order to facilitate settlement through the SAMOS system if there is a shortage of funds in a bank's settlement account.

#### **1.6 Intraday utilisation of the liquid-asset requirement holdings of banks**

The Registrar of Banks made a concession to allow banks to use 50 per cent of their liquid-asset requirement holdings during the day as collateral for intraday SAMOS loans for facilitating interbank settlements. During the day, a bank could, therefore, reduce its holdings of required liquid assets to levels below those required by the Banks Act, 1990, but would have to meet the prescribed liquid asset requirements again by the end of the day. However, the Registrar of Banks has the discretion to apply such use of liquid-asset requirement holdings selectively, in order to restrict or withdraw a particular participant's, or all participants' use thereof, if in the Registrar's opinion this arrangement adversely affects the risk profile of a particular bank or the banking industry as a whole. Any change to this arrangement will take effect at the beginning of a new settlement cycle, that is, the opening of the SAMOS system for a new business day.

The above intraday liquidity process are therefore in line with the definition and constituent elements of intraday liquidity stated in the consultative document. In general, we support the aim of the Consultative Document to provide more transparency around intraday liquidity management.

### **3. COMMENTS ON THE CONSULTATIVE DOCUMENT**

#### **3.1 Definition of time critical payments across different jurisdictions**

Not all jurisdictions work in the same way, in some countries, central bank reserves are usable as intraday liquidity and in others are not. In the US, the existence of FED's unsecured overdraft facility influences the level of intraday liquidity banks need. Secondly will the definition of "time critical payments" be the same across the different jurisdictions?

#### **3.2 Definition of materiality**

Given that the data required and MIS challenges for these indicators are likely to be material for most banks for their key risk related risk areas, will banks be allowed to use their own definition of materiality in defining what systems, currencies and legal entities to focus on in their Group?



### **3.3 Postponement of payments**

Guard against banks that will postpone payments to late afternoon so that they do not use their intraday liquidity. This can lead to a concentration of payments that will lead to a systematic operational risk.

### **3.4 Engagement of Central Banks**

Central banks are the suppliers of payment systems; therefore we recommend that they are engaged in the design of the indicators and discussions about how best to build the information infrastructure to support them.

### **3.5 Level playing fields**

How will the regulators ensure that the playing fields are level given that there are competing regulatory objectives, and different payment and settlement systems are used by different banks?

### **3.6 Control and Governance**

The document is silent on control and governance. We would suggest that a section on this aspect is included.

### **3.7 Type of risks to be measured and mitigated**

The document explains what to be measured, but does not talk about what type of risks to be measured and mitigated with these indicators.

### **3.8 Data confidentiality and disclosure**

The document needs to be enhanced by a section on data confidentiality and disclosure, since the proposed monitoring requires highly sensitive data.

### **3.9 Annexure 3 of the consultative document**

We agree with all the set of examples which illustrate how the indicators could be used in different combinations by banks and their supervisors to assess a bank's resilience to intraday liquidity.



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## **4. ANSWERS TO THE CONSULTATIVE DOCUMENT QUESTIONNAIRE**

### **4.1 Do the proposed indicators adequately capture the intraday liquidity risk run by banks?**

The indicators reflect the risks, sources and needs associated with intraday liquidity.

### **4.2 Are the stress scenarios identified in the paper comprehensive?**

These are realistic set of scenario for banks to use, even though in the South African context we have not as yet experience some of these scenarios. We welcome the statement, on ability of banks to agree stress scenarios with their supervisors, points, 40 and 41.

We believe an additional stress scenario should be included:

Operational stress: A major bank suffers a system breakdown that prevents it to make or receive payments

### **4.3 Is the proposed scope of application of the indicators clear?**

Yes. We believe that some element of materiality should be agreed between banks and their supervisors in relation to the monitoring of currencies and group entities.

The recognition that, practices differ across banks and jurisdictions, depending on the institutional set up of a bank and specifics of systems in which it operates is most welcome.

We welcome the statement that "separate monitoring indicators will not be necessary for such ancillary systems"

### **4.4 What, if any, implementation challenges would the proposed reporting requirements present to banks?**

The alignment of systems will pose changes for the banks. Further clarity is also required on whether systems providers or individual banks will develop the systems to monitor intraday liquidity.

### **4.5 Are the different monitoring and reporting requirements for direct and indirect payment settlement system clear?**

Yes, they are clear.