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Banking supervision
And Accounting issues Unit
The Director

Paris, July 13th September 2012

French Banking Federation comments on the Basel Committee Consultative Document on the Monitoring indicators for intraday liquidity management

Dear Sir,

The French Banking Federation (FBF) is the professional body representing the interests of the banking industry in France. Its membership is composed of all credit institutions authorized as banks and doing business in France, i.e. more than 450 commercial and cooperative banks. FBF member banks have 40,000 permanent branches in France. They employ 400,000 people, and service 60 million clients.

The French Banking Federation (FBF) welcomes the opportunity offered by the Basel Committee on Banking Supervision (BCBS) to comment on the Monitoring indicators for intraday liquidity management.

As French banks consider that each bank has its own policy on cash flow management, we cannot bring common responses on the proposed indicators. But we would like to offer the Committee our key messages and general observations on:

- The real objectives of the BCBS
- The need for a more detailed definition of what intraday liquidity risk is
- The scope of application
- The governance and controls for managing intraday liquidity
- The risk of duplication of data already collected elsewhere
- The treatment of data and the issue of confidentiality
- The additional reporting burden placed on banks at this critical time
- The definition of the stress scenarios

Mr Wayne BYRES
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You will find in the annex our general comments on the issues raised in the consultation paper. We thank you for the consideration of our remarks and remain at your disposal for any question or additional information you might have.

Yours sincerely,

Jean-Paul CAUDAL

Monitoring Indicators for Intraday Liquidity Management

BCBS consultation French Banking Federation Response

The French Banking Federation -FBF welcomes the opportunity to share with the Basel Committee (BCBS) its views on the proposal for a framework on monitoring indicators for intraday liquidity management. Regarding the questions listed in the annex, which are more technical, the FBF is not in a position to respond, as French banks consider that each bank has its own policy on cash flow management and therefore we cannot bring common responses on such proposed indicators. Nevertheless, we would like to offer the following key messages and general observations:

- The real objectives of the BCBS
- Need for a more detailed definition of what intraday liquidity risk is
- Perimeter of application
- Good governance and controls for managing intraday liquidity
- Risk of duplication of data already collected elsewhere
- Treatment of these data and confidentiality
- Any additional burden would be inopportune at this critical time
- Definition of the stress scenarios

<u>The real objectives of the BCBS</u>

This Consultation raises many concerns from our members. Indeed, if we support the fact to use monitoring indicators of intraday liquidity, we question the opportunity to set up new reportings. The statement "It should be noted that the proposed indicators are for monitoring purposes only and do not represent the introduction of new standards around intraday liquidity management" in paragraph 6 of the Consultation Paper seems clear and comprehensive. But is inconsistent with the statement in paragraph 58 : « the banks are expected to report the monitoring indicators to their supervisor on a monthly basis in line with the proposed LCR reporting requirement ». It leads us to think that these indicators represent more of a test of institution's liquidity monitoring systems than a measure of the intraday liquidity risk exposure. Furthermore setting up some standards could lead banks to react all the same way during a stress event and therefore create a significant risk on financial stability.

Moreover we don't get clearly the articulation between BCBS and CPSS work streams. The issue of intraday liquidity is clearly related to settlement and payment systems, so which of those two BIS Committees is the most relevant to consult on this issue? Wouldn't it be the CPSS that should launch this review? We think an international working group should be set up in order to discuss these points, with direct and indirect payment systems participants and also experts from central banks who supervise payment systems. This will be more relevant to make regulators pay attention to the challenges implied by intraday liquidity and make them understand that an institution's good governance and control constitute an efficient monitoring of intraday cash-flows as well.

Need for a more detailed definition of what the intraday liquidity risk is

Consultation Paper, purposes « monitoring indicators for intraday liquidity management ». Should this title rather be « monitoring indicators for intraday liquidity **risk** management »? At this stage we can understand that the matter is about the different tools or procedures that banks currently use to manage intraday cash-flows. But it is clear that without a previous failure or an example to illustrate what it is expected, it is difficult to get what intraday liquidity encompasses.

If we suppose that this Paper covers the intraday liquidity risk management, we note there is no definition of this concept within the Paper. Given the CPSS definition in paragraph 11 for intraday liquidity: "Funds which can be accessed during the business day, usually to enable financial institutions to make payments in real time", we might define the intraday liquidity risk as the risk that intraday liquidity needs of an institution exceed its available liquidity. And by extension the intraday liquidity risk management could be defined as the management of the payment capacity of a firm to ensure that any shortage of funds during any settlement period (or value day) is covered within the allowed intraday time-frame for such period, under both normal and stressed conditions.

We welcome clarifications upon those concepts.

Scope of application

Related to this issue emerges the question of the scope of application. Depending on how intraday liquidity risk is defined, banks may have to report indicators whenever they are indirect participants or not. We are concerned with the fact that the requirement to provide indicators is extremely burdensome if dealing with all Nostro accounts. We therefore suggest that the reporting should be limited to the most significant Nostro accounts at most, and preferably to the RTGS accounts where the bank is a direct participant only (Target 2).

Good governance and controls for managing intraday liquidity

During a business day an important number of flows pass through many different settlement and payment systems (central bank currency, commercial currency, foreign currency). Their extent and frequency imply that at certain times the outflows can exceed the inflows, and therefore the bank supports the liquidity risk of its clients. However at the end of the business day, all positions are supposed to be flat, in euro and in foreign currencies as well, so there can be no liquidity risk. Otherwise this short intraday cash position becomes a credit risk. Then it is useful to remind that our national central bank allows credit lines during the business day to the TARGET2 direct participants via a self-collateralisation system of securities they are long within ESES (Euroclear Settlement of Euronext-zone Securities), which allows payments to be executed on time and then facilitates the settlement of the operations.

In fact there is uncertainty linked to flows incoming from customers that impedes a strict prevision of inflows and outflows. Therefore complying for instance with the "daily maximum liquidity requirement" indicator may push banks to delay their payments in order to reduce the time gap between payment and reception of funds, which could generate an operational or systemic risk if all banks react in the same way. Moreover there could be an operational risk in the failure of a Payment System, but considering the fact that most of them are operated and supervised by central banks, this is by definition secure.

Comparing payment behaviors across different jurisdictions could highlight differences. For instance, the timing of payments in the American Fedwire system is concentrated at the end of the day, while the British CHAPS system shows a more even distribution of payments along the day. This is due to throughput rules in the United Kingdom that require a certain percentage of average daily payments to be made throughout the day.

This Consultation Paper should stress that good governance and controls have a direct impact on banks quality of performance and intraday risk. Actually there are control systems that enable participants to slow or stop payments and allow them to manage collateral if they see problems developing either at the direct participant or the indirect participant level. Monitoring counterparties and indirect participant positions in order to contain intraday overdrafts is an essential part of intraday liquidity management that needs to be considered.

Finally it should be noted that institutions should demonstrate to their supervisors the quality of their controls and of their governance of the intraday process, including their management of flows in accordance with the requirements of payment and settlement systems. Discussions of controls and governance with home and host regulators should also help define the roles of local supervisors.

Risk of duplication of data already collected elsewhere

We invite the BCBS to consider alternative existing sources of data. Given the role that central banks play in maintaining and operating payment systems in many jurisdictions, supervisors may find that such entities are able to provide necessary data, regarding exchanged amounts, without requesting the information from participating institutions. So they should be able to provide participants reporting on these relevant data that could potentially comply with supervisor's requests.

Therefore we encourage that these indicators should take into account, and be aligned with, other additional reporting already required from banks, including central-bank and clearing-system requirements, and, even more importantly, additional requirements currently in development, such as the FSB's common data template work, developing OFR requirements in the US, and related initiatives, such as the Basel Committee's risk data aggregation initiative. Additional data may also be required within the Recovery and Resolution Plans under the FSB's Key Attributes of Effective Resolution Regimes.

Treatment of these data and confidentiality

As explained supra, banks have already developed tools to manage and control flows incoming from their clients, so we do not discern properly what it is really expected from those proposals. Indeed, if the purpose is to assess how banks monitor and control intraday cash-flows, this is already in France an obligation imposed by the Règlement n° 97-02 article 31 related to the internal control of credit institutions and investment firms "Institutions must dispose of policies and procedures adapted to their size, the nature and complexity of the activities, and to the supported risks, in order to measure and manage the liquidity risk on **a permanent and prospective basis**".

On another hand, if the purpose is to achieve indirectly a benchmark regarding the tools or procedures currently used by banks by proposing ex ante some turnkey indicators, and then confront them, we fear it will lead inescapably to new standards, and sort of valuation scale of what bank do to manage intraday liquidity risk properly and what they do not. We strongly think that introducing new standards will force banks to adopt a uniform management of intraday liquidity despite different activities, and create a substantial risk for financial stability in a case of a stress period, as described in the second point. Moreover as detailed in point 4, payment systems are heterogeneous and so any given indicators may not be consistent.

On a general way the proposed monitoring requires collection and delivery of highly sensitive data that could trigger systemic issues if publicly released or misinterpreted. French banks are highly concerned about confidentiality protections and information-sharing protocols, so it would be very useful to envisage a section about confidentiality and non-disclosure. Any misinterpretation or unwished disclosure could lead to a dramatic situation on financial markets for the concerned bank.

Any additional burden would be inopportune at this critical time

Conversely, considering the relevancy of these indicators, we would not discuss upon relevant tools making easy some day-to-day tasks but the fact to report them on a common base to the supervisors. The current burden banks must face regarding new liquidity standards such as LCR is currently a material concern whose responses are not yet made. Banks are getting prepared for new costly IT developments on the liquidity ratios whose objective is clearly defined.

Moreover we can fear that standards made for intraday liquidity risk management will require a new intraday liquidity buffer besides the current liquidity buffer as defined in the LCR.

The large amount of data requested will put a significant burden on supervisors for analyzing the data. Therefore we suggest that BCBS prepares a cost/benefit analysis of collecting all listed indicators with the granularity outlined. It is particularly important that BCBS and supervisors evaluate how they plan to use the collected data to understand the intraday liquidity risk profile.

Definition of the stress scenarios

We are concerned with the fact that the stress scenarios are difficult and costly to implement operationally while not bringing much added value in terms of information quality both to the regulators and to the banks. They should at least be specified bearing in mind that they will have to be automatized.