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Intesa Sanpaolo response to the BCBS consultation paper on
"Monitoring indicators for intraday liquidity management"
September 2012

Intesa Sanpaolo welcomes the opportunity to comment on the BCBS consultative document on the proposed framework for monitoring indicators for intraday liquidity management.

First, we would be pleased to bring to your attention some more general comments:

- **On Intraday money market instruments:** The consultative document outlines that intraday money markets exist in a limited number of jurisdictions; this is certainly a key point and without a full harmonization at the international level that would give all counterparties or at least the direct participants in settlement systems, the possibility to participate to an intraday market, an efficient management of the intraday liquidity will not be possible.
  An active intraday market, eventually based on "hourly deposits", could be really efficient only if supported by the regulators and developed on an electronic platform.

- **On IT Impacts and Cost/Benefits:** the envisaged new requirements will quite certainly set new burdens to banks' IT systems considering the overall new set of data that will have to be produced. Costs will certainly matter, but also the overlapping with current and more business-as-usual IT investments will certainly represent a key factor. The fact that the data-mining of a huge mass of information will have to be done on a daily or hourly basis will bring heavy strains to the current IT infrastructure.

- **On the timing for implementation:** In the document the timing of the go-live of the monitoring is actually not clear: even if it has been required to provide these information together with previously agreed Basel III indicators, it should be a further burden to banks to develop and implement new IT procedures and data collections, within the beginning of 2013.

- **On the scope/perimeter of application of the new standards:** it is of the utmost importance to strike a balance between the need to ensure that the new standards will be applied to all relevant and systemic institutions (level playing field) while at the same time taking into consideration the different size of institutions and their business models (proportionality). In this respect, the role and the involvement of both home and host country supervisors will have to be clearly defined in all fields of the new regulation like: stress-testing, governance, controls, reporting.

- **On the scope of application with reference to the different systems:** to the extent that the whole picture of settlement systems is very wide and varying, it's rather difficult to abstractly understand and separate cases when a bank should either consolidate indicator calculations or keep them apart from others, referring to the possibility of exploiting or not liquidity bridges. A better way to approach the matter would be to assess in some way relative weights of financial institutions participating in every system and consider concentration thresholds over which the participation could be considered relevant or not.

- **On the indicators proposed**: we broadly agree on the general idea that required data (for example for indicator *i* and *ii*) would be made considering the volatility of the analysed variable in the continuum, i.e. calculating its consistency *at any point in the day* (as reported in page 5). The

random nature of the variable makes clear that it would be inadequate to consider relevant indicator assessments done at specific and pre-fixed check-point times during the day, because especially for big players most of the unexpected flows are due to random and unpredictable big customers' business activity.

Furthermore, we provide below a brief feedback about the posed questions:

1. **Do the proposed indicators adequately capture the intraday liquidity risk run by banks?**

If the general aim is to assess the potential liquidity needs of each institution and of the whole system at once, we should answer they do not.
We have already experienced cases when a single big customer outflow operation (whose funding was already gained in advance) had in some ways distorted the ex-post analysis of the aggregate, putting further constraints on ordinary activity of settlement and cash management, even for days in which this operation has not occurred.
In addition, and specifically for commercial banks, it could be envisaged to take into consideration not only "financial institutions' flows", but also "large value commercial flows".

2. **Are the stress scenarios identified in the paper comprehensive?**

As general principles they are, but many more details are needed to provide a more accurate answer; for example: clarification have to be suggested in relation to the definition of customers, counterparties and institutions that have to be considered in the scenarios and to the process through which reporting participants will share the approach to the construction of the scenarios together their direct supervisors, in order to always maintain a correct level playing field throughout different jurisdictions.
In this respect, the consultation document is mostly qualitative and further technical and quantitative guidance will be expected.

3. **Is the proposed scope of application of the indicators clear?**

The whole purpose is certainly clear. But anyway we would like to underline that more clarifications have to be provided, especially concerning:

- Difference between direct and indirect participation and transactions that have to be included or not during the calculating process;
- Treatment of transactions done between intra-group entities and results' level of consolidation;
- More precise definition of "financial institution" customers named in paragraph 26, also in relation with the previous bullet point;
- More precise definition of intraday credit facilities, firmly keeping in mind that reporting institutions could be at the same time direct participants in some systems and indirect in others and consequently not only the provided facilities but also the received ones have to be considered in the big picture;
- How to set up historical series of data (15) and how to define and keep up to date the list of the "five largest financial institution customer"(26/27).

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

The introduction of the proposed intraday monitoring framework will certainly bring banks, at any level, to face the need to develop new procedures in order to create ad-hoc data warehouses, computing procedures and reporting systems, with consequent significant IT investments.
Also taking into account the still-alive process of finalising the LCR, in our opinion it will be fundamental that firms will be given enough time to tune their investments to whatever comes out from this consultation.

5. **Are the different monitoring and reporting requirements for direct and indirect payment and settlement system participants clear?**

As stated above, it's actually not so clear the real distinction between direct and indirect participation, since a firm can have at the same time both classifications referring to different system: if the reporting would have to be done on a consolidated basis, more distinctive rules should be added to the document.

For any further comments or questions, please contact:

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