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Secretariat of the Basel Committee on Banking Supervision,
Bank for International Settlements
CH-4002
Basel
Switzerland
E-mail to: baselcommittee@bis.org

RE: BCBS Consultative Document on *Monitoring Indicators for Intraday Liquidity Management*

Dear Sir or Madam:

The Institute is grateful for the opportunity to comment on the important issue of intraday liquidity risk management. The Institute generally agrees with the view of the Basel Committee on Banking Supervision (BCBS) that transparency and management of intraday liquidity is pertinent to overall liquidity risk management. It is generally accepted that a bank should actively manage its intraday liquidity to meet payment and settlement obligations as stated by Principle Eight of the Sound Principles.[1]

While the intent of the BCBS to provide a consistent structure for supervisors to monitor intraday liquidity is important, the present consultative document, *Monitoring Indicators for Intraday Liquidity Management,* raises several issues outlined below, which must be understood differently for direct and indirect participants.

These highly technical questions would benefit from face-to-face discussions between the official sector and intraday liquidity managers and intraday specialists from both direct and indirect participants: such conversations would enhance mutual understanding of goals and issues. As our comments about the rationale for and use of the new monitoring framework indicate, there is a need for more discussion of what is intended by, and what is likely to result from, the new framework. This is particularly true in light of interactions between the different layers of liquidity management and regulation at each participant institution. Numerous reporting obligations, multiple reporting systems, and the fact that most institutions act as direct participants in some payment and settlement systems and indirect participants in others complicate the monitoring of intraday liquidity, as do the different risks and challenges posed by direct and indirect participants. Such a discussion would assist the assessment of the impact and consequences of the proposals. Further, discussions would also reveal that in many cases, qualitative assessments rather than quantitative measures would be more meaningful because they are more effective in managing intraday liquidity.

[1] "A bank should actively manage its intraday liquidity and risks to meet payment and settlement obligations on a timely basis under both normal and stressed conditions and thus contribute to the smooth functioning of payment and settlement systems." BCBS, *Principles for Sound Liquidity Risk Management and Supervision*, Principle Eight, 2008.

***General Comments***

- *Rationale for and use of Indicators* - The consultative document lists eight indicators for looking at banks' intraday liquidity, but there is little detail on how the data gathered from these indicators would be used. It is stated in paragraph 6 that *"the proposed indicators are for monitoring purposes only and do not represent the introduction of new standards around intraday liquidity management."* This statement is important and should be given greater prominence in the final version.

  Nevertheless, given the significance of the data-collection efforts mandated, how the purposes of the requirements will be interpreted by supervisors, and how interpretation of the data will inform decision-making is very important. While Annex 3 gives examples of how the different indicators could be combined, a more comprehensive articulation of how each one of them should be interpreted and used would be helpful.

  The Consultative Document is not always clear as to the risks that are being targeted by each of the indicators. In some cases it seems as though the indicators are geared towards the collection of data for its own sake. Given such uncertainty, it is not clear whether the elaborate and complex reporting required would actually add knowledge of use to supervisors, particularly for indirect participants. Therefore, clarification of intent would be relevant for the industry to suggest alternative– and, potentially more efficient -- indicators. Further attention to calibrating the application of the indicators to reflect the different risks posed by direct and indirect participants would also be appropriate. This general comment informs several of our other comments below.

- *Definition of Intraday Liquidity Risk* – While the concept of "intraday liquidity" is defined in paragraph 11, the concept of intraday liquidity *risk* is not. Defining the concepts of "intraday liquidity risk" and "intraday liquidity-risk management" would, contribute to analytical understanding of the goals of the indicators. The Institute suggests:

  - *Intraday Liquidity Risk* is the risk that a bank would be unable to meet time-specific obligations on any given value date because:
    - Outgoing payment flows precede compensating incoming payment flows and sources (including collateral transformation, overdrafts, and extraordinary sources);
    - For indirect participants, the correspondent bank is under liquidity or operational stress

  - *Intraday Liquidity-risk Management* is the measurement and mitigation of intraday liquidity risk in order to ensure reasonable continuation of payment flow under both normal and stressed conditions.

- *Detailed Guidance on Implementation* - Paragraph 10 states that "Further guidance on the detailed implementation of the indicators will be issued by the BCBS when the

proposals are finalized." This is concerning given that detailed information of the proposed reporting requirement is necessary to determine the feasibility and likely cost of the new requirements. Detailed definitions of indicators should be established. Among other things, details of the indicators are necessary to analyze possible overlaps with, for example, the FSB's common data template proposals. Once this additional level of detail on the indicators is established, it may also be useful to have guidance on their implementation when the proposals are finalized, and the industry would welcome guidance at an appropriate level of granularity at that stage.

- *Cost-Benefit Analysis* – In more general terms, a cost-benefit analysis of the reporting requirements should be undertaken, including analysis of the best source for various items of data, and such analysis should be taken into account in defining the final scope of reporting. Further consideration should also be given to the concept of proportionality in deciding what data needs to be collected and reported (i.e. requirements should be related to the nature and importance of intraday liquidity, what business is conducted and in what volumes, by the particular firm). As the comments on *IT impacts* (further below) will indicate, the new reporting regime will likely require extra resources from institutions. The effects of the new reporting requirements will need to be fully weighed particularly at a time when the cumulative effects of global regulatory reforms on the economy have not yet been comprehensively understood.

  Additionally, the application of the indicators should be tailored to the bank's business model (see specific comments below on *Business Model*). This is particularly the case for indirect participants, who may not pose the same systemic risks as direct participants and for whom the imposition of continuous monitoring of each indicator may therefore be unnecessarily burdensome. This also highlights the burdensome nature (for de minimis benefit) from indirect participant reliance on data from direct participants for risks the direct participants are already monitoring.

- *Governance and Controls* - The consultative document focuses on monitoring intraday liquidity, but does not address equally important elements such as governance and control of intraday liquidity. Governance and quality of controls have a direct impact on banks' quality of performance and intraday risk.[2]

  Control systems exist that enable direct participants to slow or stop payments and to manage collateral usage if they see problems developing, either at the direct-participant or the client level. Monitoring counterparty and indirect client positions in order to contain intraday overdrafts is an essential part of intraday liquidity management that needs to be considered in designing a monitoring framework for intraday liquidity, as do operational requirements already imposed by payment

[2] Firms should be able as a matter of their usual Pillar II discussions to 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 host supervisors.

systems. The indicators proposed are only meaningful in the context of the management of intraday liquidity flows.[3]

- *IT Impacts* - There are concerns about the additional demands on banks' IT systems and infrastructure that the new requirements would impose. The reporting on direct and indirect payments will require a host of new reports and significant investments in MIS infrastructure. This is not just a matter of costs – although they are likely to be significant – it is also a matter of allocation of scarce IT resources and the interplay of numerous new demands on banks' IT, which need to be coordinated and rationalized into orderly development plans, which will necessarily take a fair amount of time. The extensive demands on banks' IT for many different regulatory purposes (most of them worthy in their own terms) are themselves becoming a source of operational risk and potential instability.[4]

  The proposals on indicators of intraday liquidity should take into account, and be aligned with, other additional reporting already required of 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 Office of Financial Research (OFR) requirements and other measures under the Dodd-Frank Act in the US, and related initiatives, such as the Basel Committee's risk data aggregation initiative. Further alignment of data requirements with Recovery and Resolution Plans under the FSB's *Key Attributes of Effective Resolution Regimes* may also be required.

  It should also be noted that the paper envisions collection of a great deal of data by currency, payment system, legal entity, etc. Some of this data will be de minimis when compared to the intraday needs of an entity or group. Moreover, the implication is that some data would need to be collected on a minute-by-minute basis (cf. Figure 1), which would not be necessary or efficient. Further, direct participants are similarly better equipped to monitor intraday liquidity risks than indirect participants because the information and tools already exist at these institutions, which already monitor and manage indirect client positions carefully.

  Furthermore in clearing and settlement systems other than central-bank payment systems, intraday information may not be available and in any case may not be meaningful given the way payments and settlements are processed, for example, through a settlement "chaining" or batch settlement. In such circumstances, banks manage through the time-stamp of instructions given, not payments settled. It

[3] It should be noted that control issues arise differently in the different types of systems covered by the consultative document -- real-time gross settlement systems require different controls and monitoring from batch systems as an example -- and, of course, the interaction of flows between different systems and the operational requirements thereof are monitored carefully by banks as well.

[4] See, Institute of International Finance and McKinsey & Company, *Risk IT and Operations: Strengthening Capabilities,* June 17, 2011; and See, Institute of International Finance and Ernst & Young, *Progress in Financial Services Risk Management – A Survey of Major Financial Institutions,* June 21, 2012. [Section on Internal Transparency, Data, and Systems, Pg. 56 – 61]. This point was reinforced in a recent interview with Stacy Coleman of the Federal Reserve Bank of New York, "Coleman warns of stability dangers from regulatory reform", in *Operational Risk and Regulation,* July 2012, available at http://www.risk.net/operational-risk-and-regulation/feature/2188484/coleman-warns-stability-dangers-regulatory-reform

would be helpful to have a discussion of the principles under which the frequency of data collection should be established.

- *Central Banks and Payment Systems* - The costs and IT impacts of reporting raise another key issue about capability. Central banks and payment and settlement systems are often better placed to collect and maintain flow data than individual banks, including regarding intraday credit provided to participants.[5] It would thus be more economical and efficient that systems to gather much of the data be set up by the clearing systems and central banks. Central banks already have the information and tools to monitor intraday liquidity risks – they monitor most payment flows and collateral usage where relevant (e.g. the Trans-European Automated Real-time Gross Settlement Express Transfer system (TARGET system) in the EU or the Federal Reserve Intraday Position Report in the US). A good deal of what the proposal would require is either already available or could be relatively easily extracted from them.

  Furthermore, to facilitate compliance and uniform implementation of the proposed standards, it will be necessary for settlement systems and other financial market infrastructure institutions to standardize an industry approach to provide participants with the data required to perform the required calculations. Currently, no such standards exist, and significant investments would be required to make the transition to the requisite data feeds; this is a dimension of the IT impact issue mentioned above.

- *No Duplication* -Within certain jurisdictions, the current intraday reporting framework sets stringent controls and governance that require a higher level of monitoring and reporting exceeding those proposed within the consultative document. Moreover, the various payment, clearing and settlement systems also have monitoring and reporting systems adapted to their specific requirements. It should be made clear that where current requirements meet or exceed the proposed requirements, duplication or parallel but somewhat different reporting would not be required.

- *Data Protection Issues* - The proposed monitoring requires collection and delivery of highly sensitive data. There are several dimensions of this: commercially sensitive data; potentially, protected client data; and data that, if released and misinterpreted, could trigger systemic issues. A section about data confidentiality and disclosure would be very useful in clarifying how the data will be treated and giving assurances of non-disclosure, especially where cross-border transmission of data among supervisors and payment systems may be required. Furthermore, it needs to be recognized that, in addition to familiar data-privacy issues, export of data in many countries, even for regulatory purposes, may be prohibited. This is an issue that cuts across a number of current public-sector initiatives and may require specific international standards for relevant data legislation in many countries. At least as an interim measure, it would be preferable that all data be kept with the financial institution and shared with supervisors when requested.

[5] Cf. BCBS' *Sound Principles*, Para.82

- *Market Structure Issues.* Although the indicators are intended by the Consultative Document for monitoring purposes only, as discussed under *Rationale for and use of Indicators* above, the indicators themselves may implicitly provide incentives for two unintended consequences. First, direct participants may have an incentive to reduce or eliminate intra-day credit lines to indirect participants in order to improve their performance on certain indicators. As a result, improvement in the indicators of direct participants might adversely affect the performance of indirect participants and the efficiency of the overall payments system. Second, indirect participants may need to prefund their payments (as suggested in paragraph 34) or be encouraged to keep ever larger amounts of liquidity on deposit with direct participants. In addition to shifting intraday liquidity risk to the indirect participants, impeding efficient use of collateral, and, again, reducing the efficiency of the overall payments system, this may result in indirect participants' exceeding permissible counterparty credit concentration exposures under regulatory initiatives, such as the forthcoming Basel rules on large exposures, existing national large-exposure rules, or the proposed rules for Enhanced Supervision under Section 165 of the Dodd-Frank Act.[6] It would be helpful for the BCBS to provide guidance to dissuade banks and supervisors from such interpretations. The BCBS needs to consider whether the indicators it proposes would encourage behavior that concentrates risk in the system and defeats the purpose of other regulatory measures, even though they are intended only to improve information on intraday liquidity risk.

***Specific Comments***

- *Daily Maximum Liquidity Requirement.* The indicator for daily maximum liquidity requirement (paragraphs 15-20) is defined based on a bank's actual use of liquidity and not necessarily on what is required to fulfill its payment obligations in a timely manner. For example, a bank may release payments earlier than required in order to avoid gridlock situations. This is an example of the importance of the management and governance dimension that is mentioned above and should be taken into account in defining an indicator for such requirement. From an indirect participant standpoint, the indicator is less relevant as the timing of the payments intraday are mostly at the direct banks' control except for time-specific obligations.

  It should be pointed out that a daily maximum liquidity indicator, while useful for monitoring up to a point, could, if used by supervisors to guide banks toward apparently less-risky positions from a microprudential point of view, lead to liquidity-conservation behavior that would materially increase systemic risk in payment systems, for example if payments were delayed or retained until the end of the day simply to manage the metric. This relates to our general points above about the need for clarity about the use of data and the definition of intraday risk, as well as our comments about the effects on market structures. There should be some recognition that, broadly speaking, payments are a zero-sum game: one bank pays, one bank receives. Not every bank can be in a positive position at the same time and

[6] 77 F.R. 594 (Jan. 5, 2012). Available at: http://www.gpo.gov/fdsys/pkg/FR-2012-01-05/pdf/2011-33364.pdf.

good management and judgment are necessary not only from a given bank's point of view but to avoid gridlock in the system and operational risk for banks. Similarly, reducing the flexibility of direct participants to manage indirect liquidity would in effect create an incentive to pass more of the burden of managing intraday risk onto indirect participants, which are less well-equipped to do so efficiently.

- *Available Intraday Liquidity.* Available intraday liquidity (paragraphs 21-22) could be more clearly defined.

  It is concerning that not enough attention is paid to the critical role of incoming funds during the day. Paragraph 12 recognizes so-called "other" sources of funds, but most of the indicators do not give sufficient recognition to the utterly critical role played by incoming funds (only partially in paragraph 23). Similarly, the important role of incoming funds should be recognized in stress scenarios.

  It is important to note that there is a minimum level of funds or collateral required to support a bank's normal payments processes (including to start the process at each opening) that varies from system to system and is quite distinct from that required for (and used by) a bank under stress. A sharper distinction could be made between business-as-usual liquidity and collateral management, and stress planning.

  Stress scenarios are indicative and useful analytically but do not directly define availability. *All* forms of liquidity buffers and reserves are potentially intraday liquidity. Thus the document needs to be clearer on what forms of liquidity are considered available. Sources of available intraday liquidity for stress purposes would extend to sources such as unencumbered, non-central bank eligible collateral. This is in part related to the "double-duty" issue addressed in the next section.

  Although there is no explicit requirement on this point, it is essential to stress that intraday credit made available by direct clearing participants to their bank clients that are indirect participants are often unadvised and uncommitted. Care should be taken to avoid creating incentives or de-facto requirements to use advised and committed facilities: such commitments would likely lead to intraday liquidity conservation behavior that would create rigidities in the system that would materially increase systemic risk. In addition, the LCR implications and costs of committed lines are significant and would affect the way banks conduct payments businesses.

  Similarly, care should be taken to avoid creating de-facto requirements to report exact debit and payment times to indirect participants (or to supervisors). Clearing banks may debit indirect participants to manage exposures while timing making actual payments in order to manage system flows and avoid imbalances: the discretion of clearing banks requires good governance and compliance with clearing-system rules, but has not been troublesome despite the crisis and the good, smooth operation of payment systems should not be impeded by the new requirements or the incentives they create. Client payment flows are not always easy to predict and banks that do a substantial amount of transactions for third-party banks (including "internalized payments") provide an important service to the system as a whole,

often smoothing peak payments going through the system – care should be taken not to penalize or create disincentives to offer such services.

The implications of imposing additional de facto or de jure liquidity requirements for normal as well as stressed intraday liquidity purposes should be considered carefully, especially in light of the likely impacts thereof on the cost of credit and the revival of interbank markets, and the rapidly rising concerns about "collateral famine."

Finally, some further attention is required to the "five largest financial institution customers" referred to in paragraphs 26 and 27. A wider definition than simply "value" is needed to avoid undue fluctuations in the top five over short periods of time; adding metrics such as throughput and volume of transactions as well as (gross payments) value to the definition could help achieve more stability. Given the indicative purposes for which the top five are selected, they should be held relatively stable for comparability over time as well as for operational reasons.

- *"Double-Duty" – Interaction with the Liquidity Coverage Ratio (LCR).* The interaction between the liquidity buffers in the LCR and intraday liquidity sources in the consultative document is unclear. To some extent, the unencumbered liquid assets in the consultative document would overlap with the liquid assets recognized for purposes of the LCR (but certainly the LCR's currently very narrow definition of liquid assets should not be used for intraday purposes). In addition, paragraph 31 of the Basel III liquidity requirements, standards and monitoring, states that "…banks and regulators should be aware that the LCR stress does not cover expected or unexpected intraday liquidity needs…."[7]

  The stresses outlined in the consultative document, however, are exactly those for which the LCR buffer is held. It will be especially important to explain these relations when the Basel Committee issues its expected standards on the use of the Basel III liquidity buffers.

- *Financial Institution Customers.* It would be very beneficial to get further clarity on the client-specific data that two indicators will request: (v) value of customer payments made on behalf of financial institution customers; and (vi) intraday credit lines extended to financial institution customers. In both cases, it is unclear whether the term 'financial institution customer' would include pension funds and investment funds. Also, some further clarification on what is meant by "intraday credit as part of providing payment services to other customers," would be helpful.[8] Once clarification is obtained, any such reporting should be limited to arrangements that are functionally equivalent to a correspondent banking relationship and should not include, for instance, routine extensions of credit made by custody banks in support of day-to-day clearing and settlement activities.

[7] Basel Committee on Banking Supervision, *Basel III: International Framework for Liquidity Risk Measurement, Standards and Monitoring,* December 2010.

[8] Basel Committee on Banking Supervision, *Consultative Document – Monitoring Indicators for Intraday Liquidity Management,* July 2012. Pg. 7

- *Business Models*. The recognition in paragraphs 46-51 and 55-57 of the different modes of management of liquidity, including intraday liquidity, in different groups is appreciated. Indeed it is also recognized by the *Sound Principles* that tools that are applied to enhance effective intraday liquidity risk management "…should be tailored to the bank's business model and role in the financial system, as well as how it conducts its activities for a particular market…"[9] There are valid reasons why some groups manage liquidity in a highly centralized manner, whereas others may have more decentralized liquidity risk management (especially where partially owned, locally-listed subsidiaries are used). Both models can achieve the goals of both firms and supervisors for intraday liquidity management and thus both should be recognized.

- *Level of Reporting*. Paragraph 57 explains the scope of application of the reporting requirements and the oversight role of home and host supervisors. However, the purposes of reporting across a global bank are unclear. Whether reporting needs to be done on a consolidated level, legal entity level or branch level is not an issue that can be decided without a sense of the reasons for reporting and materiality thresholds that should be applied (paragraph 55 seems to indicate a bias toward the significant legal entity level). See the comment above on business models: banks may manage liquidity very efficiently and effectively in a highly centralized manner or, for other business models, in a decentralized manner. While firms have intra-day compliance processes in place for each system and each currency, however small, new reporting requirements should be designed to reflect and not disrupt firms' overall business models unless there is a very clear and well-articulated policy reason to do so. Appropriate materiality concepts and de-minimis exceptions are needed.

  Given the large amounts of data that would be required under the current proposal at the lowest level, it will be important to keep sight of materiality and risk priorities in establishing aggregate requirements at sub-group and group levels. Paragraph 56 establishes an aggregation test that is helpful as far as it goes, but does not reflect the necessary adjustment for materiality of risks where a group operates across many currencies and systems. (This point is discussed further with respect to the Basel Committee's question on direct and indirect participants, covered below.)

  Furthermore, many institutions see a need for greater clarity on how to view intercompany activity (e.g. when a bank uses an affiliate as its correspondent), especially as such situations may engage multiple supervisors. Double reporting is presumably to be avoided.

  Recognition of the problem of *ring-fenced "trapped pools of liquidity"* in paragraphs 55 and 56 is appreciated. This has been a concern of the Institute for some time, and, although the point is out of the strict scope of this consultation, we cannot let the opportunity pass to say that this concern continues to grow (as do other concerns about the fragmentation of markets) is an ever-greater concern, as much with respect to the efficiency and resilience of global markets as with respect to its effect on firms' lending capability and internal efficiency. Given that overall liquidity is already

[9] BCBS' *Sound Principles,* Para. 86

tighter across markets, the reduction of fungiblity across systems is of ever greater concern. This long-standing concern is now compounded by growing concerns about "collateral famine" – the great demands on high-quality collateral being made for various regulatory and business reasons during a time of overall declining collateral quality

- *Frequency of Reporting.* The utility and necessity of monthly reporting as required by paragraphs 58-60 and Annex 2 is questionable. Some data items are reported semi-annually or annually in the United States, for example, and it is not apparent why a change would be required. It may be difficult to achieve the statistical significance required with only one month's worth of data (21 business days). Furthermore, if the aim is to obtain trend analysis or develop macro statistics, semi-annual or annual reporting may be both sufficient and more meaningful in many cases.

### ***Specific Questions Posed by the Basel Committee***

The italicized specific questions are posed at paragraph 9.

*(i) Do the proposed indicators adequately capture the intraday liquidity risk run by banks?*

As previously stated, intraday liquidity is in many respects better managed through qualitative assessment rather than quantitative measures, although as a general matter, the proposed indicators do broadly capture some of the intraday liquidity risk issues; however, members are concerned that there may be too many indicators. A simpler system could be imagined focused on a few indicators such as maximum exposure, the level of collateral, and expected inputs. Similarly the *Sound Principles* seems to contemplate fewer indicators also. It notes, "…A bank should have the capacity to monitor intraday liquidity positions against expected activities and available resources (balances, remaining intraday credit, available collateral)…."[10] Hence, it would be pertinent to have fewer indicators as well as a clear indication of the risks intended to be monitored, in order to provide supervisors with useful information.

In addition, some of the indicators seem to point to data for data's sake (much of which, as stated elsewhere, would better be obtained from the central banks and systems themselves). Furthermore, as indicated above, the indicators do not take into account governance and control measures already in place that affect the management of banks' intraday risk.

*(ii) Are the stress scenarios identified in the paper comprehensive?*

See the discussion above under "*Available Intraday Liquidity*" and "*Double-Duty – Interaction with LCR*". In addition, it is to be noted that scenarios (i) and (iv) (paragraphs 33-34 and 37-39) are essentially the same stresses that the LCR is aimed at; therefore, analysis of the impact of these scenarios should be integrated with each bank's analysis of its LCR issues and discussion thereof with its supervisor, pursuant to paragraphs 40ff. Pursuant to paragraph 41, LCR resources and planning, including planning for the possible use of the

[10] BCBS' *Sound Principles,* Para. 81

LCR buffer should be taken into account along with intraday contingency plans. Under normal circumstances, there should not be a need to add additional buffer resources with respect thereto. Stresses (ii) and (iii) (counterparty and customer stresses) are in some respects subsets of the other stresses. While a bank should of course analyze carefully its exposures to customers and counterparties, the analysis should, again, be done with respect to its overall liquidity position, as well as the specific exposures its payments business may create.

The stress factors identified at paragraphs 42 through 44 need more discussion. While it is appropriate to take into account many different variables and to consider different scenarios, members are concerned that not all of the variables are meaningful for assessing stress, and they might sometimes be affirmatively misleading (for example, the daily maximum and intraday credit lines extended to financial institutions) if abstracted from the context of overall intraday liquidity controls and governance and, as already stated, the availability of additional resources in stressed situations.

For reasons of efficiency, proportionality, and utility of the information developed, stress testing may be most useful if performed at the level of the firm most relevant for its model of liquidity management (centralized or decentralized), which in turn depends on its overall business model. Such specifics, as well as the frequency of stress testing, should presumably be worked out between a firm and its home supervisor, depending on the nature and scope of its payments business.

Some aspects of stress testing may be more appropriately and meaningfully conducted by payment and settlement systems than by banks themselves.

*(iii) Is the proposed scope of application of the indicators clear?*

See the comments above about "Detailed Guidance on Implementation" and "Level of Reporting".

*(iv) What, if any, implementation challenges would the proposed reporting requirements present to banks?*

See the comments above about "No duplication", "IT Impacts", and "Data Protection."

*(v) Are the different monitoring and reporting requirements for direct and indirect payment and settlement system participants clear?*

While paragraphs 59 and 60 are helpful, more attention should be given to differentiating direct and indirect participants' requirements. Risks, volumes, and control and governance requirements are all quite different depending on whether a bank is managing and reporting on a major currency where it clears for itself as opposed to a situation where the bank is a subparticipant, operating through other banks. Systemic risks in particular are generally much less likely to arise from indirect participants and, in any case, the direct participants have a strong incentive to manage the risks their bank customers create for them.

Where a bank is an indirect participant, its ability to monitor and report are dependent not only on the payment and settlement models and rules of the relevant systems (RTGS vs. batch, etc.) but it will also be dependent on the different processes of its intermediary banks, which will all have different policies and procedures, including cut-off and reporting times.

Therefore, aggregation requirements for banks that are direct participants in some systems and indirect participants in others (as most are) should be made clearer. As already noted, in many cases, peripheral systems will be immaterial to the bank overall, and proportionality and materiality thresholds should be applied in imposing reporting requirements, especially given the volumes of data that would be produced. The IT demands of producing the new reporting where a firm is an indirect participant via different direct participants also argue for a reasonable materiality test and de-minimis exceptions. The appropriate scoping of requirements where a bank is playing both roles in different systems should be left to discussion with the home regulator.

### *Conclusions*

It would be highly beneficial for the Committee to conduct a comprehensive assessment before a new reporting regime is implemented, in order to identify and mitigate negative unintended consequences. As outlined above, some of the indicators could create incentives to change banks' management of intraday liquidity in ways that could have systemic consequences.

The *Sound Principles* indicates that "robust operational risk management and business continuity arrangements are…critical to the effectiveness of a bank's intraday liquidity management."[11] Hence, implementation of new intraday monitoring indicators should be considered in the context of firms' overall operational risk management, which also is a result of business model considerations. Finally, any new reporting regime must be balanced and integrated with already-existing reporting and disclosure requirements, and measures that are being contemplated or proposed.

The Institute stands ready to engage in further discussions with supervisors and regulators on this key issue.

Yours sincerely,

[11] BCBS, *Principles for Sound Liquidity Risk Management and Supervision,* September 2008. Pg. 22, Paragraph 85