Basel Committee on Banking Supervision
Bank for International Settlements

COMMENTS

Monitoring Indicators for Intraday Liquidity Management

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1. FOREWORD

As other affected parties and interested stakeholders, we welcome the opportunity provided by the BCBS to comment on the proposed approach set out in the 2 July 2012 consultative document: “Monitoring indicators for intraday liquidity management”. In this comment letter, our general comments are presented first and are followed by specific comments.

2. GENERAL COMMENTS

We fully agree with the definition of intraday liquidity formulated by the BCBS: “Intraday liquidity can be defined as funds that are accessible during the business day, usually to enable financial institutions to make payments in real time”. We also concur with the BCBS that: “The proposed indicators published today will allow banking supervisors to better monitor a bank’s intraday liquidity risk management and its ability to promptly meet payment and settlement obligations, both in normal times and in stressed scenarios”. Over time, the indicators will also help supervisors and all of their external counterparties, including investors, a better understanding of banks’ payment and settlement behavior and their management of intraday liquidity risk. We also found very adequate the proposed BCBS monitoring framework which is set out in the consultative paper and which includes: “The detailed design of the monitoring indicators for a bank’s intraday liquidity risk; stress scenarios; key application issues; and the reporting regime”. In section 3 on specific comments which follows, we formulate suggestions in order to improve the proposed BCBS monitoring of intraday liquidity management framework. We strongly feel that the adoption and use of the proposed indicators will complement the more general guidance on intraday liquidity risk management set out in the BCBS’s 2008 Principles for Sound Liquidity Risk Management and Supervision. In addition, the proposed BCBS monitoring indicators for intraday liquidity management now provide operational and day-to-day support to the December 2010 BCBS Basel III publication: “International framework for liquidity risk measurements, standards and monitoring (Basel III liquidity rules), which set out the BCBS’s reforms to strengthen liquidity regulations. This framework in comparison with intraday liquidity management is centred upon two new minimum “more longer term” liquidity standards: the 30-day ahead Liquidity Coverage Ratio (LCR) and the one-year ahead Net Stable Funding Ratio (NSFR).

3. SPECIFIC COMMENTS

On page 3, paragraph 9 mentions that comments are welcomed specifically on the following questions: 9(i) to 9(v) inclusively. In our comments, we more specifically discuss questions 9(i) and 9(ii). From page 5, paragraph 14, to page 8, paragraph 30 inclusively, the proposed set of

eight (viii) indicators are defined and described. A word of caution should be included because the reader could get the false impression that the numerical value of each indicator is known ex ante by banks; for example, at the start of any given day. For example, on page 6, paragraph 18, we find the following: (In the illustration above, the intraday liquidity requirement would be 10 units.) Further on, as the text makes clear in section B. Intraday liquidity stress scenarios, from page 8, paragraph 31 to page 10, paragraph 45 inclusively, it becomes much clearer that the values of the proposed set of eight indicators is not predetermined ex ante.

On page 10, paragraph 41, we suggest to add the word “upon” in the following sentence: “The information available from the stress scenarios will inform a discussion between the bank and its supervisor to agree upon realistic stressed indicators.” On page 11, section (ii) Scope of application: currency, paragraph 52, we strongly agree with the BCBS position that: “Most banks manage their intraday liquidity on a currency-by-currency basis. In these circumstances, the above indicators should be applied and reported on an individual currency basis for all currencies in which the level of activity of a bank’s payment and settlement activity is judged to be material by its local supervisor”. In the consultative document, it is important to always use the same terms to denote each one of the eight proposed liquidity indicators. By comparing the Table of Contents on page I for section II, the intraday liquidity monitoring indicators to Table 1, page 5, on the proposed set of indicators we see that the wording for the proposed set of indicators is the same. However, on page 13, paragraph 59: “Timing of intraday settlements” is used instead of: “Timing of intraday payments” previously referred to on pages (i) and 5. On page 13, paragraph 59, please remove the (? sign) in the sentence: “Value of intraday credit lines extended to financial institutions?; …” Finally, please note that the fourth liquidity monitoring indicator is worded as: (iv) Time-specific and other critical obligations on pages i, pages 5, 13 and 17; however, a different wording is used on page 16: (iv) Time-specific and other critical payments.