September 7th, 2012

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

Dear Sir/Madam,

Re: Monitoring indicators for intraday liquidity management

I welcome the opportunity to comment on the Basel Committee's consultative document on monitoring indicators for intraday liquidity management.

In response to the global financial crisis, in December 2010, the BCBS published Basel III: International framework for liquidity risk measurements, standards and monitoring (Basel III liquidity rules), which set out the Basel Committee's reforms to strengthen liquidity regulations. The framework is centred upon two new minimum liquidity standards: the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio. Although the LCR is designed to promote the short term resilience of a bank's liquidity profile, it does not currently include intraday liquidity within its calibration. However, Principle 8 of the Sound Principles focuses specifically on intraday liquidity risk and a consultative document on monitoring indicators for intraday liquidity management is most welcome. The comments expressed below are solely my personal views.

Best Regards,

Rajnish Ramchurun
B.Sc(Hons), MBA, ACCA, MIPA, Member Basel III Compliance Professionals Association, Basic Member OCEG, IFAC Online Registered User, AICPA Online registered User, IFRS Online Registered User.

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The liquidity rules also state that: "One area in particular where more work on monitoring tools will be conducted relates to intraday liquidity risk."

Previously, however, broad guidelines were provided as in September 2008, the Basel Committee on Banking Supervision (BCBS) published its Principles for Sound Liquidity Risk Management and Supervision (Sound Principles), which set guidelines for banks on their management of liquidity risk and collateral. Principle 8 of the Sound Principles focuses specifically on intraday liquidity risk and states that: "A bank should actively manage its intraday liquidity positions 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."

Principle 8 identifies six operational elements that should be included in a bank's strategy for managing intraday liquidity risk and indicate that a bank should:

(i) have the capacity to measure expected daily gross liquidity inflows and outflows, anticipate the intraday timing of these flows where possible, and forecast the range of potential net funding shortfalls that might arise at different points during the day;

(ii) have the capacity to monitor intraday liquidity positions against expected activities and available resources (balances, remaining intraday credit capacity, available collateral);

(iii) arrange to acquire sufficient intraday funding to meet its intraday objectives;

(iv) have the ability to manage and mobilise collateral as necessary to obtain intraday funds;

(v) have a robust capability to manage the timing of its liquidity outflows in line with its intraday objectives; and

(vi) be prepared to deal with unexpected disruptions to its intraday liquidity flows.

An analysis of the Basel Committee on Banking Supervision Consultative document on Monitoring indicators for intraday liquidity management shows that the proposed indicators namely:

(i) Daily maximum liquidity requirement

(ii) Available intraday liquidity

(iii) Total payments

(iv) Time-specific and other critical obligations

(v) Value of customer payments made on behalf of financial institution customers

(vi) Intraday credit lines extended to financial institution customers

(vii) Timing of intraday payments

(viii) Intraday throughput

sufficiently captures the intraday liquidity risk run by banks

The stress scenarios identified in the paper namely:

(i) Own financial stress: A bank suffers, or is perceived to be suffering from, a stress event

(ii) Counterparty stress: A major financial institution counterparty suffers an intraday stress event which prevents it from making payments

(iii) Customer stress: The customer bank of a correspondent bank suffers a stress event

(iv) Market-wide credit or liquidity stress

However response to these stress events may be limited especially in the fourth case, except through an appropriate buffer, capital requirements – but will be highly dependent

on duration and amount specific. Intraday is bound to be affected cumulatively if there is a market-wide credit/liquidity stress. Also supervisors at national level have to work out on the following: time-specific and other critical obligations relative to total payments and available intraday liquidity; relationship between daily maximum liquidity need, available intraday liquidity and the number of time-specific and other critical obligations not settled on time; available intraday liquidity relative to the impact of intraday stresses on the bank's daily maximum liquidity need; total payments and value of customer payments made on behalf of financial institutions; and timing of intraday payments and daily maximum liquidity need.

It can also be seen that the proposed scope of application of the indicators are clear given the fact that banks generally manage their intraday liquidity risk on a system-by-system basis, but that practices can differ across banks and jurisdictions, depending on the institutional set up of a bank and the specifics of the systems in which it operates.

Also the different monitoring and reporting requirements for direct and indirect payment and settlement system participants are quite clear, part of which are in line and consistent with proposed LCR reporting requirements.