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Basel Committee on Banking Supervision - Consultative document

Monitoring indicators for Intraday liquidity management
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Société Générale responses

September 14th, 2012

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Société Générale Group (SG) welcomes the opportunity to share its views on the proposed indicators set up by the Basel Committee to monitor the intraday liquidity risk.

We participated to the responses prepared by several banking associations, notably with the French Banking Federation. Nevertheless we would like to take the opportunity to comment on some specific issues that we find important.

We believe that transparency and management of intraday liquidity risk are relevant and banks should actively manage their intraday liquidity positions.

Our key messages are the following:

1. we support a **phase-in approach for the implementation of this monitoring, by prioritising entities and currencies** as the currently proposed indicators will need a huge amount of data to be collected and the implementation of such indicators as outlined in the document will be very costly and burdensome for the Group in a period when banks, regulators and supervisors are put under pressure to deliver Basel III liquidity ratios LCR and NSFR;
2. **we believe the reporting should take into account the internal intraday liquidity management policies of each bank** in order to adequately assess the intraday liquidity risks. Especially, we suggest that **stress scenarios include all counterbalancing actions that the bank can use within those internal policies and external obligations that can mitigate intraday liquidity risks ;**
3. **the stress scenarios should be reviewed in order to insure that they do not represent double duty with LCR.**

1. Best-effort-based quarterly report in the meantime processes can be adapted to deliver monthly reporting:

We are currently undertaking major IT developments in order to be ready to deliver monthly reporting on LCR and quarterly reporting on NSFR ratio. As a consequence, we consider that it would be preferable to finalise and stabilise the undergoing / existing reporting requirements on liquidity which are numerous[1] and for which lack of harmonisation puts banks under pressure to deliver reportings on time before having a monthly monitoring template on intraday liquidity.

Current usage at least in Europe as far as regulatory projects are concerned is a minimum 1 year period between a regulatory text is published and its implementation so as to enable banks, and supervisors, to adapt their processes. As far as the proposed intraday liquidity reporting is concerned, we will need additional time, between 12 and 24 months due to **heavy IT developments we foresee in line with the quantity and complexity of information requested. The time requested will highly depend on the perimeter covered by the reporting.**

We suggest starting with a no more than quarterly basis best-effort-based reporting process.

The quantitative reports should include:

- **quarterly qualitative exchanges between** regulators and banks, based for example of regular bilateral hearings with each bank;
- quarterly feedbacks from regulators, with remittance within the next quarter of the quarter end reports, on the collected data **not only limited to factual quantitative reports but on the banks' strategies on intraday liquidity management**.

[1] These include: Basle III liquidity ratios (LCR and NSFR) and their European transpositions, FSB liquidity reporting, IMF liquidity stress tests, FASB forthcoming liquidity disclosure and liquidity reporting, ESRB reporting on asset encumbrance, numerous reports from rating agencies.

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Eventually, the remittance period is not mentioned by the BCBS paper, but we suggest that it is calibrated with a gradual approach in order to insure data-quality. We suggest starting for example with no less than D + 60 calendar days.

2. *Scope of reporting should be gradually increased based on significance of entities and currencies:*

We welcome that the reporting is expected to be applied at a significant entity level. For Société Générale Group, the most significant entities are Société Générale SA and its Branches.

We are effectively a direct participant into the Target 2 system for euro denominated currency; as well as our US Branch for the USD via FEDWIRE.

Our pre-study of the current reporting template indicates that if for our major currency which is EURO, our IT systems will be able to provide numerous data required by BCBS, for important but less significant currencies for SG as USD, data is less granular and is more difficult to obtain.

We therefore suggest limiting as much as possible the scope of currencies for the beginning of the reporting exercise consistent with the phase-in approach.
Indeed we believe to be able to provide the regulators with a fair and good understanding of the payment and settlement behaviour through the payments made and received at SG through the most significant platform where SG is a direct participant in Paris, that is to say **TARGET 2,** which is the pan European real-time gross payment and settlement in euro currency.

- ⇨ As a result, other satellite systems such as EURO 1, ESES Euroclear or CLS would be treated as some ancillary systems, which is consistent with the BCBS views (see § 48 p. 11).

Hence we would suggest the reporting to be focused first on significant entites and on a limited number of currencies.

3. *Disclosure: we would welcome that data remain highly confidential.*

4. *Please find below our responses to the specific questions*

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

We find that **the proposed metrics adequately capture the intraday liquidity <u>positions</u>** of a bank.

These intraday liquidity positions highly depend on the internal governance policy decided and the daily management behaviour highly depends on each daily situation.

For example, for two banks with very similar size and business model, their respective intraday liquidity positions can be very different according to their own policy and the attitude of their counterparties. The way they manage intraday liquidity during the business day is in fact also highly dependent on their commercial choices towards their banking and corporate customers. A significant gap may therefore be observed on some of the proposed indicators by the BCBS that will not necessarily reveal any higher intraday liquidity risk for one or another of the two institutions.

As a consequence, **these metrics should be viewed together with those internal governance policies and day-to-day management. The key issue being how these metrics will be utilised and analysed to determine the intraday liquidity <u>risk</u> born by a bank.** We welcome further clarifications on this topic.

We also welcome additional clarifications to better understand the scope of all metrics. As explained here under, we find that some metrics could be simplified.

⇨ Time-specific and other critical obligations:

We identified two ways to implement this issue:

1. either we have a global definition of time-specific obligations and in this case each institution would make its own interpretation and hence comparability could be difficult to make;

2. or regulators give a uniform but more granular definition for time-specific obligations. We identified four types of cash flows :

    a. Flows related to ancillary systems: we believe they represent the true critical obligations. E.g. ESES Euroclear and in a certain extent, EURO 1 and CLS.
    b. Flows related to market operations with Central banks (e.g. open market transactions)
    c. Flows related to market practice related behaviour: e.g. the European interbank money-market operations are all to be executed until noon CET in Euro currency area).
    d. Flows related to commercial policies, which reflect internal governance.

We believe that the commercial flows (§ "d") can be excluded from the category "time specific obligations" since the bank has no legal obligation to settle on a specific time those flows within the day.

⇨ Value of customer payments made on behalf of financial institution customers (v) and (vi) Intraday credit lines extended to financial institution customers

- We consider that providing uncommitted intraday credit lines by sales team to customers is not relevant since they do not commit the bank to actually deliver intraday liquidity
- Furthermore, as a direct participant into the most significant RTGS system (TARGET 2) in which we take place, we manage our intraday liquidity as a liquidity pool and as a result, we do not always have the possibility to distinguish on a real-time basis the underlying customers on behalf of which some payments are made.

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

The stress scenarios as described in the document are comprehensive in term of scope, but their implementation into IT Systems will be very heavy.

We welcome the proposal of BCBS that each bank should propose its own stress scenario according to its size, business and operational model, and discuss the assumptions with its Home regulator.

As explained above, intraday liquidity positions highly depend on the internal governance policy decided and the daily management behaviour highly depends on each daily situation.

Therefore we suggest that when defining a stress scenario, there should be included all counterbalancing actions that the bank can use within its internal policies and external obligations.

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As far as implementation is concerned, we find it very complex to simulate the stress scenarios for the two main reasons:

1. a stress scenario for a specific day should be viewed how intraday liquidity decisions could have been adapted accordingly on that specific day in order to limit liquidity risk.
2. it seems very complex from an IT point of view to rework all the flows that incurred during a specific day.

Eventually, the intraday stress scenarios should be consistent with LCR stress test and their analysis should be conducted carefully in order to avoid double duty with LCR stress scenario. When building a stress scenario, a clear analysis shall be undertaken in order to evaluate the link between the intraday scenario and the LCR and avoid double counting of a liquidity risk.

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

See point 2 in our key issues.

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

As already mentioned, the implementation of these new indicators will very likely involve further costs and very heavy IT investment in terms of data collection. **This concern is shared by the banking community[2].**
Moreover, it would also require a very significant amount of time to collect the data necessary to compute these indicators and to deliver integrated monthly reporting once the indicators are clearly set up by the supervisor.

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

As mentioned above, we suggest prioritising the reporting to significant entities, for example limiting the reporting to direct participants into RTGS systems for the first monitoring exercises..

In terms of systems overall, the reporting requirements are clear as stated in §48 and §49 and consistent with our views. Indeed, when there is a direct real-time technical liquidity bridge between payment and settlement systems (e.g. what is the case for the euro between TARGET 2 and ESES for instance), and as suggested by the BCBS consultative document, "the linked systems may therefore be aggregated as one for the purpose of the indicator". This is why we would like to propose a phase-in approach focused on RTGS systems. In the latter example, the scope of indicator will concern only the RTGS system (i.e. TARGET 2 in our example) and ESES will be treated as the equivalent of time critical obligation.

[2] Response made by the IIF; GFMA, EBF, IbFED upon the BCBS consultation related to the Monitoring Indicators for Intraday Liquidity Management – refer to "IT impacts" – "There are concerns about the additional demands on banks' IT systems and infrastructure that this new requirement would impose. The reporting on direct and indirect payments will require a host of new reports and significant investments in MIS infrastructure (...)"