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Response to the BCBS consultation on monitoring indicators for intraday liquidity management

The Swedish Bankers' Association welcomes the opportunity to share its views and opinions on the BCBS's proposal for a framework on monitoring and indicators for intraday liquidity management. The Swedish Bankers' Association agrees with the BCBS's view that transparency and management of intraday liquidity risk is an important component of the overall liquidity risk management. However, we do not believe that introduction of quantitative indicators as BCBS propose, is the most efficient way of conducting supervision of these risk.

General comments

Internal Governance and control – The Swedish Bankers' Association agrees with the Basel committee (BSBC) that the proposed indicators and quantitative monitoring is one way of supervising and controlling intraday liquidity risks. However, our view is that there are other more efficient ways of controlling/supervising these types of risks. The BCBS's consultative paper does not address any qualitative requirements on banks internal governance and control of intraday liquidity risks - e.g. the existence of a clear framework, organization with responsibilities, adequate IT systems that enable monitoring of the bank's payment flows and existence of adequate contingency plans for intraday payments (back-up systems/procedures etc). Many of these requirements are described in the paper Sound principal for Sound Liquidity risk management (Sept 2008).

Our view is that supervisory requirements focusing on more qualitative aspects of the intraday risk management would be more efficient and a natural first step of controlling and monitoring banks intraday liquidity risks instead of directly introducing quantitative indicators. This allows also the financial authorities to obtain improved understanding and knowledge about the intraday liquidity risks which is beneficial when defining and interpret quantitative indicators for monitoring these risks.

The reporting requirements on monitoring indicators may create wrong incentives -

The proposed reporting requirements of the monitoring indicators may lead to incentives for banks to withhold and delay outgoing payments and reduce or even eliminate given intraday credit-lines in order to improve their own performance. These wrong incentives could in worst

case increase the systemic risks in the intraday payment systems by creating delays and gridlocks.

Another problem with the suggested indicators is that they will be affected by factors not controlled by the "reporting bank". For example failures to execute payments in time and/or other deficiencies at a correspondent bank will have negative impacts on the reporting bank's indicators while the correspondent bank actually benefits from its failure. This gives of course wrong signals and we think that further guidance and clarifications are needed how to consider such issues.

No industry standard for intraday payments - One important prerequisite to calculate and report the suggested monitoring indicators for intraday liquidity risks is an existence of a common industry format standard on the information exchanged on each intraday transaction. Today, the information exchanged on many types of intraday transactions does not comply with the requirements stipulated in BCBS's consultative paper. Time stamps are e.g. missing on several types of payments and accounts statements which make it impossible to measure many of the proposed indicators.

In order to implement a new information standard for intraday payments, cooperation and agreements across the banking industry, including central banks, are necessary. This has also to be considered in the time needed to introduce these requirements. Currently, newer standards are developed by S.W.I.F.T. which may fulfill the reporting requirements, but those are not commonly used yet.

IT-system development – The Swedish Bankers' Association is concerned about the additional demands on banks' IT-systems and infrastructure that these new requirements would impose. Banks need to undertake rather extensive developments of their IT-systems to retrieve the requested data in the prescribed manner. The amount of underlying data needed to compile the requested indicators would be huge and the complexity is high. This needs to be considered when deciding on the time schedule for the implementation of new requirements.

Furthermore, we think that a significant share of the data needed to calculate the proposed monitoring indicators already is available by the providers of the payment systems themselves (often central banks). Therefore it would be more efficient and less costly to retrieve the required data directly from the payment systems providers rather than from each bank individually.

Specific comments

The concepts of Direct and Indirect participants

The Swedish Bankers' Association is not familiar with the concept direct and indirect participants that are used throughout the consultative paper that determines which indicators



individual banks are obliged to report. In the consultative paper the direct participants is defined as "a participant in a transfer system that can settle transactions without using an intermediary" while an indirect participation means "a participant with a tiering arrangement that uses the services of a direct participant (a correspondent bank) to perform particular settlements on its behalf"

We also think it is somewhat unclear whether indirect participant is equivalent to using correspondent bank (nostro accounts) for executing intraday payments. In that case this should be clarified in the paper. Moreover, it is our understanding that almost every bank, at least internationally active banks, is acting as both a direct and indirect participant to the payment systems which may make this classification unnecessary.

Paragraphs 24 - 25 on Time-specific and critical obligations

According to the monitoring indicator *Time- specific and critical obligation*, banks are required to report "the volume and value of their time specific and other critical obligations" respective "the total number and value of failed time- specific and critical obligation that were failed during the reporting period".

Time-specific and other critical payments are defined as payment "obligations which must be settled at specific time within the day or have an expected intraday settlement deadline"

We agree with BCBS that categorization and to monitor "time-specific and critical obligations" separately make sense and is appropriate intraday liquidity management. However, in order to categorize intraday payments properly, more guidance and an elaborated definition of a "time-specific and critical obligation" are needed.

Paragraphs 11 Definition of business day

In BCBS consultative paper "Business day" is defined as the opening hours of the payment and settlement system during which it is possible for a bank to receive and make payments.

Our view is that definition of "Business day" needs to be clarified especially for banks that have operations and performs intraday settlements in several time zones e.g. in Europe and in US? Would the Business day for that bank be defined as the opening time in Europe to the closing time in US?

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