

# The DTC Association

(The Hong Kong Association of Restricted Licence Banks and Deposit-taking Companies)

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Our Ref.: 06/01/85 (3)

14<sup>th</sup> September, 2012 (Fri)

The Secretariat  
**Basel Committee on Banking Supervision**  
Bank for International Settlements  
CH-4002 Basel  
Switzerland

Dear Sir,

Basel Committee on Banking Supervision  
Consultative document on Monitoring Indicators for Intraday Liquidity Management

Thank you for your consultation paper of Monday the 2<sup>nd</sup> July, 2012 consulting us on the captioned subject.

We have had some observations in detail from one of our Association members which we endorse. The content of this set of comments is herewith attached as an appendix to for your perusal.

Thank you for your kind attention,

Yours Sincerely



Pui-Chong LUND  
Association Secretary

c.c. Ms. Karen Kemp  
Executive Director (Banking Policy)  
Hong Kong Monetary Authority

## Appendix

### BCBS Consultation on Monitoring Indicators for Intraday Liquidity Management

#### Section II A / Para 14: The set of monitoring indicators

While intraday liquidity monitoring ought to include indirect participants in some form, the proposed monitoring indicators might pose implementation issues to the indirect participants. The ability to implement these indicators are heavily reliant on the level of services/information/technology provided by the correspondent bank, which varies from country to country and is not within the direct control of the indirect participants.

In addition, the regulatory requirements of DTCs and their business nature make these proposed indicators irrelevant to them with the following reason:

- DTCs are only allowed to offer TD but not CA/SA to customers as one of the funding source. Therefore, the funding needs on repaying to customers is known and predictable every day.
- DTCs will not engage in payment services for customers, i.e. receiving instruction from customers for payment to other parties through their deposit accounts. Therefore, unexpected intraday liquidity need is minimal.
- Advances to customers are drawn down according to schedule that are known before hand. Contingencies and commitments to customers are minimal.

All these factors make the intraday liquidity needs very stable and known before hand. As a result, DTCs are able to meet their needs by arranging funding from the liquidity sources mentioned on the Consultation Paper (CP).

#### Section II A (I) / Para 15-20: Daily maximum liquidity requirement

For DTCs, as most of the cashflow are scheduled and predictable, and they would arrange adequate funding at least one day in advance, so it is not necessary to calculate the intraday liquidity positions on actual settlement time basis. DTCs could take the simple approach to assume all payments and receipts on the same value day would happen at the same time during the day (e.g. the beginning of a value day), to calculate the daily maximum liquidity requirement.

#### Section II A (ii) / Para 21: Available intraday liquidity

Available intraday liquidity is not clearly defined. The CP could elaborate on what forms of liquidity are considered as intraday liquidity.

#### Section II A (iii) / Para 23: Total payments

DTCs, which are indirect participant have insignificant influence over the payment system. Therefore, DTCs in Hong Kong should not be applied to these indicators.

## Section II A (viii) / Para 30: Intraday Throughput

This indicator is not applicable to DTCs. For DTCs, most of the cashflow are scheduled and predictable and no specific time requirement, and they would arrange adequate funding at least one day in advance.

## Section II B / Para 43 and 50

In addition, exemption should be granted to those indirect participants who are exempted from stress test requirements under Basel III liquidity standards.

## Section II C: Key application issues

In terms of monitoring and reporting, we proposed that FIs should be allowed to exercise their own definition of materiality in defining what systems, currencies and legal entities to focus on.

## Section II D: Reporting frequency and granularity

While the reporting period is on a monthly basis, assuming 20 business days in a month, the second lowest and highest values already represent the 5th percentile and 95th percentile respectively. It does not seem to provide much management information and could consider for removal. And these information are not useful for DTCs in maintaining intraday liquidity.

## Annex 2: Sample intraday liquidity monitoring return

In annex 2, it also requires data for each of the largest five financial institutions. Given the purpose is for monitoring intraday liquidity risk, we would suggest only payment information is captured but not other customer information in regular reporting.