



Room 525, 5/F., Prince's Building, Central, Hong Kong
Telephone: 2521 1160, 2521 1169 Facsimile: 2868 5035
Email: info@hkab.org.hk Web: www.hkab.org.hk

香港中環太子大廈5樓525室
電話：2521 1160, 2521 1169 圖文傳真：2868 5035
電郵：info@hkab.org.hk 網址：www.hkab.org.hk

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By email: baselcommittee@bis.org & post

Basel Committee on Banking Supervision
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

Dear Sirs

BCBS consultative document on monitoring indicators for intraday liquidity management

We would like to thank the BCBS for the invitation for feedback and providing guidance on the proposed framework on monitoring indicators for intraday liquidity management. We are, in general, supportive of the recent consultative document (hereafter referred to as the "Policy").

For efficiency and accuracy, we believe that the required statistics should be generated by the real time gross settlement (RTGS) system instead of requiring each bank to construct monitoring interfaces to poll the information from its system. In addition to cost efficiencies, it is noted that utilisation and computation of intraday draws are highly sensitive to the frequency of polling the balances. Therefore, providing a separate screen within the payment system for each bank to query the statistics would be a tremendous advantage for the timely, efficient and accurate implementation of the monitoring requirements.

We set out below our responses to the questions raised by BCBS and comments on the key issues and areas where we would like to seek further clarification.

1. Do the proposed indicators adequately capture the intraday liquidity risk run by banks?

We believe that banks need only report those that are material or meaningful for the jurisdiction and complexity of the settlement process. Universal compliance to the various measures and the variability in the materiality of the indicators for each bank and jurisdiction would not provide a consistent and meaningful monitoring tool for management and regulators.

In addition to the various monitoring metrics, the development of a single

Chairman The Hongkong and Shanghai Banking Corporation Ltd
Vice Chairmen Bank of China (Hong Kong) Ltd
Standard Chartered Bank (Hong Kong) Ltd
Secretary Ronie Mak

主席 香港上海匯豐銀行有限公司
副主席 中國銀行（香港）有限公司
渣打銀行（香港）有限公司
秘書 麥依敏

primary monitoring ratio (such as “Available Intraday Liquidity / Daily Maximum Liquidity Requirement”) would be of greater value in focusing the assessment and management of the intraday liquidity risks. (*Paragraph 14*)

In assessing a bank’s daily maximum liquidity requirement, we believe that the payments and receipts happening throughout the day should be segregated between those that are to manage the end-of-day position, away from those that are giving rise to intraday liquidity requirements. The payments and receipts that are the proprietary management of the bank’s end-of-day position should not be a factor in the calculation of the daily maximum liquidity required because these may not constitute to factors which influence a bank’s usage of intraday liquidity in payment and settlement systems and the vulnerability to intraday liquidity shocks. An example would be a bank which retains surplus liquidity within its settlement account and reports a large outflow at the end of the day when utilising the excess end-of-day liquidity in an overnight placement. (*Paragraph 16*)

In regard to monitoring the daily maximum liquidity required, the policy should explicitly state that the calculation of the largest negative net cumulative position should exclude funds obtained through intraday liquidity facilities. If banks are able to routinely support intraday payments by drawing down on facilities, such as those provided by central banks, then the largest net cumulative outflow would not reflect the maximum liquidity required for settlements. (*Paragraph 18*)

The consultation paper requires the reporting by a bank of the value of payments settled on behalf of each of its five largest financial institution customers (by value), including “internalised payments” that are settled across its books. We opine that the monitoring of internalised payments does not provide additional guidance to the contingent settlement provision which a bank must hold for intraday liquidity or the bank’s participation in the settlement system. We would suggest only external payments are required to be monitored for the assessment of intraday liquidity. (*Paragraph 26*)

When considering customer payments and intraday credit lines owing to financial institution customers as indicators of intraday liquidity, the scope should be widened to include non-financial institution customers. (*Paragraph 27*)

The settlements of “time-specific and other critical obligations” are very rarely missed. We opine that the current reporting requirement of the average, max, min and 95th percentile of the number and value of such settlements is excessive. We propose that only late settlements of

time-specific and other critical obligations are required for reporting. *(Paragraph 25)*

We would appreciate further information on how the prescribed calculation of the average time of settlement will provide any added value as a monitoring tool for intraday liquidity. The Policy states that the average time of settlement will “enable supervisors to identify changes to the timing of a bank’s intraday outgoing payments over time” but this information is already identifiable from the throughput measure. *(Paragraph 28)*

We note that central banks and regulators will often monitor the timing of settlements and therefore additional reporting to regulators may be unnecessary. We would propose an alternate metric of the average time taken between payment instruction being entered into the RTGS system and the time of this payment settlement. *(Paragraph 28)*

We opine that the throughput measure should be measured using volume of payments as well as value. This measure would avoid skewing the payment profile by including large bulk settlements, particularly around the start or end of the day, and would better reflect the cash management process and the operational risks arising from congestion of payments. *(Paragraph 30)*

The throughput for indirect participants to the settlement system is dependent on the corresponding direct participant. Therefore, it is proposed that this metric is not required for indirect participants. *(Paragraph 30)*

In addition to the monthly reporting requirement, we opine that to effectively manage the intraday liquidity, a more succinct monitoring template is required for reporting on a daily or real-time basis, which may also facilitate the setting and monitoring of risk management limits. *(Paragraph 58)*

The Policy is currently designed to identify indicators for monitoring intraday liquidity and supporting the regulatory reporting regime. The Policy does not address the use of risk management thresholds against such indicators (in either a normalised operation scenario or a stressed scenario). We ask that the BCBS prescribe quantitative industry standards such that the application and appropriateness to all banks can be assessed.

2. Are the stress scenarios identified in the paper comprehensive?

We believe that the bank and its respective subsidiaries need only report those that are meaningful for the jurisdiction and complexity of the

settlement process. As discussed within the Policy, not all measures will be appropriate to all jurisdictions and any inclusion within a regulatory monitoring report should consider factors such as materiality, relevance, and whether a combined set of stress scenarios provide a more meaningful measure. In setting specific stress scenarios, account should be taken of the appropriate materiality thresholds for direct and indirect participants respectively. (*Paragraph 31*)

We ask for detailed stressed assumptions, which would allow banks to prepare stress scenarios in combination with the monitoring indicators to avoid subjectivity and difficulty in comparing the results across settlement system participants. To avoid any highly judgmental assessment of the stress impacts, we would invite the BCBS to provide a specific stress quantum to apply to risk factors (similar to that provided to the deposit run-off in measuring LCR). (*Paragraph 31*)

3. Is the proposed scope of application of the indicators clear?

The various measures and the variability in the materiality of the indicators for each bank and jurisdiction would not provide a consistent and meaningful monitoring tool for management and regulators. We request that banks are empowered with the authority to determine the definition and the scope of reporting in respect to defining what systems, currencies and legal entities are material for monthly reporting. (*Paragraph 46*)

We would request that illustrative and descriptive examples are provided within the Policy clarifying how the proposed additional reporting would practically improve intraday liquidity management or ensure the smooth functioning of the financial system. (*Paragraph 13*)

Where the Policy requests that the monthly metrics include a 95th or 5th percentile, may the BCBS provide guidance on the observation period for the calculation. For example, should this metric be the 95th or 5th worst day out of 100 days or calculated on a monthly basis, assuming 20 business days in a month, the 2nd worst and best days would already represent the 5th percentile and 95th percentile respectively. (*Paragraph 59 & 60*)

4. What, if any, implementation challenges would the proposed reporting requirements present to banks?

We opine that the wide range of indicators will likely cause a significant increase in the on-going reporting and management of liquidity, in addition to the one-off effort to establish monitoring tools. (*Paragraph 46*)

We note the ability to implement the monitoring tools for a direct



participant to the settlement system is highly dependent on the settlement system provider. The availability of the reporting requirements and the service from the provider varies greatly from country to country. (*Paragraph 46*)

Implementation challenges will be primarily driven by the level of detail provided by RTGS systems and central banks on a daily basis and it is not clear whether banks will need to develop their own proprietary internal systems to monitor intraday liquidity. The following indicators are recommended to RTGS system providers to include in their daily batch report:

- (a) the daily maximum liquidity requirement against specific time intervals as a measure of total receipts and payments recorded at regular time intervals;
- (b) the timing and amount of intraday repos inflows done with the central bank for settlement liquidity;
- (c) the inclusion of payment throughput % on an hourly basis even where central banks have not set targets;
- (d) total gross payments made for the day by the bank and across the RTGS system as a whole; and
- (e) average daily settlement time of transactions.

Systems for monitoring and reporting customer transactions such as credit limits and credit limit usage have historically not been set up to be monitored on an intraday basis. Development of the bank's own proprietary internal systems may be necessary to acquire such information. (*Paragraph 13*)

For indirect participants to the settlement system, information availability is highly dependent on the participating bank. Indirect participants will be reliant on the data integrity and timeliness of reporting from the correspondent bank. (*Paragraph 50*)

5. Are the different monitoring and reporting requirements for direct and indirect payment and settlement system participants clear?

We believe that banks need only report those that are material or meaningful for the jurisdiction and complexity of the settlement process.



6. Additional comments on the monitoring indicators for intraday liquidity management consultation paper

We note that the Policy does not address the concept of double duty where available collateral is used for managing a prudential structural liquidity stress and intraday settlement. We recommend that the Policy address the concept of double duty from both a monitoring and Basel III LCR perspective.

When considering the scope of application, the Policy requires banks to apply, as a baseline, the monitoring indicators to each payment and settlement system in which they participate on a system-by-system basis. We believe that should the RTGS system not be available, the Policy should explicitly exempt the bank from monitoring intraday liquidity risk.

We hope you would find our comments useful. For any questions, please do not hesitate to contact us.

Yours faithfully

A handwritten signature, likely of Ronie Mak, consisting of a stylized 'R' and 'M' followed by a horizontal line.

RP · Ronie Mak
Secretary

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