UniCredit

For Publication

11 September 2012

UniCredit reply to BCBS on Monitoring Indicators for Intraday Liquidity Management

UniCredit is a major international financial institution with strong roots in 22 European countries, active in approximately 50 markets, with about 9.500 branches and 150.000 employees. UniCredit is among the top market players in Italy, Austria, Poland and Germany. In the CEE region, UniCredit operates the largest international banking network with around 4.000 branches and outlets. UniCredit Group is a market leader in the CEE region.

Main highlights

1) Relevance of the proposed indicators: UniCredit agrees that all the elements, that could impact on a daily liquidity risk and settlement management, are included in the various indicators. However, in our opinion, not all elements are equally relevant to effectively provide a proper indication of the real intraday liquidity risk run by a financial institution in its daily activity.

2) Implementation challenges: We are concerned about the implementation as it could not be easy to implement some of the indicators, such as those involving the timing of the payments as well as those to monitor and report the indirect participation. Furthermore it should be taken into account that the proposed indicators can be influenced by the shifting of priorities of transfers or adjusting cut off times of payment settlements.

3) Intraday liquidity sources: it would also be helpful if it was explicitly confirmed that the assets eligible for intraday liquidity sources coincide with those eligible for central banks' credit operations.

4) Monitoring usage of the indicators: In terms of the final objective of the indicators proposed by the BCBS, it will also be important to understand the actual use of these indicators by competent authorities. Our understanding is that they are exclusively intended as monitoring tools. If authorities have a different objective in mind, harmonisation and level playing field across borders will become of the utmost importance. It should also be borne in mind that new intraday mandatory parameters or limitations are more likely to have a negative impact on intraday-liquidity-operations among financial institutions, thus increasing the risk that payments will be done later in the day and therefore augmenting the systemic risks amongst the market participants.

5) Harmonisation vs flexibility: UniCredit fully supports the BCBS attempt to set up an harmonised set of indicators across countries for monitoring purposes. In our view, the liquidity policy adopted by any firm, endorsed by the governing bodies, should include normal and stress circumstances and take into account the firm specific features (business model, risk appetite, risk tolerance etc.) in defining adequate reserve liquidity sources, starting from intraday liquidity management.

Unicredit answers on specific questions

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

As a general comment it could be more appropriate to split what is considered intraday liquidity risk in two different major areas:

1) the ability to timely manage the liquidity sources, cash or collateral;

2) the ability to monitor the capability to timely access the settlement systems for the requested amount.

UniCredit agrees that all the elements that could impact on a daily liquidity risk and settlement management are included in the various indicators. However, in our opinion, not all elements are relevant to effectively provide a proper indication of the real intraday liquidity risk that a financial institution runs in its daily activity. In particular, as suggested below, the relevance of some components are quite different in the case of direct and indirect participants of a RTGS system, therefore some prioritisation may be helpful. As a consequence, the intraday risk can be differently handled across RTGS systems and currencies. Most of the financial institutions could be direct participants in their jurisdiction and indirect participants in other currencies jurisdictions; in addition the potential intraday liquidity management scenarios may be quite different and this is also true for the relevance of the related risks.

We believe that each institution should have an adequate internal organization in order to handle all the relevant information impacting the liquidity risk daily management. This capability could be enhanced by increasing the forecasting tools and backtesting capabilities that can allow an institution to regularly monitor the divergences between the expected final balances in different systems/accounts and the real end-of-day balances with central banks, nostro agents/correspondent banks, clearing and SSSs. Any implementation should be coherent with the different business models, as well as the specificities of inflows and outflows that each financial institution has to handle in its intraday liquidity management.

A high value transaction settled through correspondent banks could affect the ability of the Bank to fund its intraday liquidity position, due to the following reasons:

- considering a stressed market condition, correspondent Banks could perceive the Bank customer as vulnerable to liquidity risk, hence start requiring provision of collateral to fund customer's intraday liquidity position. An increasing amount of asset pledged to the clearing banks could affect the capability of the Bank to meet its expected outflows;
- customer banks generally have credit balances on the accounts with their correspondents. Since the credit balances are usually unsecured, this exposes the customer bank to the potential default of its correspondent bank.

Among the indicators proposed by BCBS, we would prioritize the ones that provides an indication of the capability of a bank to timely fulfil their obligations:

- *Time-specific and other critical obligations*
- *Intraday throughput*

Despite the need for further clarity on the definitions of the so-called critical payments and the events that lead to failure of such payments, we would argue that the two above indicators are not only useful to monitor the effectiveness of the settlement systems' access, but also to monitor to which extent a financial institution could cause a systemic problem, when it is not able to timely fulfil its critical obligations (CLS, Margin Calls, SSS).

A proper management of these two indicators, once harmonised across countries, embeds most of the information deriving from the disclosure of the other requested indicators.

The other indicators provide valuable information but some of them, in our opinion, are more valid for a static analysis rather than a dynamic analysis, and could be provided with a different frequency (for example, on a quarterly basis?). In fact the cost and benefit analysis of a monthly reporting as required by paragraphs 58-60 is questionable, especially for indirect participants.

Since intraday liquidity risk is closely related to operational risk, as it might be caused by a payment system failure, we would suggest to monitor the RTGS availability or other IT systems where a technical failure could result in the bank's inability to receive or pay funds. Such information should already be available at IT departments of each bank or clearing service provider for operational risk purposes.

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

The described stressed scenarios could be considered comprehensive from a descriptive point of view. They should take into account the model of liquidity management. As a matter of fact they are already executed in the UniCredit regional liquidity centers and then aggregated at a consolidated level. However, on weekly basis, UniCredit Group has been performing some scenarios identified in the consultative document applying a week as a minimum time range. Based on that, we would deem it too burdensome and with a doubtful value to add an additional scenario-exercise based on intraday activity.

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

The scope of application is providing helpful elements. However we would like to highlight a number of concerns:

- it will also be important to understand the actual use of these indicators by competent authorities. If authorities intend to issue new mandatory parameters, these will most likely adversely impact the intraday-liquidity-operations thus causing a potential concentration of payments later in the day. In any case harmonization and level playing field across borders will become of the utmost importance. It should therefore be made clear by supervisors that the indicators are only and exclusively intended as monitoring tools; any kind of common limitation with respect to the intraday activity would further decrease the participants ability and/or their willingness to execute payments in a timely manner, therefore increasing the intraday liquidity risk.
For instance as for the "Maximum daily liquidity requirement" (par.15): "...will determine its intraday liquidity requirement" -- this phrase suggests a kind of limit setting with respect to the intraday flows and therefore stands in conflict to par. 6: "It should be noted that the proposed indicators are for monitoring purposes only..:"

- Further analysis could be necessary on: i) the reporting time frequency for some indicators ii) some further evaluation on the effectiveness of the application of all the suggested stressed scenarios, iii) the comparability of the results, since the outcomes of some calculations will

depend, to a certain extent, on the individual technical infrastructure of the bank, iv) the scope and treatment of payments in foreign locations.

- We suggest to clarify explicitly that the monitoring indicators should be limited to the most relevant currencies as the cost and benefit analysis can be very unbalanced for currencies where activity is not meaningful in terms of relative and absolute risk terms.

- It could be helpful to have a better understanding about BCBS views' concerning the G-SIBs task to consolidate reporting for subsidiaries that access payment and settlement systems in various ways and jurisdictions, preventing divergent home and host supervisory reporting requirements (e.g. in the definitions, in the reporting lags and frequencies etc.).

- It would also be helpful if it were explicitly confirmed that the assets eligible for intraday liquidity sources coincide with those eligible for central banks' credit operations.

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

The implementation challenges are of a different nature as follows:

- In order to assess the implementation challenges, internally a quite comprehensive cost and benefit analysis has been performed, though admittedly it is a rather difficult exercise at this stage. For each of the seven indicators, we have also analysed, based on the information currently available, the main organisational consequences, e.g. the impact on the IT systems as well as the expected IT tasks and efforts. In our view, the **cost-benefit ratio is not balanced** since at least three out of the set of **proposed indicators (5, 6 and 7)** will not provide relevant additional insights into the intraday liquidity risk, compared to the potentially highly complex data requirements, as well as danger of inconsistent definitions across regions/institutions.

- It should also be noted that it could **not be easy to implement some of the indicators** involving the timing of the payments even if normally the settlement time is an information available in the RTGS Systems. There could be similar problems for the time dynamic in some clearing systems for which balances are monitored during the day for liquidity bridges but that are settled in an unique solution. Similarly one should verify the SSS settling in different cycles throughout the day or in a unique solution. What it is in any case requested is a consistent effort in organizing a database that can provide all the requested information automatically. A phase-in period, allowing for a sort of observation period, could be required to grant an effective development.

Furthermore, to **avoid double reporting**, we think that the competent authorities should also explore the possibility of some form of consolidation and of an efficient transmission of data already available at the central banks or at the RTGS operators (volumes and value analysis, timeline distribution of the relevant payments).

Finally, par. 58 recalls that these indicators should be reported together with LCR. In this regard, it has to be made clear by the BCBS that the reporting requirements will not necessarily start simultaneously with the official LCR reporting, in view of the expected impact on market liquidity by this new ratio (we notice that the industry will also need some time to properly investigate its EDP environment in order to introduce all necessary adjustments).

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

The indications are clear, but the implications of implementing them are substantially different. While the actual direct access management is already in line with the requirements, a significant organizational intervention would be needed to monitor and report the indirect participation. Most of the institutions cover both roles, therefore it should be clearer for which values and which currencies such monitoring and reporting requirements, as disclosed in the BCBS proposal, are necessary and in which form (e.g. two separate worksheets?) they have to be performed.

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