



大華銀行

UNITED OVERSEAS BANK

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Basel Committee on Banking Supervision  
Bank for International Settlements  
Centralbahnplatz 2  
CH-4002 Basel  
Switzerland  
Sent by email to: [baselcommittee@bis.org](mailto:baselcommittee@bis.org)

31 August 2012

Dear Sirs,

**Basel Committee on Banking Supervision ("BCBS") Consultative Document:  
Monitoring Indicators for Intraday Liquidity Management**

This letter contains United Overseas Bank Limited's ("UOB") views on the Consultative Paper on Monitoring Indicators for Intraday Liquidity Management published in July 2012.

We are available to discuss further on our response. Please do not hesitate to contact the undersigned should you require further information.

Sincerely,

Lee Wai Fai  
Managing Director  
Chief Financial Officer &  
Acting Chief Risk Officer

Heng Li Koon  
Executive Director  
Head, Balance Sheet Risk Management

**United Overseas Bank Limited**  
**Response to BCBS Consultative Paper**  
**Monitoring Indicators for Intraday Liquidity Management**

**1. Overall Response to Proposals**

UOB notes that the proposed liquidity indicators will provide a granular view of the bank's intraday liquidity risk. However, there will be implementation challenges as most banks' current systems and the Real Time Gross Settlement ("RTGS") systems are currently not designed to track the required indicators. Therefore, it will be necessary to make system enhancements in order to produce the indicators.

In addition, UOB is of the view that the intraday liquidity indicators may not be necessary where banks maintain a sufficient intraday liquidity buffer in-lieu-of close monitoring at a micro level. (See paragraph 3 on other feedback below.)

**2. Response to Questions**

**UOB would like to provide feedback on the following questions:-**

**Question:** Is the proposed scope of application of the indicators clear?

The consultative document states that the BCBS would leave much of the decision on scope of coverage to the bank supervisors, including the organisational level of each bank's reporting and the currencies that can be excluded from the reporting.

UOB would like to feedback that as a regional bank, we have operations across 19 countries and conduct payment in most major and regional currencies. As such, the UOB banking group operates with many permutations of entities, systems and currencies, each potentially requiring a separate intraday liquidity report. Supervisors should be selective with regard to the systems, currencies and entities they would like banks to monitor and report on. It would be helpful if supervisors are clear and transparent on the level of materiality and consequently the scope they would like to focus on, so as not to increase the banks' regulatory reporting burden unnecessarily.

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

UOB would need to enhance the group's reporting systems to produce the proposed monitoring indicators. The challenges involved would depend on the eventual scopes of application to be agreed with the group's supervisors across the locations where UOB is present.

**Where the bank is a direct settlement member:**

As a group, UOB is a direct settlement member in certain locations and currencies. For example, SGD is processed through the MEPS+ system, MYR through the RENTAS system, IDR through the BI-RTGS and also THB through BahtNet. These systems are maintained generally by the central banks.

Much of the critical information on the timing and amount of payment made through the RTGS systems cited above are necessary for tabulating the required indicators.

However, these systems are designed specifically for payment processing and not for intraday liquidity reporting. Therefore, it is necessary to enhance these systems before the required data can be extracted for analysis. Unfortunately, UOB has no control over the development and enhancement of the RTGS systems. As such, the production of intraday liquidity indicators should be a shared responsibility between the bank and the owners of the RTGS systems.

To produce the indicators successfully, both UOB and the owners of the RTGS systems will need to implement system enhancements jointly, to store and extract the necessary data. BCBS could provide clarity on this joint responsibility as any failure on the part of the RTGS to provide the necessary access, interface, data and tracking tools will impede the bank's production of the required indicators.

#### Where UOB is an indirect participant

Where UOB makes use of a correspondent bank to settle its payments, the required indicators are currently not available as correspondent banks do not provide reports on intraday flows. UOB would only need to ensure that the Vostro account is adequately funded at timings specified by the correspondent bank, and the latter would ensure that all payments are settled in a timely manner.

Paragraph 17 and 20 of the consultative document collectively suggest that indirect participants need to track the timing and value of intraday receipts and payments from the bank's Vostro account as they are eventually settled in the RTGS system, which is challenging.

Going forward, should UOB be required to report the intraday indicators as an indirect participant, we would have to obtain the information from the correspondent bank. Therefore, the ability to report the indicators would depend directly on the correspondent bank's ability to provide the required information.

#### Where UOB makes payments on behalf of bank customers

Indicators (v) and (vi) relate directly to the situation where the bank performs the role of a correspondent bank and settles payments on behalf of its financial institution customers through their Nostro accounts. Indicator (v) tracks the total gross value of payments made on behalf of all financial institution customers, which can be produced.

UOB would also need to track the payments/receipts on behalf of bank customers on an hourly basis because we foresee that bank customers, as indirect participants, may need to provide the information to their supervisors in order to comply with the requirements set out in the consultative document.

Instructions for payments made on behalf of financial institution customers are sent to the RTGS systems in batches, on an aggregated basis. To track the actual timing of payments made on behalf of bank customers (as they are settled in the RTGS system), UOB would have to match each individual payment instruction made on behalf of bank customers to the corresponding batched payment instruction submitted to the RTGS system. It would thus be helpful if the owners of the RTGS systems could enhance their systems to facilitate this tracking.

Indicator (vi) requires the intraday credit lines and their actual usage to be tracked. To track the consumption of intraday credit lines, it is again necessary to match each individual payment to the corresponding payment instruction submitted to the RTGS

system. The actual settlement timing and amount of each transaction made on behalf of bank customers must be extracted for calculating the usage of intraday credit lines because lines are drawn down only when the Nostro accounts go into negative intraday. Approval of intraday credit is not tantamount to a drawdown as the financial customer may receive funds intraday which offsets any projected intraday shortfall that triggered the credit approval.

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

UOB is of the view that the requirements for direct payment and settlement system participants are clear. However, indicator (vi) requires correspondent banks to report the total sum of intraday credit lines extended to all financial institution customers. UOB is of the view that this information should not be required where the bank's intraday credit lines are uncommitted.

### **3. Other Feedback**

UOB is of the view that intraday liquidity monitoring is less critical for jurisdictions that require ample intraday liquidity buffer, or where the bank voluntarily holds a large buffer.

In Singapore, banks are required to hold an average of 3% of its Qualifying Liabilities as a minimum cash balance ("MCB") in the MEPS+ system at the end of each day, on an overnight basis. As the MCB can be drawn down intraday, it functions as a large intraday liquidity buffer.

In addition, there is an intraday liquidity facility for RTGS participants. Intraday liquidity to banks is extended via intraday loans or Singapore Government Securities ("SGS") repos based on prevailing market rates unless otherwise determined by the central bank. The amount available for loan depends on the amount in the participants' SGS Trade Account, with a haircut applied. As UOB maintains a sizeable holding of SGS in excess of the minimum required for regulatory compliance at all times, we have a ready pool of eligible SGS that we can use to access the intraday liquidity facility.

Where banks consistently hold a large intraday liquidity buffer, the proposed indicators will be less critical for managing the risk because there will be little doubt that the bank can meet its intraday obligations. Therefore, BCBS may consider imposing a less onerous and granular reporting requirement for banks that consistently hold excess intraday liquidity buffer, so that incentives are aligned in favour of sound intraday liquidity risk management.

In this regard, perhaps central banks should also review the types of assets eligible as collateral for intraday facilities to include Public Sector Entity Bonds and central bank placement. Enlarging the pool of eligible assets will improve the intraday liquidity of the system.