
Intraday Liquidity Management

European Central Bank
Money Market Contact Group

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Intraday Liquidity Management

Regulatory Framework

- **Intraday liquidity management relies on different guidelines, rules and principles published by the supervisory authorities:**
 - ✓ **The « Principles for Sound Liquidity Risk Management and Supervision » published by the BCBS on September 2008** dedicate Principle 8 to intraday liquidity positions of Credit Institutions
 - ✓ Basel Committee on Banking Supervision has published a paper on the monitoring tools for intraday liquidity management in April 2013 (BCBS 248)
 - ✓ **The SREP Guidelines published by the EBA in December 2014** insist on the necessity for a Credit Institution to measure its intraday liquidity risk and to integrate Intraday Liquidity Risk within its stress testing, control and limit framework
 - ✓ The EBA has also published **in December 2015** a consultation paper related to the information required under the annual SREP process « **Guidelines on ICAAP and ILAAP information collected for SREP purposes** » that includes references to the intraday liquidity
 - ✓ In its work programme for 2017, the EBA announced the publication in 2017 of guidelines regarding intraday liquidity

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Regulatory Requirements and External Constraints

1 Regulatory requirements : EBA « Guidelines on ICAAP and ILAAP information collected for SREP purposes »

Methodology and policy documentation

✓ **Indicators and monitoring tools**

“description of the criteria and tools for measuring and monitoring intraday liquidity risk”

✓ **Escalation process and back-up plans**

“description of the escalation procedures for the purpose of intraday liquidity shortfalls which will ensure payments due and settlement obligations are met on a timely basis under both business as usual and stressed conditions”

✓ **To be addressed in the Contingency Funding Plan**

“description of the inter-linkage between intraday liquidity risk management and the Contingency Funding Plan”

Operational documentation

✓ **Reporting BCBS 248**

“quantitative overview of intraday liquidity risk over the past year with an appropriate frequency”

✓ **Report and analysis of the incidents**

“overview with explanation of any payments missed or obligations not met in a timely manner”

2 External constraints : interaction between banks, mostly when referring to correspondent banking

- Over the past years, reduction of the offer of correspondent banking services and increase in the price / securities demanded by the service provider, due to the strengthening of regulatory constraints

→ **Necessity to reorganize the general setup of intraday liquidity currency risk management in order to take this evolution into account**

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Risk Management Framework

Intraday liquidity risk management framework

1

Intraday liquidity risk appetite

- **Quantitative risk accepted for the Group / entities**
 - ✓ consists in estimating the amount of the commitment at a set time that a group has to support to exercise its activities

2

Intraday liquidity Management process

- **Documentation of the overall management process**
 - ✓ General process
 - ✓ Documentation of the monitoring framework (procedures, RACI, thresholds and escalation process, back-up plans)
 - ✓ Monitoring tools (indicator / reporting both ex ante and ex post)

1 & 2 General Governance
Validation



Maximum **risk position** accepted
at **Group Level** € / Currency

Transposed at entity level, taking into account the interdependence between entities

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Direct Participant Euro

- **Intraday liquidity management should have a short term negative impact on collateral scarcity**
 - ✓ **Banks already manage their intraday needs with adequate collateral**
 - ✓ If process have to be better documented, business as usual needs are well assessed
 - ✓ **Banks might plug more collateral to take into account stress**
 - ✓ Risk appetite management should require to secure potential stress (overdrafts, committed lines, uncommitted lines, disruptions, operational risk...)
 - ✓ **Impact on liquidity reserves and financial communication**
 - ✓ Should the collateral plugged for potential stress be withdrawn from liquidity reserve ?
 - ✓ Does it impact LCR ?

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Direct Participant Euro

- **Monitoring tools and infrastructures should reverse initial trend**
 - ✓ **Better control of intraday liquidity usage**
 - ✓ Ex-post reporting will allow to improve processes and optimize liquidity management during the day
 - ✓ **Full T2S implementation will reduce collateral needs**
 - ✓ Single cash account management
 - ✓ Intraday credit through wider auto-collateralisation capacity
 - ✓ **New funding opportunities**
 - ✓ Euro infrastructures will facilitate cross border repo and short term issuances

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Indirect Participants - Playing Field

- **Rely on correspondent banks in a heterogeneous environment**
 - ✓ **Many national regulators have not yet issued their final requirements**
 - ✓ Need for strong international common guidance and standards to avoid inconsistent national interpretation across jurisdictions
 - ✓ **Banks use multiple correspondent banks**
 - ✓ Service provided can be different from a correspondent bank to another, even in the same jurisdiction
 - ✓ Difficulty to manage nostro accounts real-time instead of end of day balance forecasting
 - ✓ **Banks can hardly take control on payment timing**
 - ✓ Subject to correspondent bank own processes and liquidity
 - ✓ Cost for imposing timing

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Indirect Participants - Developments

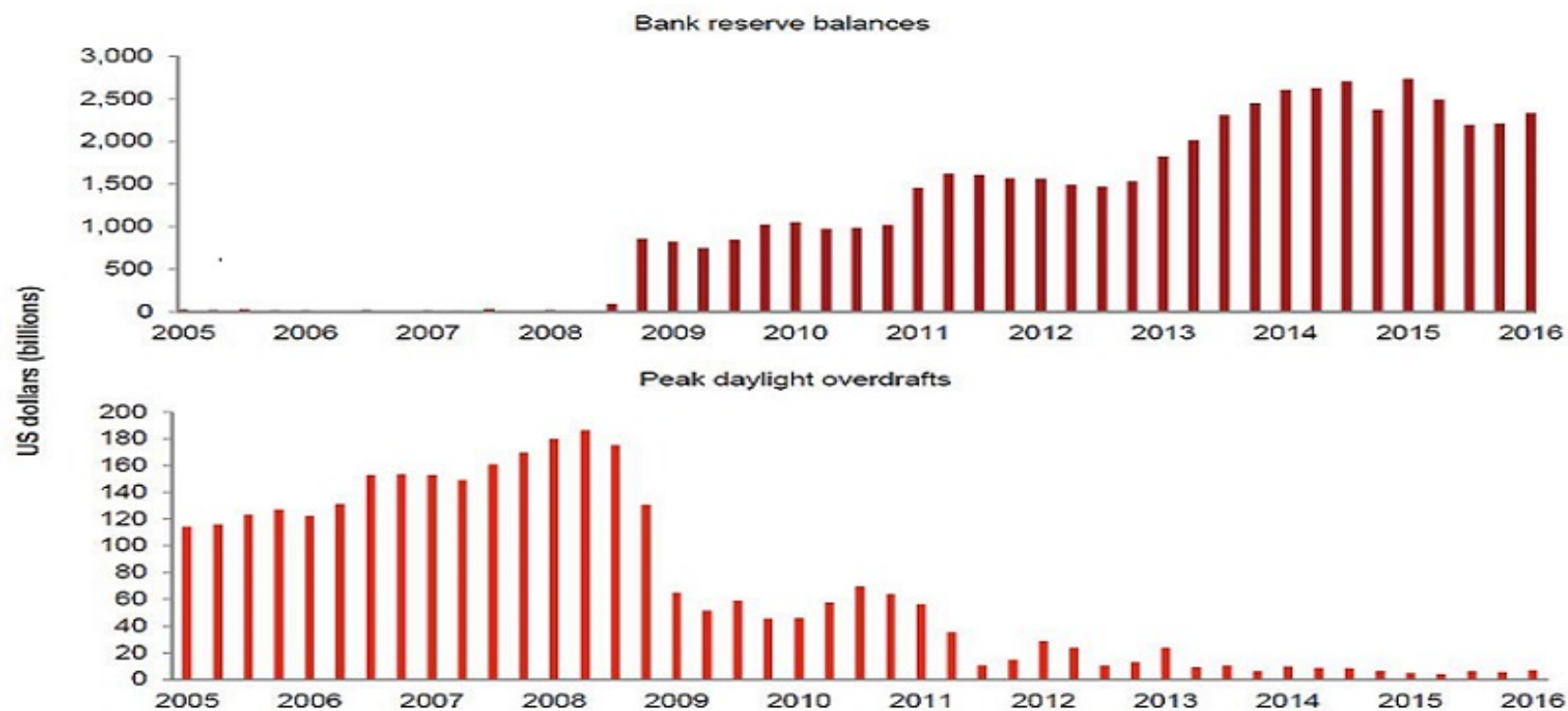
- **Correspondent banks have to pass their constraints**
 - ✓ **Less intraday credit lines from correspondent banks**
 - ✓ Split large amount deals
 - ✓ Plug collateral with clearers
 - ✓ Pre-funding
 - ✓ Rolls without movement of funds
 - ✓ In/Out swaps in CLS
 - ✓ Refrain to use arbitrage opportunities
 - ✓ **Cost passed on quotation spreads**
 - ✓ Some Treasury desks start to charge large repayments of short term deals (O/N repo, FX Swaps market making)

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Monetary Policy, a Game Changer

- ✓ **Central banks policies might have a strong impact on intraday liquidity management**
 - ✓ Low interest rates environment and unconventional monetary policies led to large liquidity surplus at central banks, thereby comfortable start of day balances
 - ✓ Rising rates and exit strategies will change the opportunity costs of holding excess liquidity

USD Reserves vs. Intraday Overdrafts Peaks (source PWC)



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Appendix 1 : BCBS 248 Table A - Direct Participant

Direct participants		Table A			
Reporting month					
Name of the large value payment system					
A(i) Daily maximum intraday liquidity usage	Max	2d max	3d max	Avg	
1. Largest positive net cumulative position					
2. Largest negative net cumulative position					
A(ii) Available intraday liquidity at the start of the business day	Min	2d min	3d min	Avg	
Total					
Of which:					
1. Central bank reserves					
2. Collateral pledged at the central bank					
3. Collateral pledged at ancillary systems					
4. Unencumbered liquid assets on a bank's balance sheet					
5. Total credit lines available*					
5a. Of which secured					
5b. Of which committed					
6. Balances with other banks					
7. Other					
A(iii) Total payments	Max	2d max	3d max	Avg	
1. Gross payments sent					
2. Gross payments received					
A(iv) Time-specific obligations	Max	2d max	3d max	Avg	
1. Total value of time-specific obligations					
C(i) Intraday throughput (%)	Avg	--	--	--	
1. Throughout at 8:00					
2. Throughout at 9:00					
3. Throughout at 10:00					
4. Throughout at 11:00					
5. Throughout at 12:00					
6. Throughout at 13:00					
7. Throughout at 14:00					
8. Throughout at 15:00					
9. Throughout at 16:00					
10. Throughout at 17:00					
11. Throughout at 18:00					

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Appendix 2 : BCBS 248 Table B - Bank that use correspondent banks

Banks that use correspondent banks					Table B
Reporting month					
Name of the correspondent bank					
A(i) Daily maximum intraday liquidity usage	Max	2d max	3d max	Avg	
1. Largest positive net cumulative position					
2. Largest negative net cumulative position					
A(ii) Available intraday liquidity at the start of the business day	Min	2d min	3d min	Avg	
Total					
Of which:					
1. Balance with the correspondent bank					
2. Total credit lines from the correspondent bank*					
2a. Of which secured					
2b. Of which committed					
3. Collateral pledged at the correspondent bank					
4. Collateral pledged at the central bank					
5. Unencumbered liquid assets on a bank's balance sheet					
6. Central bank reserves					
7. Balances with other banks					
8. Other					
A(iii) Total payments	Max	2d max	3d max	Avg	
1. Gross payments sent					
2. Gross payments received					
A(iv) Time-specific obligations	Max	2d max	3d max	Avg	
1. Total value of time-specific obligations					

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Appendix 3 : BCBS 248 Table C - Bank providing correspondent banking services

Banks that provide correspondent banking services					Table C
Reporting month					
B(i) Value of payments made on behalf of correspondent banking customers	Max	2d max	3d max	Avg	
1. Total gross value of payments made on behalf of correspondent banking customers					
B(ii) Intraday credit lines extended to customers	Max	2d max	3d max	--	
Total					
1. Total value of credit lines extended to customers*					
1a. Of which secured					
1b. Of which committed					
1c. Of which used at peak usage					

* : This figure includes all credit lines extended, including uncommitted and unsecured

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