



EUROPEAN CENTRAL BANK

BANKING SUPERVISION

# **Intraday liquidity management. A short voyage on the regulatory and supervisory framework**

ECB – Money Market Contact Group

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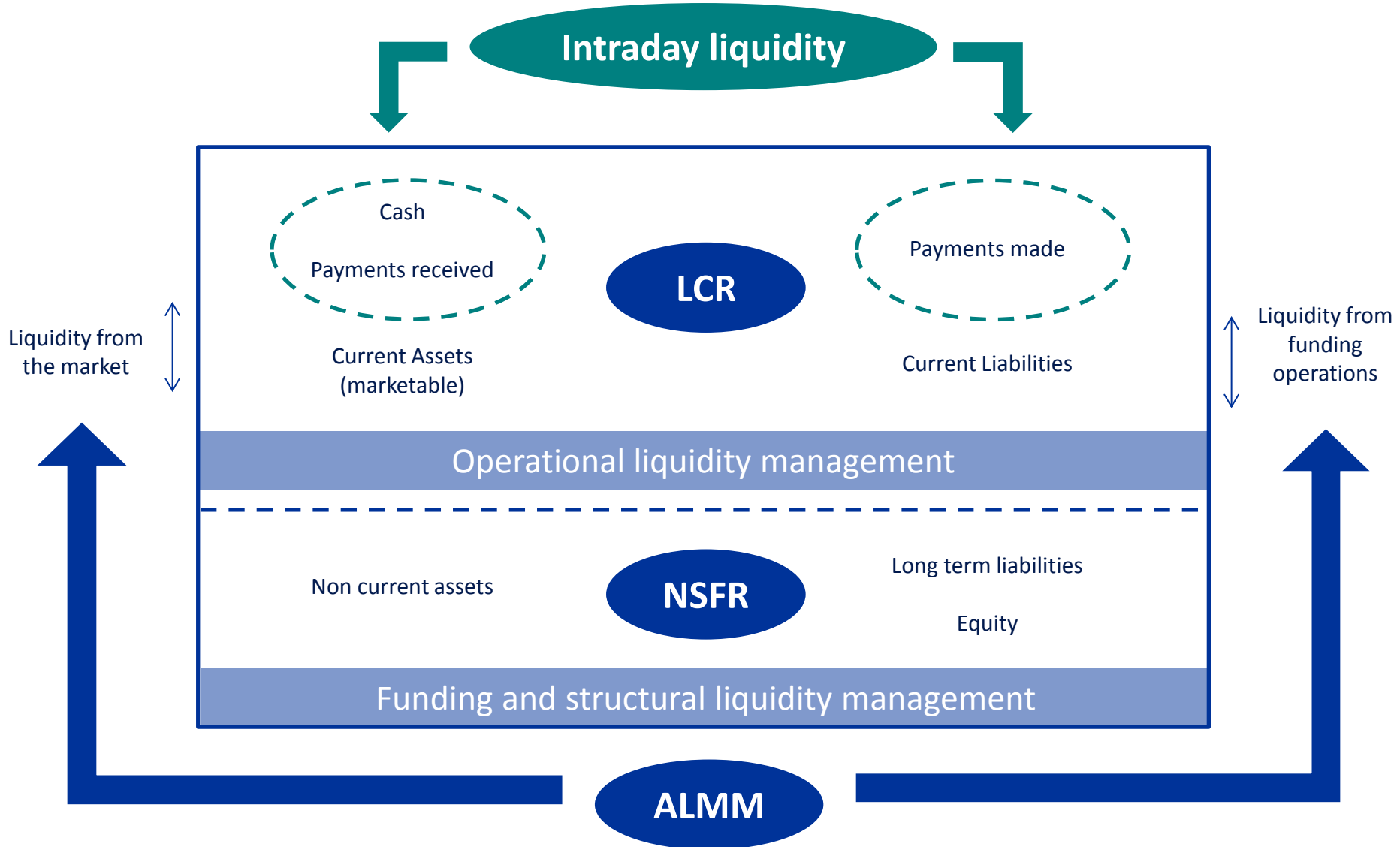
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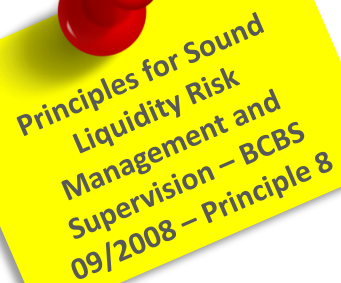
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# Regulatory roadmap



# Accounting equation and liquidity framework





Principles for Sound  
Liquidity Risk  
Management and  
Supervision – BCBS  
09/2008 – Principle 8

*“A bank should actively manage its intraday liquidity positions and risks to meet payment and settlement obligations on a timely basis under both normal and stressed conditions and thus contribute to the smooth functioning of payment and settlement systems”*

- I. have the capacity to measure expected daily gross liquidity inflows and outflows, anticipate the intraday timing of these flows where possible, and forecast the range of potential net funding shortfalls that might arise at different points during the day;*
- II. have the capacity to monitor intraday liquidity positions against expected activities and available resources (balances, remaining intraday credit capacity, available collateral);*
- III. arrange to acquire sufficient intraday funding to meet its intraday objectives;*
- IV. have the ability to manage and mobilize collateral as necessary to obtain intraday funds;*
- V. have a robust capability to manage the timing of its liquidity outflows in line with its intraday objectives; and*
- VI. be prepared to deal with unexpected disruptions to its intraday liquidity flows.*



Monitoring tools for  
intraday liquidity  
management – BCBS  
04/2013

## **Intraday Liquidity**

*“Funds which can be accessed during the business day, usually to enable financial institutions to make payments in real-time”*

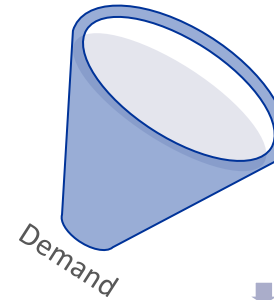
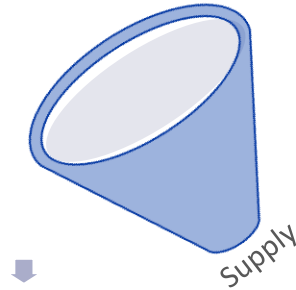
## **Intraday Liquidity Risk**

*“The risk that a bank fails to manage its intraday liquidity effectively, which could leave it unable to meet payment obligation at the time expected, thereby affecting its own liquidity and that of other parties.”*

# Intraday liquidity in a nutshell

## Intraday liquidity

- CB reserves;
- Collateral pledged;
- Unencumbered assets;
- Secured and unsecured, committed and uncommitted credit lines available intraday;
- Balances with other financial institutions;
- Payments from LVPS;
- Payments from ancillary services;
- Payments from correspondent banks.



- Payments to LVPS;
- Payments to ancillary services;
- Payments from correspondent banks.
- Secured and unsecured, committed and uncommitted credit lines offered intraday;
- Contingent payments due to system failure
- Emergency liquidity provider

Monitoring tools in a business as usual state

Stress testing exercise

# Monitoring tools to be centrally develop ...

Monitoring tools for  
intraday liquidity  
management –  
BCBS 04/2013

A set of intraday liquidity monitoring tools still need to be centrally developed but the analysis, depending on the size, business model and complexity of the supervised entity, tends to focus on the 7 monitoring tools presented in the BCBS document.

**i. Daily maximum intraday liquidity usage**

Bank's largest negative net cumulative position calculated on actual settlement times during the day (the value of payments received minus the value of payments made);

**ii. Available intraday liquidity at the start of the business day**

Amount of intraday liquidity at the beginning of the day to cope with intraday liquidity needs;

**iii. Total payments**

Total value of gross daily payments made and received;

**iv. Time-specific obligation**

Obligations which must be settled at a specific time within the day or have an expected intraday settlement deadline

**v. Value of payments made on behalf of correspondent banking costumers**

Gross value of daily payments made on behalf of all financial institutions costumers

**vi. Intraday credit lines extended to costumers**

Total sum of intraday credit lines extended to all financial institution costumers, with the value of secured and unsecured credit as well as of committed and uncommitted lines.

**vii. Intraday throughput**

Proportion, by value, of a bank's daily outgoing payments that settle by specific times during the day

Supervisors, depending on the size, business model and complexity of the supervised entity, might leverage on the results on the internally developed stress testing to analyse the intraday liquidity risk. Banks should determine with their JST which scenarios are relevant based on their business model, size, payments volume, etc.



Monitoring tools for  
intraday liquidity  
management –  
BCBS 04/2013

## 1. Own financial stress

Might be an idiosyncratic scenario, comprising payments defer, intraday credit lines withdrawal, reduced access to the market, reduction in credit lines availability and limits;

## 2. Counterparty stress

Might be tailor made stress directly affecting a particular counterparty, being unable to transfer incoming payment resulting therefore in a reduced amount of intraday liquidity available (for instance, of the counterparty which paid, in the previous business day, the largest gross value);

## 3. Customer bank's stress

Might be a customer bank of a corresponding bank suffering a severe stress generating deferred payments, resulting an intraday liquidity shortage;

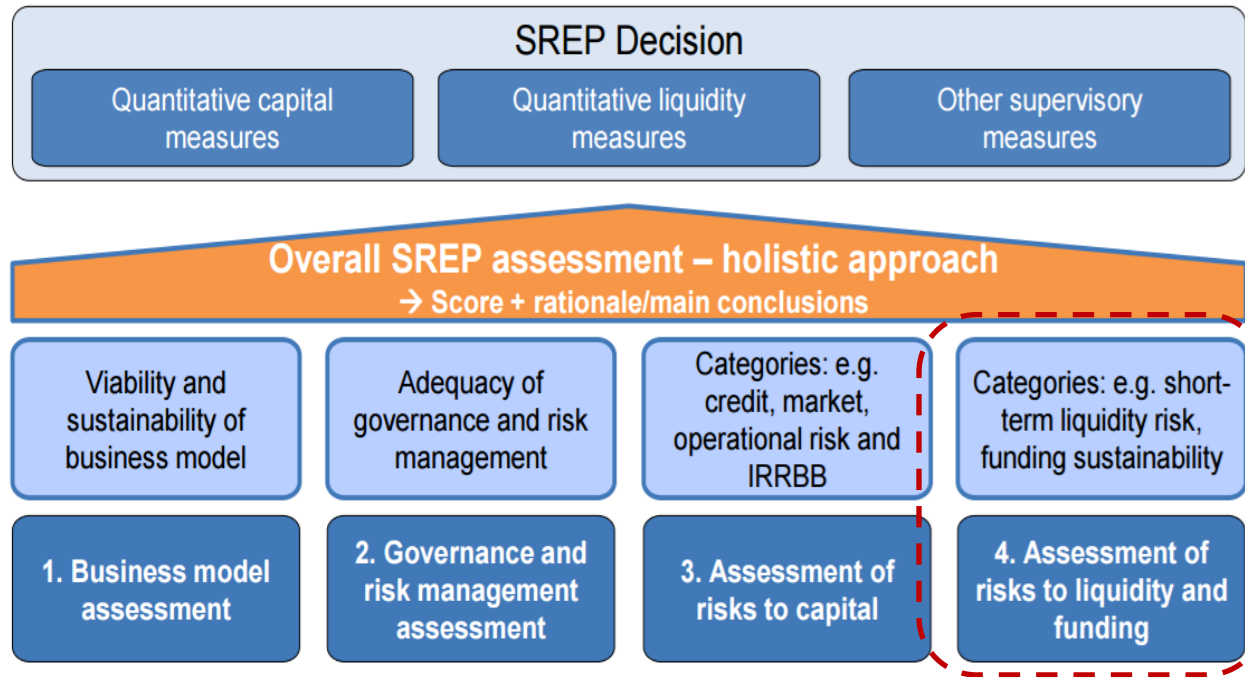
## 4. Market-related stress

Might be a crisis affecting the liquidity channels, global market, emerging markets, local money markets, retail deposits, coupled with the closure of key funding markets such as covered bond market, securitization market, CP and CD segments and dislocation in the FX swap market (for instance, exclusion of all inflows received from the counterparty whose default, in the previous business day, would have caused the largest negative net cumulative position).



# Factor-in intraday liquidity management into the SREP

## SREP methodology at a glance: four key elements



### Block 1 Supervisory perspective

Short-term liquidity and funding sustainability

- ✓ Information gathering;
- ✓ Anchoring scores on short-term liquidity and funding sustainability risks;
- ✓ Comprehensive analysis.



### Block 2 Bank's perspective

- ✓ Information gathering (e.g. ILAAP);
- ✓ Anchoring assessment: challenge the institution's internal estimates;
- ✓ Comprehensive analysis (e.g. ILAAP reliability).



### Block 3 Forward looking perspective

- ✓ Information gathering (e.g. Bank stress testing);
- ✓ Anchoring assessment: supervisory stress testing;
- ✓ Assessment of supervisory stress test results and of bank's internal stress tests.

## Phase 1

### RL – Data gathering

Data gathering from indicators based on ITS and STE data

## Phase 2

### RL – Automated scores

Based on indicators

## Phase 3

### RL - Assessment

Analysis focused on operational liquidity, intraday liquidity, short-term wholesale funding risk, structural funding mismatch

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### RC – Information gathering

Information collected from the bank

### RC – Compliance checking

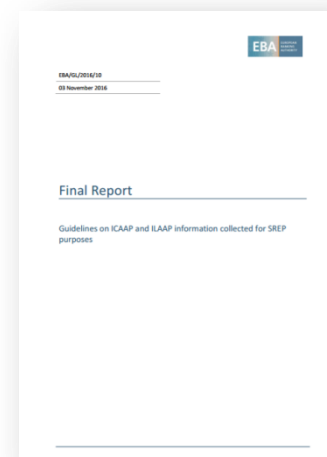
Checks related to internal governance, risk appetite, risk management and internal audit

### RC - Assessment

Analysis based on meetings with the bank

## EBA/GL/2016/10 - Guidelines on ICAAP and ILAAP information collected for SREP purposes

1. Information on liquidity and funding risk management framework
2. Information on funding strategy
3. Information on strategy regarding liquidity buffers and collateral management
4. Information on FTP
5. Information on intraday liquidity risk management
  - ❖ criteria and tools for measuring and monitoring intraday liquidity risks;
  - ❖ escalation procedures in case of intraday liquidity shortfalls, ensuring the smooth functioning of payments both in 'business as usual' and in stressed conditions as well.
  - ❖ quantitative overview of intraday liquidity risk over the past year at an appropriate frequency;
  - ❖ number of missed payments
6. Information on liquidity stress testing
  - ❖ description of the stress scenarios (including intraday) applied and the assumptions considered (number of scenarios used, the scope, internal reporting frequency to the management body, risk drivers, time horizons etc.);
  - ❖ description of the criteria for calibrating scenarios, selecting appropriate time horizons (including intraday, where relevant), quantification of the impact of stress on the liquidity value of buffer assets, etc
  - ❖ quantitative outcome of the stress testing
  - ❖ quantitative and qualitative analysis of the outcomes of stress testing on the funding profile
7. Information on liquidity contingency plan



11/2014 - 2016

“Traditional approach”

2016 - 2017

“Supervisory expectations on ICAAP and ILAAP and harmonised information collection on ICAAP and ILAAP - (Annex A, Annex B, Annex C)”

2017 - ...

“Multi-year plan on SSM Guides on ICAAP and ILAAP”

- ✓ Intraday liquidity management monitored on the basis of banks’ internal reporting, expertise and own set of indicators.
- ✓ Assessment and prioritisation of risks tailored to the dimension, business model and relevance of the risk conveyed by the supervised entity, considering also the liquidity and funding proportional weight with respect to all risks.
- ✓ Institutions shall have robust strategies, policies, processes and systems for the identification, measurement, management and monitoring of liquidity risk over an appropriate set of time horizons, including intraday liquidity, ensuring that liabilities are met in both normal and stressed conditions.
- ✓ Ongoing process that requires institution to integrate the outcomes into their internal reporting.
- ✓ Review process as part of the SREP.
- ✓ Periodical information in a harmonised manner under Article 10 of the SSM Regulation, following the EBA’s Guidelines on ICAAP and ILAAP information collected for SREP purposes.
- ✓ ILAAP: Self-assessment template (Annex C.2) with scoring rationale for each principle (P. 10 Intraday liquidity).
- ✓ P.1: ongoing (self-)assessment of all key elements of the ILAAP and consistency with other internal risk management elements (e.g. intraday liquidity, RAS, medium-term planning and the strategy).
- ✓ P.2 ILAAP should be embedded in the decision-making process and form an integral part in the institutions’ strategies and risk management processes.
- ✓ P.3: to ensure the viability, all risks that may affect the liquidity and funding position should be taken into account. In addition to the regulatory perspective, internal perspective adequacy should also be ensured.
- ✓ P.7: regular tailored and in-depth stress testing is aimed to ensure the institution can withstand periods of severe stress.

*Thank you!*