

# The Liquidity Implementation Task Force develops an industry practice to enable compliance with BCBS 248

*The Intraday Liquidity Reporting rule book was developed with the support of SWIFT*

The Liquidity Implementation Task Force (LITF) was formed by a group of 25 large clearing and custodian banks and global brokers to resolve data management issues at an industry level. The Task Force concluded that the development and adoption of a community standard and business practice in this space would be essential in addressing regulation-driven demands for improved intraday liquidity control and reporting.

In response to this, the group developed an Intraday Liquidity Reporting rule book with SWIFT's help. The rule book aims at addressing data management challenges within the Nostro and Custodian space that prevent banks from monitoring their intraday cash positions and calculating related BCBS metrics. This rule book is to serve as common market practice on the use of SWIFT intraday reporting messages in all relevant markets.

## The need for a common practice

New intraday liquidity regulatory frameworks are imposing quantitative measures and reporting as well as new systems and control requirements such as:

- Banks should monitor/build in real time its cash position across accounts and currencies in order to meet its payments and settlement obligations.
- Banks should build historical information to report intraday liquidity metrics at a firm-wide level across branches and legal entities.

In April 2013 the BCBS (Basel Committee on Banking Supervision) issued its “Monitoring tools for intraday liquidity management” (BCBS 248) which support Principle 8 of the BCBS’s “Principles for Sound Liquidity Risk Management and Supervision”. It also outlines quantitative reporting requirements to be implemented by internationally active banks between 1 January 2015 and 1 January 2017. The tools require banks to report retrospectively on their intraday liquidity flows. It’s also expected that more National regulators will request their banking communities to provide evidence that they manage their liquidity flows in real time.

With these new regulatory frameworks being put in place many institutions around the world have now started looking at implementing an intraday liquidity monitoring or management dashboard. However, all recent community consultations still highlight data management issues preventing visibility on the intraday cash positions mainly due to the lack of a common industry practice for interbank intraday cash reporting. This is a problem as data collected for regulatory reporting needs to be based on different account servicing institutions’ confirmations and not on internal forecasting systems.

The recent SWIFT survey<sup>1</sup> on intraday liquidity reporting and feedback provided by the LITF participants confirm the four most common issues experienced by the cash, liquidity and treasury operations:

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1) Intraday Liquidity Reporting – Survey findings - Industry status and the case for a common global approach - 2014

- Too few transactions reported on a real-time basis, especially in the nostro space
- Lack of timeliness of reporting
- Lack of granularity of the information provided
- Lack of common definition and business practice of the current message types mainly used by the industry (FIN category 9 messages)

## The LITF rule book

The LITF intraday liquidity reporting rule book establishes a common global market practice in the Nostro and Custodian space on the use of the SWIFT intraday reporting messages. The aim of the rule book is to solve identified reporting issues through the definition of a set of common minimum requirements that all account-servicing institutions should be fulfilling.

The rule book will support essential data collection requirements of financial institutions and will enable them to meet their intraday liquidity reporting and/or management obligations. The LITF intraday liquidity reporting rule book defines nine key principles that Service Providers should implement to provide their financial institution customers with the underlying information needed to build the Nostro-related metrics requested by regulators in different jurisdictions:

- A full coverage of the cash movements
- A standardised use of reporting messages
- Timely access to the data
- Common industry definition on the finality of the reporting messages

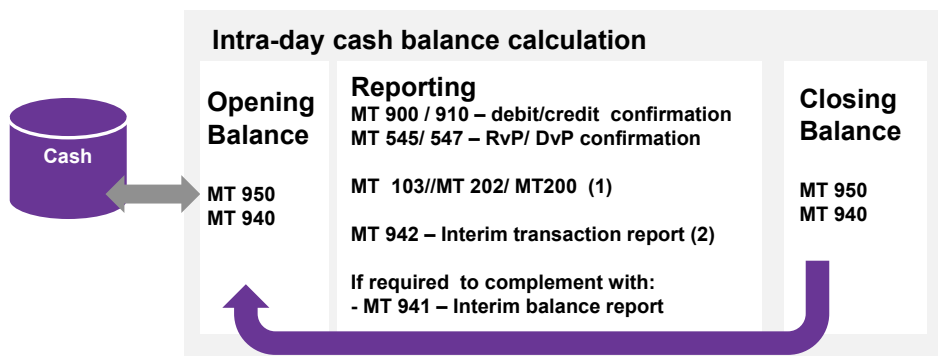
The five remaining principles concern data content:

- Correct available balance information
- The use of correct time stamping of the debit and credit entries
- The correct use and mapping of transaction's references
- The correct use of the parties information related to a payment
- The correct use of the account information

## The Intraday Liquidity dashboard concept

The intraday liquidity dashboard concept is sourced with data from FIN messages, relies on a small set of messages and can be graphically represented as below.

- 1) The closing available balance is extracted from the end of day statement (MT 950 or MT 940) and is used as the opening balance of the following business day.



2) As a minimum all account-servicing institutions should be able to report all cash debit and credit entries posted on the account at transactional level and on a real-time basis using debit and credit confirmations (MT 900, MT 910) as well as delivery and receipt of securities versus payment confirmations (MT 545, MT 547).

The use of other messages will rather be used either for specific use cases (1) or based on an agreement with the regulator that allows the bank to report on a “time bucket basis” and allows an implementation model with a batch data collection (2).

## Three levels of implementation

The rule book identifies three levels of potential implementation according to the potential specific requirements from the different national regulators: real-time data collection at transactional level; non real-time data collection at transaction level; and collection of bulk data according to a specific time bucket. Based on these models, institutions will be able to define the precise set of messages needed for the intraday liquidity dashboard for reporting and or management purposes and the specific timing required to access the data. All nine principles of the rule book describe the applicable requirements related to these implementation models.

The three implementation models are as follows:

- Real-time data collection at transactional level for regulators that require banks to provide evidence that they manage their intraday liquidity in real time.
- Data collection at transactional level but not in real time for regulators requiring the retrospective reporting of the tools as defined in the BCBS paper. This could lead banks to elect to collect data retrospectively. In this case the data will still need to be collected at transactional level with a confirmation of the time at which the debit or the credit entry has affected the liquidity position.
- Collection of bulked data according to a specific time bucket requirement for regulators that allow banks with lower risk profiles to report on or to manage their intraday positions based on a pre-defined time bucket. In this case, the bank could choose to collect the information on all its debit and credit entries through a bulk reporting according to a maximum pre-agreed time interval.

Based on the rule book, all service providers should aim at covering the needs for the highest level of implementation (L1+1) to support real-time position monitoring/management and the related potential individual assessment by a national regulator.

Business or regulatory context	High level regulatory reporting requirement	Data access vs. data time stamping requirements
<b>L+1</b> National implementation of BCBS Monitoring tools + Individual liquidity assessment	Retrospective reporting & assessment on real-time liquidity management	<ul style="list-style-type: none"> <li>- Real-time data access</li> <li>- Timed data at transactional level</li> </ul>
<b>L1</b> National implementation of BCBS Monitoring tools	As per BCBS paper - Retrospective reporting at transactional level	<ul style="list-style-type: none"> <li>- No real-time data access</li> <li>- Timed data at transactional level</li> </ul>
<b>L-1</b> Potential National implementation of BCBS Monitoring tools	Retrospective reporting and/or assessment based on time bucket	<ul style="list-style-type: none"> <li>- No real-time data access</li> <li>- Timed data at time bucket level</li> </ul>

## Industry adoption

The rule book should be implemented by all financial institutions that have an intraday liquidity reporting and management project. To ensure a broad adoption in the short term it will be essential to continue to share and promote the rule book as much as possible in the industry.

The LITF rule book is now being shared with the Payments Market Practice Group (PMPG) for their endorsement and to add references to the LITF rule book into the next version of the SWIFT Standards Handbook.