

White Paper



Intraday liquidity reporting - The case for a pragmatic industry solution

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Executive summary

Effective management of intraday liquidity has never been more important. The financial crisis highlighted fundamental weaknesses in the liquidity risk management of banks across the globe. This raised concerns among regulators about the ability of financial institutions to cover their payment obligations, particularly during periods of market stress.

The result is an increased focus by global regulators on liquidity risk, including banks' ability to effectively manage their intraday liquidity risk. In April 2013, the Basel Committee on Banking Supervision (BCBS) published a set of monitoring tools which focus on intraday liquidity monitoring and reporting. The monitoring tools set out in the BCBS paper require banks to assemble the necessary data to enable supervisors to have sufficient information to monitor banks' intraday liquidity risk, and their ability to meet payment and settlement obligations on a timely basis, under both normal and stressed conditions. The paper envisages that all internationally active banks will have to implement the monitoring tools as from 1st January 2015, at global and legal entity levels, across all currencies, and submit the monitoring data to their banking supervisor on a monthly basis.

The monitoring tools complement the Basel III liquidity ratios (such as the Liquidity Coverage Ratio), which are currently being phased in as markets implement the Basel III measures covering bank capital as well as liquidity standards. The intraday liquidity tools are therefore an addition to the main Basel III package and should be distinguished from it. While several countries already have an intraday liquidity monitoring framework in place, additional national regulators have now confirmed their support for the BCBS monitoring tools. In many of these cases, banks will be given until January 2017 to fully implement reporting on their intraday liquidity. Most regulators, however, have not yet provided detailed reporting requirements.

BCBS intraday reporting presents a real challenge to financial institutions, since the tools are related to the liquidity flows of the firm rather than to its balance sheet. Liquidity has to be considered according to different timeframes: while Basel III liquidity ratios look at the level of liquid assets required to cover future needs, the intraday monitoring tools require the aggregation of retrospective liquidity measurements, which can only be calculated with real-time data. The related data points are to be found at the transactional level, which creates new challenges for the industry as a whole.

SWIFT has carried out numerous on-site intraday liquidity data assessments with different types of institutions. The results consistently highlight serious challenges with regard to data availability, centralisation, aggregation and interpretation, requiring further attention from the banks. To date, only 20% of all correspondent banking payment instructions exchanged on SWIFT are confirmed with an intraday debit/credit confirmation message. In terms of value, 55% of correspondent banking payment instructions are reported at global level on an intraday basis. Global coverage has increased by 4% in the last year¹. Progress must accelerate in order to be ready for BCBS reporting.

While banks clearly need to define a longer-term intraday liquidity management strategy to take advantage of financial benefits beyond the compliance obligation, there is a risk that implementation of a real-time intraday liquidity management process could result in a long and complex project, preventing institutions from meeting their shorter-term mandatory requirements by 2017.

The tight timeline and potential lack of resources may lead banks to take a pragmatic approach, leveraging the infrastructure and data formats they already have in place to feed their central

intraday liquidity transaction database. Industry practice around intraday liquidity reporting will need to change. Banks will have to adapt their service models and initiate a change in their customers' behaviour, giving them a more active role to play in optimising their payments schedule.

The strong interdependencies between financial institutions, inherent to correspondent banking relationships will drive new forms of industry collaboration. As well as leading to the establishment of new industry practices around intraday liquidity reporting, increased collaboration could include setting up a new shared service, providing the basis for a bank's data infrastructure. Industry collaboration towards a constructive dialogue with regulators would also help prevent uncoordinated requirements and multiple reporting formats.

In summary, new regulatory frameworks are placing banks existing data models under growing pressure. Irrespective of the decisions that are made at the level of each national jurisdiction on the reporting timing and requirements, it is clear that such projects should be initiated without delay, starting with an evaluation of the data gaps, and analysis of the collection, aggregation and use of transaction data both internally and externally. Also greater industry collaboration should help stimulate cost effective and sustainable implementation models and solutions to enable the necessary long-term scalability and adaptability across market segments and geographies.

1. Source: SWIFT Watch

1. The importance of intraday liquidity monitoring

On a daily basis, banks need to manage how much they lend and borrow, how to fund any required additional liquidity at the lowest possible cost and how to ensure they meet their payment and settlement obligations smoothly, whilst limiting their credit line usage. The last financial crisis demonstrated the consequences when this process of managing intraday liquidity goes wrong and banks fail to obtain the funding they need to meet their obligations.

The increase in payments settled in real-time through High Value Payments Systems (HVPS), interdependence between payments and settlement systems, concentration of financial flows and changes in payments throughout have increased intraday liquidity needs and related risks.

Real-time payments value

The increase in the value of payments settled in real-time through an HVPS can be illustrated using central bank statistics. For example, in May 2014, the average daily value processed by CHAPS, the UK HVPS, was £271 billion, representing 93% of total cleared sterling values. CHAPS turns over the annual UK GDP every five working days.

Banks' intraday debit and credit peak positions are much higher than opening and closing balances for the same accounts, as illustrated by the example of some banks in Sweden, detailed below.

The graphic explains the increased need to closely monitor positions throughout the day. [Image 1]

Interdependence

Development of risk mitigating practices, such as payment-versus-payment and delivery-versus-payment and the implementation of settlement systems such as CLS and Central Counterparties (CCPs), has created a real interdependence between payments, clearing and settlement systems, and an increased need for intraday liquidity. Real-time monitoring of liquidity flows is needed to manage account positions and in order to be aware at all times of the value of unencumbered assets. Collateral management, being an essential means to reduce liquidity risk, requires close margin call management throughout the day to manage the impact on cash and securities positions. This not only supports compliance with new regulations, but also increases banks' trading capabilities and reduces their settlement risks.

While central banks manage intraday liquidity risk with full collateralisation, credit lines provided by correspondent banking for the settlement through Nostro accounts are usually uncommitted, therefore generally not secured by collateral. Interest rates are charged instead. In the short term, because of current market conditions and regulatory pressure we might see a change in

these practices to better cover the reimbursement default risk.

Concentration

As an alternative to central bank settlement, banks also use other commercial banks' accounts. Global banks typically self-clear their top three to five key currencies, representing 90% to 95% of their overall liquidity flows. They also clear large volumes of transactions for other financial institutions for which they hold a Nostro account. For other currencies, they use correspondents banking accounts.

For a number of years and especially post crisis, the banking industry has been going through a consolidation process. As a result there is a general trend in the market towards a greater concentration of players. Recent anti-money laundering (AML) regulation is an additional driver leading a number of banks to rationalise their account relationships, which in turn is raising their liquidity flows concentration and increasing the related counterparty risk.

From 2019, the concentration risk of large players will be further managed by regulators, as the financial dealings of a systemically important bank with another will be capped at a maximum value equivalent to 15 percent of its capital ².

Payments throughput

In this very interdependent ecosystem there are behavioural risks related to the timing of payments. Since the crisis, banks are more mindful of the cost of liquidity imbalances and therefore tend to delay their outgoing payments until they have received sufficient incoming funds. This is due to the liquidity risk, but also for competitive reasons. Banks want to mitigate potential risk, avoid the cost of having to cancel some payments and the cost for higher credit line usage, while avoiding contributing to a lower liquidity opportunity cost for other banks.

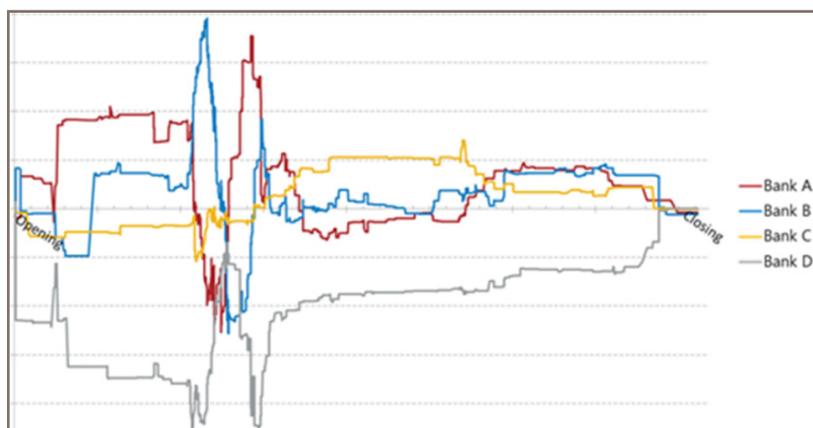


Image 1, Source: Sveriges Riksbank

² BCBS paper- Supervisory framework for measuring and controlling large exposures, April 2014

SWIFT data on a typical liquidity usage curve (over one day for a number of accounts) demonstrates that this behaviour is relatively common in the industry. [Image 2]

This behaviour increases the overall aggregated need for intraday liquidity in an RTGS system. Extreme liquidity situations are prevented through the mandatory bilateral ceiling imposed by many central banks, and by their close monitoring of the payments distribution to ensure smooth settlement³. In addition, banks have to respect the timing for specific “timed urgent payments”. They will also manage the operational risk of their low value transactions and will release them rather early in the day.

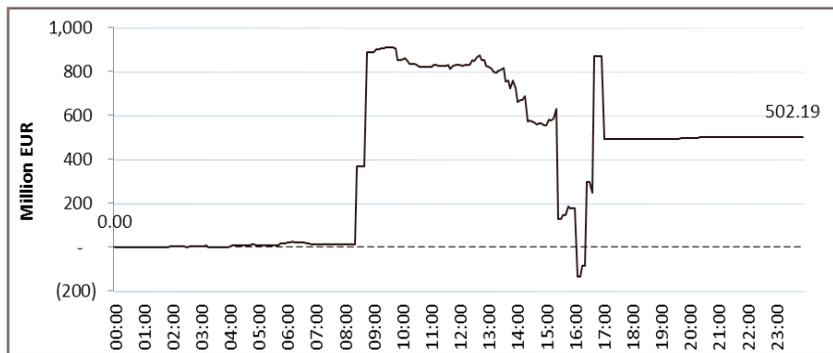


Image 2, Figure: Intraday Liquidity Usage - Typical Bank.

Source: SWIFT - On-site analysis based on FIN intraday reports (desensitised data)

2. BCBS intraday liquidity monitoring tools, an evolution in the regulatory scope

Prior to the financial crisis, liquidity monitoring was not high on the regulatory ‘radar’. However, the events of the crisis period clearly demonstrated that capital is not an efficient protection mechanism.

In April 2013, the BCBS, in consultation with the Committee on Payment and Settlement Systems (CPSS) published the “Intraday Liquidity Monitoring Tools”, providing a set of quantitative tools to enable banking supervisors to monitor banks’ intraday liquidity risk and their ability to meet payment and settlement obligations on a timely basis under both normal and stressed conditions. The tools require implementation of four stress scenarios (own, counterparty, customer and market stress) and monthly retrospective reporting on seven intraday

liquidity measures. Each firm will report both globally and at the level of each legal entity, for all accounts and currencies where they act as a self-clearer, Nostro user or Vostro provider.

The official start date for BCBS reporting is set for January 2015. National supervisors are given the authority to extend the implementation timeline until January 2017 (especially for the tools related to the Nostro Accounts).

The monitoring tools provide a reporting framework complementing the BCBS “Principles for Sound Liquidity Risk Management and Supervision” dated September 2008, which provide guidance for banks on their management of liquidity risk and collateral and which state: “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”. They complement the two Basel III liquidity ratios: the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio, which are part of the Basel III package covering both bank capital and liquidity standards⁴. Intraday liquidity is not covered by the Basel III liquidity ratios.

3. ECB Annual report 2013 - “Pattern on intraday flows”

4. In January 2013, the BCBS published Basel III Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) in addition to the monitoring tools.

The objective of the LCR is to ensure the short-term resilience in both normal and stressed conditions of the liquidity risk profile of banks (for a period of 30 days). Its objective is to ensure the adequate level of high quality unencumbered assets to be able to resist severe market and own

stress conditions. The objective of the NSFR is to encourage a better (structural changes) for a more stable longer term funding model.

A few countries around the world have already implemented their own intraday monitoring tools. This table details some examples of regulatory frameworks currently in force. The examples demonstrate a clear evolution in the willingness of national regulators to improve intraday liquidity management.

Country	System in place
UK	In 2009, the UK regulator was first in issuing intraday quantitative measures and reporting, and to associate these with monitoring and controls through individual liquidity adequacy assessments (ILAA) on the capability of the financial institution to manage its intraday liquidity in real-time.
The Netherlands	The Dutch Central Bank, which is responsible for prudential regulation, has implemented an "ILAA" Process (ILAAP), for Dutch banks, including reporting, to demonstrate how they manage "intraday liquidity risks".
Australia	The Australian Prudential Regulation Authority (APRA) requires authorised deposit-taking institutions to comply with Prudential Standard APS 210 Liquidity (APS 210). APS 210 including to "actively manage intraday liquidity positions and risks".
China	The China Banking Regulatory Commission (CBRC) implemented new measures in March 2014 covering the "Liquidity Risk Management of Commercial Banks", including Article 27: commercial banks should strengthen risk management on intraday liquidity, ensure sufficient intraday liquidity and related financing arrangement to timely meet intraday payment demands under normal and stress scenarios.

Most regulators have not yet issued any specific requirements for the implementation of intraday liquidity monitoring tools (either their own or the BCBS requirements). Others, as listed below, have confirmed their support for the BCBS initiative.

Country	Status
Canada	The Office of the Superintendent of Financial Institutions (OSFI) officially recognised the new reporting tools and stated that they will continue to review the applicable implementation date for these metrics – which will be on 1 January, 2017 at the latest.
Singapore	In March 2013, the Monetary Authority of Singapore (MAS) issued guidelines and stated "an institution should establish an appropriate and properly controlled liquidity risk environment including intraday liquidity risk management practices".
Hong Kong	The Hong Kong Monetary Authority (HKMA) confirmed in a letter that it is "considering the most appropriate approach for implementing the BCBS monitoring in Hong Kong. In the meantime, authorised institutions are encouraged to review the Monitoring requirements and assess the implications for their management of intraday liquidity risk".
Switzerland	In January 2014, the Swiss regulator FINMA announced a new liquidity circular and mentions: "Banks must be able to demonstrate that they are in a position to reliably estimate and manage the consequences of an intra-day stress event on the bank's liquidity situation." ⁵

Others, including US regulators, are also starting to show interest in greater intraday liquidity monitoring. Last year, the US Federal Reserve began a dialogue with the largest banks on future implementation. In the EU, the European Banking Authority is not currently developing rules, but may consider drawing up guidance in the future. Detailed requirements are therefore expected to follow shortly in an increasing number of countries.

3. Data challenges

SWIFT has been running individual in-depth data assessments with financial institutions, to evaluate the types of data gaps for their implementation of the BCBS tools, to quantify those gaps and to examine the best ways of closing them. These individual assessments consistently highlight the issues identified by SWIFT's analyses at aggregated and global level.

The tools bring three types of data challenges: the availability of timed data, the current lack of data centralisation and the appropriate level of aggregation required by the reports. Challenges differ according to the bank's size and profile: whether the bank is exclusively dependent on its correspondents, or whether it is a self-clearer for its top currencies and as such provides correspondent banking services to other financial institutions.

Timed data

The BCBS tools do not require real-time management of liquidity positions, but rather the availability of timed information on all individual liquidity entries. Banks need to track their position for each account on a real-time basis to build the retrospective monthly aggregated measures required for BCBS reporting (i.e. top largest positive and negative net cumulative positions).

A crucial condition for the production of accurate monthly reporting is the delivery of a debit/credit confirmation by either the account servicing institution or the payments settlement system for each movement on the account.

Analyses of Nostro reporting flows on SWIFT demonstrate that a large number of banks have a very small proportion of their debit/credit entries confirmed in a timely manner. Certain types of transactions such as book transfers are not covered at all. Institutional operations remain in silos. Many liquidity applications have not yet integrated information related to securities intraday settlement confirmations (i.e. delivery versus payment confirmations) managed by securities settlement applications. To date, SWIFT estimates that only 20% of correspondent banking payments instructions exchanged on the SWIFT network are confirmed with an intraday confirmation message. In value however, the coverage reaches 55% at global

level⁶.

Smaller institutions with fewer account relationships should be easier to service as they manage fewer accounts and data sources. A number of specific service providers are developing new reports with ready-made BCBS measures for the specific accounts they are holding for customers.

Global clearing banks, being a direct participant to the RTGS system for their key currencies, should in principle be less impacted by the challenge of providing timed data. However, not all payment settlement systems provide a real-time systematic debit and credit confirmation. Many of these infrastructures are revisiting their reporting methods, as they move to comply with the CPSS-IOSCO⁷ rules for efficiency and operational excellence.

The time at which the debit/credit entry is posted on the account should also be reported by the servicing institutions. At present, this is not the case. Providing this information would effectively require a change both in the message standard and in the servicing institution's legacy system which is currently being assessed by the SWIFT community.

Beyond BCBS reporting, in countries such as the United Kingdom and the Netherlands, where banks have to manage their liquidity positions in real-time, an automation of their margin call processes is necessary to obtain an accurate view of their collateral positions and their unencumbered assets. As central counterparty clearing is an evolving area in terms of regulation, the adoption of a common standard and practice across numerous systems will be essential to streamline clearing members' real-time view of positions.

Data centralisation

Many larger institutions have not yet centralised the management of their Nostro accounts. Legal entities around the world may use different payment hubs to send their instructions and receive confirmations messages from their Nostro service providers. Treasury systems have

in most cases not been integrated across currencies and the internal clearing entity does not always provide timed information required for reporting at a central level.

Finally, it is quite common that entities do not use their internal clearing entity for all their movements. Specifically for the USD, local offshore clearing services offered in several Asian countries are used. This will not only lead to higher liquidity costs and potential credit risk, but it will also make it more difficult for the group treasury to report centrally on their consolidated USD intraday positions.

All these issues can result in a large share of the group's intraday liquidity flows not being visible at the central headquarters level. Calculations for specific firms based on SWIFT correspondent banking data show this share can reach up to 20%.

Data aggregation

Service providers will also have to report on their customers' credit line usage at global level. This type of data is typically managed by each country locally. Therefore, providing an aggregated view for a customer using clearing services for multiple currencies in different locations is very challenging.

Reporting on customers' global credit line usage requires standardised and centralised data collection at global level and identification of legal entities, through their legal entity identifier (LEI), and matching with their related operational codes. A lot of work has been done by the Regulatory Oversight Committee to coordinate and oversee the development and implementation of the Global Legal Entity Identification System (GLEIS)⁸. The European Banking Authority has recently issued an official recommendation for the use of LEI for financial reporting, to ensure uniform reporting requirements across all EU Member States, as mandated by the Capital Requirements Regulation⁹.

⁶. SWIFT Watch

⁷. IOSCO: the International Organization of Securities Commissions

⁸. SWIFT white paper - EMIR Preparation - applying for a Legal Entity Identifier

⁹. EBA -EBA/REC/2014/01 – EBA Recommendation on the use of the Legal Entity Identifier (LEI)

4. A pragmatic approach

Because of the very short implementation timeframe and the strain on IT and business resources in many institutions, it is important for banks to adopt a pragmatic approach, reusing their existing data infrastructures and allowing for a consistent global approach. This should help avoid duplication of work at the entity level.

Implementation scope

Beyond the cost of not being compliant in time, banks should look at their overall liquidity strategy and at the substantial financial benefits which can be derived from implementing real-time liquidity management. As well as a lower credit line usage and lower funding costs, financial institutions will increase their trading capability and reduce the costs related to late identification of the exceptions, all of which should help reduce the size of their liquidity buffer.

However, implementing real-time liquidity management is not required by the BCBS tools. There is a risk for banks of being trapped in a lengthy project and failing to achieve the mandatory short term deliverables when trying to achieve both goals at the same time.

There is uncertainty around the exact

currencies that national regulators will expect the monitoring and reporting to cover when they implement the BCBS tools: will the reporting obligation extend to all currencies or only to key currencies representing at least 5% of the liquidity value at group level? Considering the short timeframe, national regulators may agree to phase in implementation, starting with the top currencies. Some regulators may take a stricter approach and the UK's experience has demonstrated that the threshold to request banks to report may well be below 5%.

This suggests the need to define a global data collection model with common aggregation rules and to build a central transaction database within each institution. This would avoid multiplication of different implementations across different entities of a group. It would ensure reporting consistency at global and local levels and would reduce costs. Currency-related implementation should be phased in, starting with the largest currencies.

Data sourcing

Banks will typically have two main questions with respect to data sourcing: which data do I need to produce to meet the requirements of the BCBS measures,

and where do I source it from in the most efficient way?

Many institutions are still managing intraday positions based on their internal forecasts. For the BCBS measures, a real-time confirmation of each individual credit/debit entry will be critical to track the position of each account and to build the granularity required for each monthly report. These confirmations should ideally be sent by the servicing institutions for all types of cash movements including for book transfers, payment versus payment and for securities settlement movements, using the specific standard message type. At the end of the day, banks will match their calculated positions with the closing balance reported by their service providers. [See Image 3]

Importantly, interim transaction report (MT 942) will not adequately serve the liquidity function. It has been designed to support treasury reconciliation as it provides extensive information on the underlying transaction at the origin of the movement. It can however not be used by the account owner to calculate his position on a "minute by minute" basis as it is typically not sent in real-time, and reported transactions are batched under the same time stamp. Net position calculations at specific times of the day will therefore not represent reality as all debit and credit entries will be aggregated.

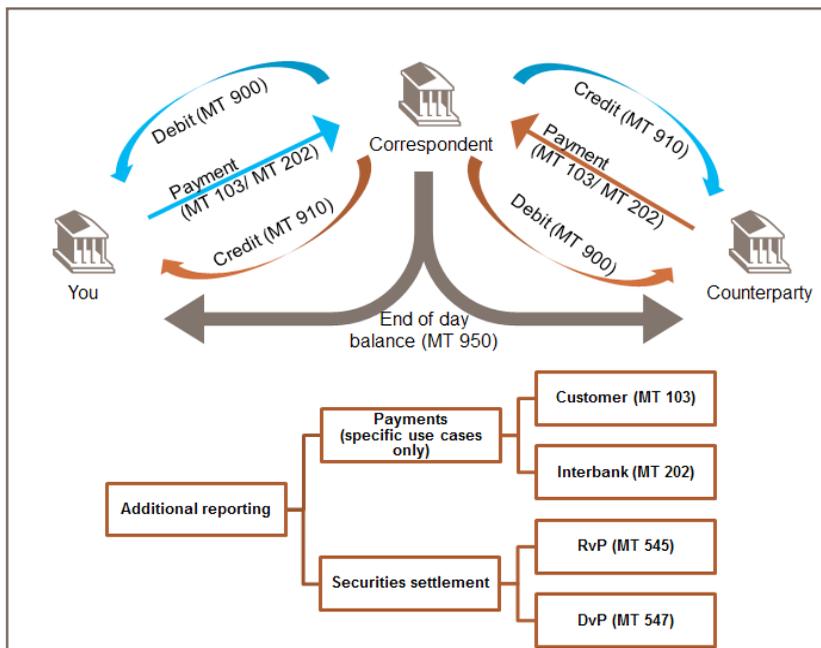


Image 3, Figure: Data Sourcing, Source: SWIFT

Calculations made on some individual accounts using this message type demonstrated that the impact on the liquidity usage curve calculation can be substantial, especially if the frequency of the report is low and the amounts are high. In [Image 4], the difference in the peak positive position is almost 100%, whilst on the negative side it is close to 25%. In value, the difference at specific times of the day can amount to several billions.

When sourcing the data from correspondent banks and settlement agents, usually different channels will be available, including proprietary ones. In order to lower the integration costs and enable the user to aggregate data with other service providers' reports, a provider should use standardised reporting formats. Users with a larger number of correspondents will also want to rationalise their communication channels.

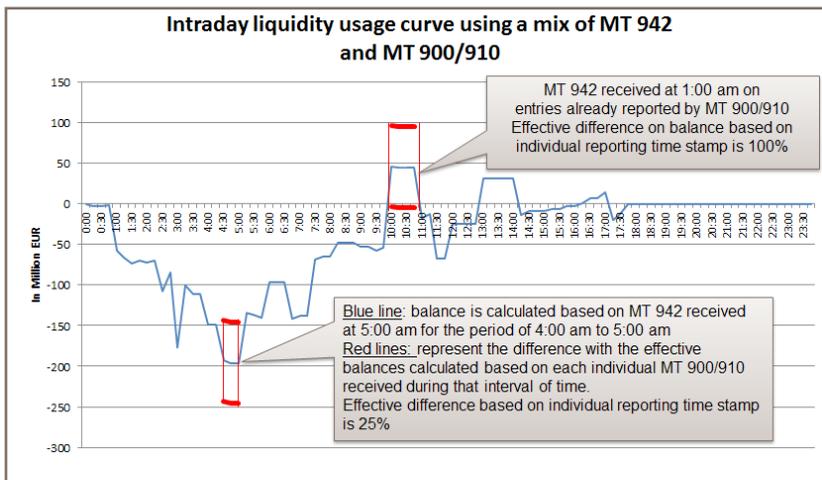


Image 4, Source: SWIFT - On-site data assessment (desensitised data)

Data assesement

The first step in the pragmatic approach should be an assessment of the bank's current intraday liquidity flows for the top currencies. A bank should be examining the distribution of the intraday liquidity flows between its different entities and identify the top correspondents and overall reporting gaps at group level. In doing so they may also identify a lack of visibility for the "group treasury" for specific flows or the entities in the group using correspondent accounts instead of the internal clearing entities.

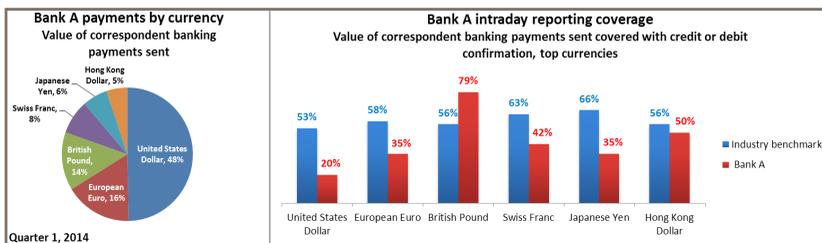


Image 5, Source: SWIFT Watch - (desensitised data)

Due to its size, the nature of its business, its geographical reach, but also the efforts that have already been spent on intraday liquidity management, each bank will have a different 'as is' picture and will be able to compare against the currency benchmark, the country or a peer benchmark. [Image 5]

Nostro Bank USD	Share of total valuepayments sent	% value debit confirmation	% value credit confirmation
Bank A - USD Nostro service provider in the US	24%	96%	90%
Own USD Clearing Entity in the US	40%	45%	80%
Bank C - USD Nostro service provider in the US	20%	24%	52%
Bank D - USD Nostro service provider in Singapore	4%	90%	100%
Bank E - USD Nostro service provider in Hong Kong	1%	2%	50%

Image 6, Source: SWIFT Watch (desensitised data) - Largest gaps are highlighted in white

The bank will also be looking for a consolidated view of the gap per key currency and correspondent at group level. [Image 6]

The bank will then run a more in-depth data gap analysis for a representative number of accounts. The aim is to measure current reporting coverage in value and volumes of all inflows and outflows, and identify the types of transactions not reported on an intraday basis, or the data not yet integrated internally. This will help the bank determine the project's priorities and next steps very precisely. [Image 7]

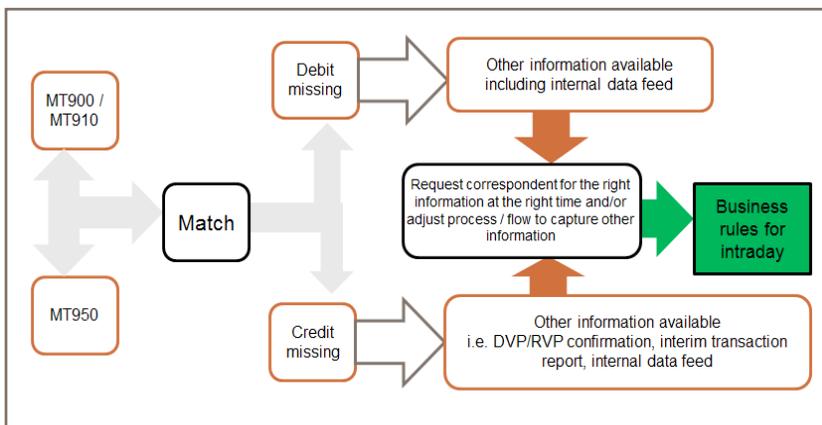


Image 7, Figure: This chart shows a practical approach for data gap analysis

Filling the data gaps

Undertaking a data assessment exercise will provide banks with the detailed requirements for their key service providers. The view on volumes at group level cleared through each of these correspondents should also help them in defining commercial terms.

Over the last year, many banks have initiated an official RFP process or have contacted their existing correspondents with a list of new requirements to fill their data gaps. Risk departments have played an active role in this evolution as they are now involved in the intraday space and better understand the importance of these confirmations to reduce the risk in case of one of their servicing institution's default. The debtor remains liable for the payment until the debit on its account has been confirmed by its account servicing institution.

As a result, the usage of intraday liquidity reports exchanged on SWIFT between correspondents has increased by 14% in volume and 16% in value (Q1/2014 vs Q1/2013). The overall coverage of reporting in value terms has increased by 4% to reach 55% of the payments on SWIFT.

However, there are differences at individual level between financial institutions and at community level between currencies and countries. The largest growth of intraday reporting is with the Swiss Franc (29%) followed by the Chinese Renminbi (12%), the Euro (11%) and the British Pound (11%). Several currencies already demonstrate a much better coverage than the global average coverage of 55%: the Japanese Yen (66%), the Swiss Franc (63%) and the Euro (58%). Other large currencies, such as the American and Australian Dollar (53%), as well as the Chinese Renminbi (29%), are still below the average despite progress over the last year. [Image 8]

At country level, the largest growth in value is reported in Portugal, where growth exceeding 100% is explained by the fact that confirmations were also sent for non-SWIFT payments. Out of the top ten largest growth countries in terms of value, nine are European and one is an Asian country. [Image 9]

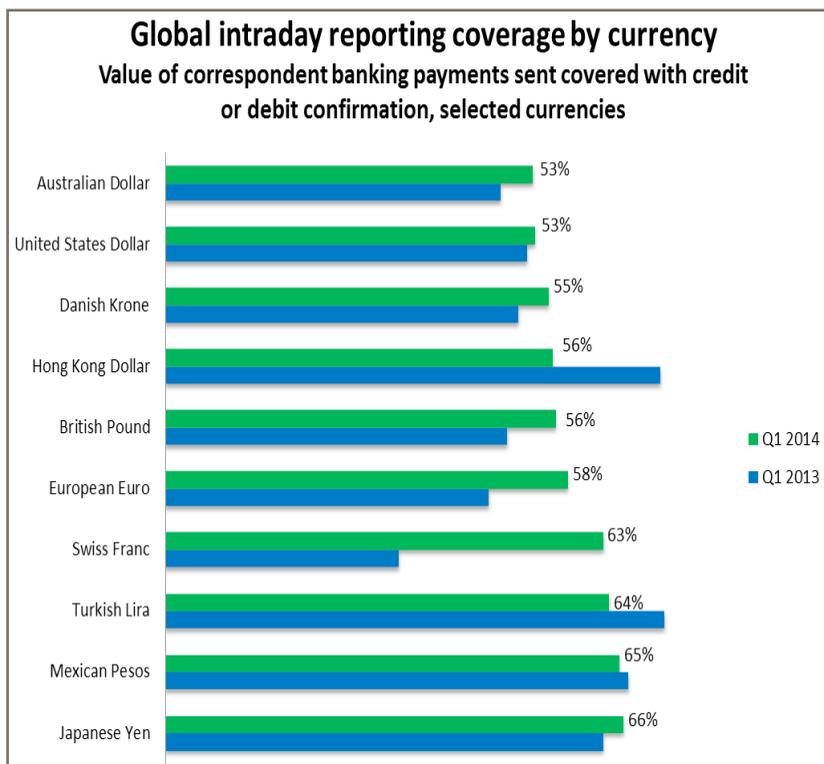


Image 8, Source: SWIFT Watch

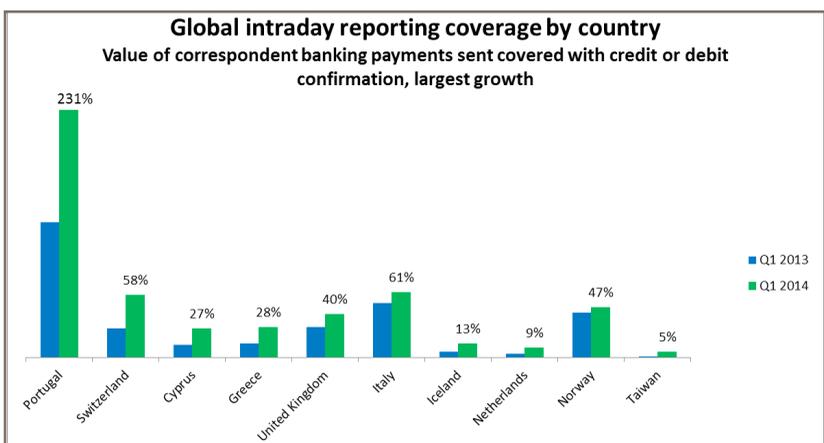


Image 9, Source: SWIFT Watch

Data centralisation

Over recent years, banks have started rationalisation projects for their correspondent banking network. Combined with better internal integration, this will help resolve data centralisation issues. However, in most cases this will prove very time and resource intensive. In the short term, other pragmatic and cost effective solutions might be envisaged. A messaging copy mechanism enables the group liquidity or treasury service to obtain the missing reporting flows. Depending on local regulation on data privacy, the copy may only contain part of the message data.

[Image 10]

Data aggregation

As a next step, the normalised data stored in a central transactional database will need to be aggregated according to the different requirements defined by both the home and the host regulators. The two highest keys for data aggregation will be the legal entity (i.e. with BIC to LEI matching) and the currency, which will have to be performed for both users and providers.

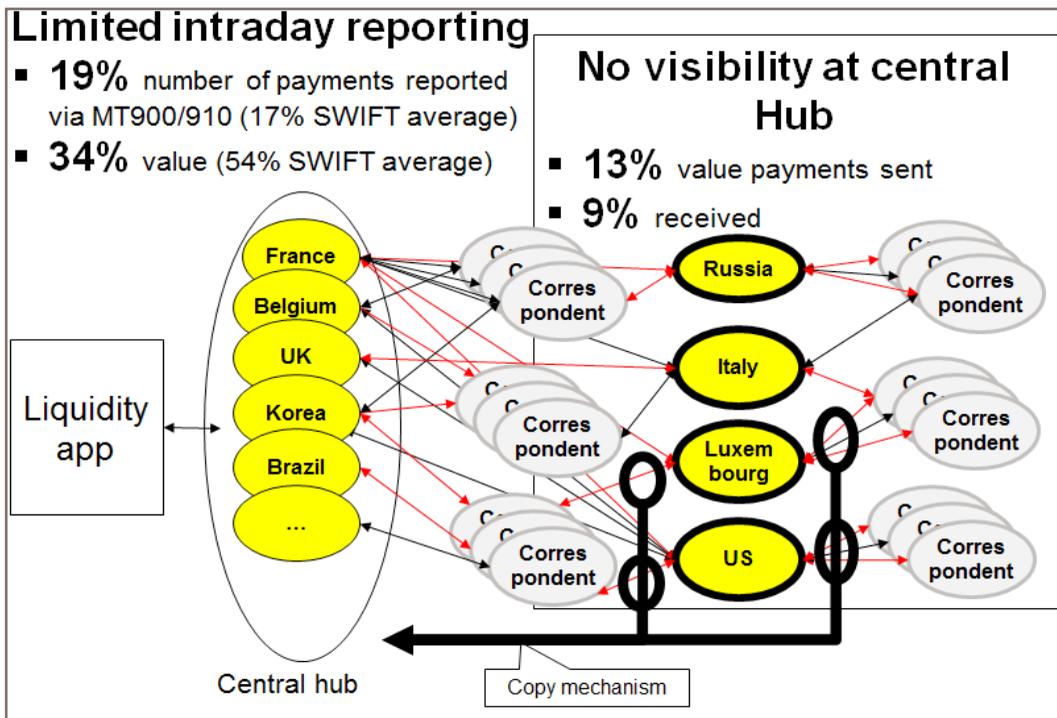


Image 10, Source: SWIFT Watch (desensitised data)

5. Industry collaboration

The industry as a whole will benefit from a collaborative approach to increase the pace at which progress is being made to resolve intraday liquidity data issues. Standardised intraday liquidity data will enable banks to ensure consistency and to reduce overall implementation costs, for themselves and for the industry.

Message business practices

Financial institutions have a common interest in enhancing current business practice for intraday liquidity reporting and in leveraging reciprocities.

The intraday liquidity reporting rule book developed by the Liquidity Implementation Task Force (LITF)¹⁰, with the support of SWIFT, is aimed at creating and supporting the adoption of a common industry business practice for intraday liquidity messaging. It provides common usage guidelines for the FIN message types that are most used by the industry (FIN Cat 9, complemented with Cat 5 messages). The same principles could easily be applied to ISO 20022 messages. The rules are aimed at resolving the issues related to the lack of liquidity reporting coverage, the timing and content of reporting. Over the past year, we have seen an increasing number of service users using the LITF rule book as a reference when issuing an RFP for intraday liquidity services from Nostro service providers.

Past experience with the implementation of similar regulation in specific countries also demonstrates the importance of extending the dialogue to Market Infrastructures in order to obtain the required level of intraday reporting. In some countries such as the UK, the banking community has formed a dedicated working group with their High Value Payments System to discuss how to reach the required level of transparency.

¹⁰. The LITF rule book has been developed with the contribution of 18 global and regional banks and 9 global broker dealers.

Standardised data approach for regulatory reporting

The industry has started to debate whether the message business practice could be extended to a standardised data approach to produce key regulatory reports, such as the liquidity and credit lines usage curves. SWIFT, together with a group of banks and broker dealers, has documented a first 'best practice' on data extraction, data matching and data aggregation to populate the intraday liquidity transactional database based on the LITF intraday reporting practice. Using a common approach at this level should help ensure consistency between the different entities of a group, between the service providers and the service users, and also help establish a constructive dialogue with regulators.

New services for service providers

Intraday liquidity is a scarce and expensive resource and is charged for accordingly by service providers. New payable payments services such as "timed payments" may develop further, giving customers (both financial institutions and corporates), a more active role to play to optimise their payments schedule, select the adequate clearing and settlement channel, and indicate the criticality of specific transactions where needed. Customers may also increasingly be requested to pre-notify very large payments close to the system's cut-off.

In this context, and as a result of the new regulations, intraday liquidity reporting is becoming an integral and more competitive part of the service provider's product portfolio. Large clearing banks are already adapting and are starting to promote their capabilities. Examples include new services for smaller financial institutions, including ready-to-use BCBS reporting offerings. On their side, service users may look for more tools to benchmark the available service offerings on the market.

Industry practice developed for intraday liquidity could be leveraged by service providers to lower the development costs and increase the benefits for their customers, especially for those using more than one account servicing institution.

A collaborative shared service

Collaboration could go beyond business practices and extend to the development of a shared service, hosted for the industry. All intraday liquidity reporting could be stored in a data repository at the time it is sent out by the service provider. Data collection, parsing and extraction would be done according to standard defined rules. Development related to more complex items, such as aggregation of the data collected in different time zones or related to different currencies, could be commonly defined and used at community level. Beyond the data, ready-made reports, including the calculation of the BCBS measures, as well as daily visual monitoring tools that would allow the participants to take any necessary corrective measures where needed, could be made available. Access would of course need to be fully secured. This model could represent a highly effective way to reduce overall industry implementation costs. The data gathered could also potentially be reused for other regulations and other purposes.

6. Conclusion

The new BCBS intraday reporting obligation places banks' existing data models under great pressure. The BCBS intraday tools are one of a number of regulations which are aimed towards achieving greater transparency at the transactional level. Precise implementation of these frameworks will vary from one country to another and will evolve over time.

Practical implementation models will have a significant impact on the scale of overall costs for the industry. This is why banks should start adopting a pragmatic approach at individual level now, and contribute to industry-wide collaborative efforts to ensure cost effective and sustainable implementation models and solutions, to achieve the necessary longer term scalability and adaptability across market segments.

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