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

ECB – Money Market Contact Group
Tuesday, 14th March 2017
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Regulatory roadmap

- Principles for Sound Liquidity Risk Management and Supervision
- Consultation on liquidity risk and survival periods
- Strengthening the Resilience of the Banking Sector
- International framework on Liquidity Risk Measurement, Standard and Monitoring
- Basel III: International framework for liquidity risk measurement, standard and monitoring
- Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools
- Monitoring tools for intraday liquidity management
- Delegated act on the liquidity coverage ratio
- Guidelines on common procedures and methodologies for the supervisory review and evaluation process (SREP)
- Guidelines on ICAAP and ILAAP information collected for SREP purposes
- Supervisory expectations on ICAAP and ILAAP and harmonized information collection on ICAAP and ILAAP (Annex A, Annex B, Annex C)
- Multi-year plan on SSM Guides on ICAAP and ILAAP
Accounting equation and liquidity framework

Intraday liquidity

Cash
Payments received
Current Assets (marketable)

LCR

Payments made
Current Liabilities

Operational liquidity management

Non current assets

NSFR

Long term liabilities
Equity

Funding and structural liquidity management

ALMM
Some definitions ...

“**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.”

“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.
Intraday liquidity in a nutshell

- 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.

Monitoring tools in a business as usual state

Stress testing exercise

14th March 2017. Intraday Liquidity management
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
Banks’ intraday liquidity stress testing

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.

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. **Costumer bank’s stress**
   Might be a costumer 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

14th March 2017. Intraday Liquidity management

**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.
Element 4 Block 1 – Supervisory perspective

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

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
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
SSM multi-year plan

11/2014 - 2016
“Traditional approach”

- 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.

2016 - 2017
“Supervisory expectations on ICAAP and ILAAP and harmonised information collection on ICAAP and ILAAP - (Annex A, Annex B, Annex C)”

- 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).

2017 - ...
“Multi-year plan on SSM Guides on ICAAP and ILAAP”

- 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!