Die Orchidee. Wunderschön und überall in der Welt zu Hause. Botaniker benannten bis jetzt 30.000 Arten.

Höchster Anspruch.
MMCG 26.09.2017 Intraday Liquidity

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Intraday Liquidity

Definition and sources and usage of intraday liquidity / intraday liquidity risk

- Intraday liquidity
  Funds which can be accessed during the business day, usually to enable banks to make payments in real time

- Intraday liquidity risk
  Risk that a bank fails to manage its intraday liquidity effectively, which could leave it unable to meet payment obligation on time, thereby affecting its own liquidity position that of other parties

- Sources
  - **Own sources**: Reserve balances at the central bank; collateral pledged with the central bank or ancillary systems that freely converted; unencumbered assets that freely converted into intraday liquidity; secured and unsecured, committed and uncommitted credit lines available intraday; balances with other banks that be used for intraday settlement
  - **Other sources**: Payments received from other LVPS (Large value payment systems) participants; payments received from ancillary systems; payments received through correspondent banking services

- Usage
  Payments made to other LVPS participants; payments made to ancillary systems; payments made through correspondent banking services; secured and unsecured, committed and uncommitted credit lines offered intraday; contingent payments

Source BIS
SREP (Supervisory Review and evaluation process) is basis for monitoring intraday liquidity since 2016

**Risk to capital ICAAP**
Capacity of the institution to bear capital risk
- Credit Risk
  - Counterparty Risk
    - Market and operational risk
    - Interest rate risk of the banking book

**Risk to liquidity and funding ILAAP**
Assessment of liquidity risk and the adequacy of liquidity sources to bear these risks
- Liquidity risk
  - Funding risk
    - Management of the above risks

**Business Model**
Assessment of the sustainability of each bank's set up
- Wide array of activities or focus on only a few lobs

**Governance and risk management**
Assessment of the organisational structure
- Monitoring managing bodies
  - Checking whether risks are managed properly
Main drivers of significant surplus liquidity in many banks

- Very generous liquidity provision through central banks
  - CBs worldwide have undertaken quantitative easing for several years without sterilizing the liquidity impacts
  - CBs have additionally offered very cheap long term funding that has been regarded as opportunity and many banks have engaged in pre-funding

- Monetary policy
  - Negative interests rates can hardly be completely passed on to customers; as some asset classes are now bearing negative yields some customers are just seeking alternative investment opportunities to avoid negative yields

- Regulatory changes
  - **LCR**: Even though full compliance is only requested as of 2018 many banks have built additional liquidity buffers and lengthened the duration of their liabilities
  - **NSFR**: Even though full compliance is not yet due and some elements are still not finalized many banks have undertaken enormous efforts to attract certain types of liabilities and to lengthen the duration of their liabilities
Course of intraday liquidity on Target 2 account

Intraday balance

Source: LBBW
Intraday liquidity shows current high surplus liquidity within LBBW group

Comment:
- **Target2-Account does not need any collateral**
- Due to the high surplus liquidity within LBBW group the Target 2 account has shown a positive balance since 8.12.2016
- Consequently the smallest average daily value has gone up to € 14 from € 2,6 bln in the last quarter

Overview intraday liquidity (bln. € if not mentioned differently)

<table>
<thead>
<tr>
<th>Quarter (Q1/2017)</th>
<th>Quarter (Q4/2016)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Usage: Smallest balance vs. unencumbered collateral (Ø &amp; max.)</strong></td>
<td><strong>Usage: Smallest balance vs. unencumbered collateral (Ø &amp; max.)</strong></td>
</tr>
<tr>
<td>Usage (in percent)</td>
<td>Usage (in percent)</td>
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<tr>
<td>surplus</td>
<td>surplus</td>
</tr>
<tr>
<td>Smallest balance</td>
<td>14,0</td>
</tr>
<tr>
<td>Un-encumbered collaterals</td>
<td>15,4</td>
</tr>
<tr>
<td><strong>Intraday volumes: Volumes Payments effected ((Ø &amp; max.))</strong></td>
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</tr>
<tr>
<td>Payments effected</td>
<td>Ø</td>
</tr>
<tr>
<td>Volume payments effected</td>
<td>-11,9</td>
</tr>
<tr>
<td>thereof savings banks</td>
<td>-0,8</td>
</tr>
<tr>
<td><strong>Payment time:</strong> time at which 50 % of all payments in/out were booked</td>
<td><strong>Payment time:</strong> time at which 50 % of all payments in/out were booked</td>
</tr>
<tr>
<td>50% payments out (time)</td>
<td>Ø</td>
</tr>
<tr>
<td>10:11 am</td>
<td>10:48 am</td>
</tr>
<tr>
<td>12:02 pm</td>
<td>12:31 pm</td>
</tr>
</tbody>
</table>

1 This amount can intraday be increased up to € 10 bln. without any additional request; any further increase needs special approval from Collateral Management
2 Main bulk of the pre-funding is related to CCPs

Source LBBW
Intraday liquidity shows current high surplus liquidity within LBBW group

**Comments**

- **Target2-Account does not need any collateral for the second quarter in a row**
- Due to the high surplus liquidity within LBBW group the Target 2 account has shown a positive balance since 8.12.2016.
- The smallest average daily value increased again from 14 to 20.5 bln € during the second quarter

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**Overview intraday liquidity**

**Bln. € (if not mentioned differently )**

<table>
<thead>
<tr>
<th></th>
<th>Quarter (Q2/2017)</th>
<th>Quarter (Q1/2017)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Usage:</strong> Smallest balance vs. unencumbered collateral (Ø &amp; max.)</td>
<td>Ø</td>
<td>Max. 05.07.2017</td>
</tr>
<tr>
<td>Usage (in percent)</td>
<td>Aktiv</td>
<td>Aktiv</td>
</tr>
<tr>
<td>Smallest balance</td>
<td>20,5</td>
<td>15,9</td>
</tr>
<tr>
<td>Unencumbered collateral</td>
<td>13,6</td>
<td>13,8</td>
</tr>
</tbody>
</table>

| **Intraday volumes:** Volumes Payments effected (Ø & max.) | Ø                          | Max. 28.04.2017 |
|----------------------------------------------------------------|---------------------------|
| Volumen payments effected                              | -12,4                     | -25,7           |
| thereof savings banks                                   | -0,8                      | -3,2            |

| **Payment time ²:** time at which 50 % of all payments in /out were booked | Ø                          | Theoretical Pre-funding² |
|---------------------------------------------------------------------------|---------------------------|
| 50% payments out (time)                                                   | 09:59 am                  | 01:56             |
| 50% payments in (time)                                                    | 11:55 pm                  | 12:02 pm          |

1 This amount can intra day be increased up to € 10 bln. without any additional request; any further increase needs special approval from Collateral Management

2 Main bulk of the pre-funding is related to CCPs.
Intraday liquidity

Conclusion

Sources of intraday liquidity
- Unencumbered assets that can freely be converted in liquidity e.g. LCR / NSFR / ASF portfolios
- Balances on wholesale / retail accounts
- Term funding through deposits
- Credit lines

Costs of intraday liquidity
- Funding costs for all type of assets
- Funding costs for balances on accounts
- Funding costs for deposits
- Charges on CB / nostro accounts
- Provisions for credit lines
- Balance sheet costs

Intraday liquidity is created through various channels and its cost is determined by several factors of which not all can be distributed properly to the relevant LOBs especially in the current environment.