Banca d’Italia Back Office

Tasks, systems
and crisis impact on operativity

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Contents

- Reorganization of Central Bank Area
- Investment Department Back Office tasks
- IT systems supporting Back Office activity
- Impact of financial crisis on the Back Office
What’s new?

• Concentration of the investment function
  – Euro and currency investment transactions carried out in the same department
• Increased segregation between monetary policy and reserve management
  – Different departments
• FX operations together with monetary policy
Reorganization 2

- BO: what happened?

  • Former BO split into two different BOs:
    
    - Investment Department (Reserve management - including collateral management – MIC related activities, others)
    
    - Central Bank Operations Department (Monetary policy, FX, M.P. collateral management)
Banca d’Italia Back Office tasks:

- Pre-settlement (trade check and confirmation)
- Settlement (instructions to depositaries and correspondents)
- Reconciliation
- Other
Pre-Settlement

- For foreign currency reserves:
  - Checking of FO trade tickets against transaction data in internal systems;
  - Matching of trade confirmations received from counterparties (Swift, fax, Bloomberg, email);
  - Sending of trade confirmations to counterparties (Swift, fax, telex)

- For Euro reserves:
  - Matching of trade confirmations received from counterparties (fax, email);
  - Sending of trade confirmations to counterparties (fax, email)
Settlement

- For foreign currency reserves:
  - Sending of settlement messages to Banca d’Italia correspondents and custodians (Swift)
  - Monitoring of ‘pending’ instructions on CDs
  - Real time handling of any problems that may occur

- For Euro reserves:
  - Transmission of trade details to Banca d’Italia - Milan branch (internal mail system)
  - Milan branch instructs Monte Titoli for settlement (RNI – Interbanking National Network)
Reconciliation

- For foreign currency reserves:
  - Real-time manual check of credit/debit receipt/delivery advices (USD)
  - Quasi-automated checking of correspondent and custodian statements of account against data held in IT systems (Corona, office automation tools)
  - Management of exceptions (settlement errors)

- For Euro reserves:
  - Checking of statements of account (this usually happens the next day) against data in SAP
  - Management of exceptions (settlement errors)
Other tasks

- Collateral monitoring and management
- Execution of sundry payments
- Preliminary check of accounting data
Financial Investment B.O. Systems

a) **Foreign Currencies:**

- FO transaction data
- SAP (Accounting)
- S.I.E. Sistema Informativo Estero
- Reconciliation Tool (Corona)
- S.W.I.F.T. Network

b) **Euro** – SAP and Office Automation Tools (Excel)
Extension of WSS WallStreet Suite to Back Office and accounting activities (fx reserves only)

- WS currently used only as a Front and Middle office application for non-Euro reserve management
  - State of the art: advanced negotiation with WSS
  - Expected implementation start date: before end of 2009
But…

- Issues still to be solved
  - Different workflow for euro and non-euro denominated transactions
  - High level of manual processing for euro transactions

- Envisaged solution
  - Extension of WSS WS to Front, Middle, Back Office and accounting also for Euro reserve management
    - State of the art: working group already on feasibility study
Financial crisis

- Scenario
  - Strong demand of liquidity from commercial banks
  - Lack of confidence among operators
  - Deterioration of the quality of banks’ assets

- Central Banks response
  - Massive use of open market operations
  - TAF (Term Auction Facility)
  - MIC (Interbanking Collateralised Market)
  - Swap of securities with Banca d’Italia
Operational implications

- Large increase in transaction volumes (Monetary Policy, MIC, Swap of securities)
- Increased level of operational cooperation among Central Banks
Back Office Implications

- Financial Investment BO
  - New activities (MIC, securities swaps), related collateral management and settlement

- Monetary Policy BO
  - Increase in transaction volumes and changes in standards for eligible collateral put pressure on collateral management procedures (pricing, settlement)
Question Time