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Intra Day Liquidity Management

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Introduction - Setting the scene

Basel “Principles of Intra Day Liquidity”

Data, data, data.....

Issues around the collateral we need to hold

Summary - Principal practical issues

Setting the scene

What are the intraday day obligations of a commercial bank like RBS?

- We are direct participant in several major currencies, and indirect in most others
- This means > 150,000 SWIFT payments daily going through our systems...plus retail flows
- In terms of payment values....including CLS...likely to be > eq \$ 750bn daily across all currencies...and we're not the biggest!!
- Securities values e.g. Tri-party repo, equity and bonds settlements etc., similar size again for both proprietary and customers

How is this managed and controlled?

- For our larger currencies, GBP, EUR, USD – teams monitor flows intraday locally
- Secondary currencies managed by close monitoring of flows across nostro accounts
- Well organised nostro reconciliations teams across the globe identifying fail and position breaks deliver results in timely manner

How is collateral allocated?

- Good understanding of our intraday flows and profile
- Increasing quality of historic data proving the above
- Always considering impact of usage, eligibility criteria and costs
- Segregated from and additional to other regulatory liquidity buffers

BASEL Principles

Principles for sound liquidity management and supervision

“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.”

*Basel Report
September 2008*

BASEL Principles – 6 Operational Elements

1. Capacity to measure/ forecast daily inflows and outflows

- Understand net shortfalls, business needs
- Understand rules of payment systems

2. Ability to monitor intraday positions against available resources

- Helps identify minor problems, blockages etc. before they become major
- Control flows to ensure no undue exposure to the system

3. Arrange to acquire sufficient intraday funding to meet the above

- Use of central bank facilities for intraday credit
- Use of customer collateral where given

4. Ability to manage and mobilise collateral operationally

- Ensure bank knows timeframes for local, cross border movements

5. Be able to manage outflows of key customers, using credit where needed

- Ensure robust credit procedures for customers i.e. timely referrals

6. Be prepared to deal with unexpected disruptions

- Internal escalation and awareness
- Impact on market, customers

Data, data, data.....

Access to intraday data now crucial for own use and for regulatory returns:

- Need capability to prove our flows and for modelling scenarios
- Complete suite of data needed, including collateral, central bank balances, ancillary payments

Need to have historic data showing a direct participant's central bank balances:

- In the UK, industry working with Bank of England to provide centrally managed and shared database
- Can other central banks assist in a similar way?
- But not best suited to provide data to indirect participants

Need to have historic and intraday data where a bank is an indirect participant:

- Can nostro agents provide this now?
- Need to include opening balance, book transfers

What do commercial bank's internal systems look like?

- Can they provide internal data to give to customers showing their balances?
- Do the systems help identify users of liquidity – real-time?
- If charging for intraday liquidity becomes the norm, does the data and system allow this efficiently?
- Can we spot changes in behaviour...such as payments being made later?
- Vendors keen to step up and deliver packages

Collateral issues

To maintain the new regulatory liquidity buffers, banks need plenty of collateral:

- Differing eligible collateral criteria for each regulator.
- In a real stress scenario, what is really liquid? Government bonds?

High quality collateral is expensive:

- Will this drive charging for use of collateral on a global scale? Already in place in some countries.
- Liquidity saving mechanisms in RTGS systems already developing, notably Japan, UK
- Banks need to maximise use of it...global collateral pools?
- Industry participants looking to assist and develop products e.g. Euroclear.

Payment systems worked well in the 2007/8....why?

- Systems were generally well collateralised and controlled.
- Participants and central banks worked together to ensure payments settled.
- Resilience is a major factor, and a strong selling point for payment banks.

....and this was without specific intraday liquidity regulation....

Summary –Principal practical issues

- Trend is for fewer, but larger payment banks – systemic and operational risk needs managing
- Costs of collateral increasing – eligibility criteria narrowing so efficiencies in liquidity usage sought
- Credit appetite across banks not recovering from pre- 2007/8 levels
- Urgent need for development of data sources for intraday and historic analysis
- Regulation increasing – need for consistent global approach

An efficient, cost effective, secure payment infrastructure is in the interests of all participants of the financial industry.

To achieve this, central banks, regulators, providers, commercial banks and their customers need to work together, understanding mutual drivers and pressures.