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Intra Day Liquidity Management

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Intra Day Liquidity Management

- **Figures and stats**
- **Principles of Intra Day Liquidity**
- **Issues to manage – normal and stressed**
- **Future regulation**

Intra Day Liquidity - statistics

CHAPS:

- **Average daily values in 2008 £289 bln - about 140,000 transactions (peak 244,000)**
- **Market supplies up to £18 bln of collateral to support these flows**

EUROCLEAR UK&I:

- **Daily turnover of around £1.3 trln bln daily – 276,000 transactions daily**
- **Deliveries By Value (DBV) gilt and equities settlements of £250 bln daily**

EUROCLEAR FRANCE:

- **Daily turnover of approx €276m – 126,000 transactions daily**

TARGET2

- **Average daily values €2,667 bln – about 370,000 transactions**

CLS:

- **Settles over $ 3 trillion of FX deals daily - peak day $ 8 trln**

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 08

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 not 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*

BASEL Principles – 6 operational elements

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

Managing normal and stress

- **Poor control of a Bank's payments can lead to negative market perception…and multiplied many times in stressed scenarios**

- **Important to keep payments flowing – "scheduling" systems can monitor flows in and out**

- **Need to provide consistent service to your customers**

- **How to work out a 'normal' collateral requirement?**

- **How much collateral is needed in stressed environment? Whose stress? Market/ proprietary/ customer?**

Future regulation

- FSA and global regulators are targeting intraday liquidity - CP08/22 etc.
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  - Throughout the crisis period the payment systems have performed remarkably well…
  - Highlights the need to ensure regulators understand what they are trying to regulate
  - Important to avoid unintended consequences e.g. as in the US Fedwire

- Seeking more collateral from both payment providers and customers

  - Will this help? What does this mean for existing infrastructure?
  - Will this drive intraday liquidity charging?

- Consultation papers highlight the need for more/ better data to support assumptions/ tests

  - Banks don't tend to store intraday data so development needed

- Escalation and senior management understanding

  - Ensure our senior executives understand the flows and risks being managed
  - Include incident and contingency procedures fully documented

Any questions?

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