

Intraday liquidity management & regulation

By Christian Schiebl, EVP of Corona Business Unit at SmartStream

From 1st January 2017, large, internationally active banks will have to submit monthly reports to regulators providing evidence that they are managing intraday liquidity positions and risk effectively. Gathering the information needed is complex and time-consuming but technology can assist financial institutions to achieve BCBS 248 reporting goals. Sophisticated new IT systems, he suggests, can also provide institutions with clearer visibility of cash positions and, additionally, have the potential to drive down intraday liquidity management costs, enhancing firms' competitiveness.

The start of 2017 sees the deadline for meeting the Basel Committee on Banking Supervision's (BCBS) 248 requirements for reporting intraday liquidity positions. Banks will have to file monthly reports with local regulators in each country and currency in which they operate. This information will allow regulators to check that firms are adhering to the objectives of BCBS 144 ("Principles for Sound Liquidity Risk Management and Supervision"). Financial authorities will, in particular, be keen to see that firms are sticking to the tenets of Principle 8, which sets out the need for banks to actively manage their intraday liquidity positions and risk so as to meet payment and settlement obligations, on a timely basis, under both normal and stressed conditions.

Commentators have raised questions, however, as to whether banks will be ready in time and there are concerns that financial institutions, faced by budgetary constraints and the need to comply with other pressing regulatory demands, are lagging behind with BCBS 248 implementation.

Financial institutions, in the author's view, are

now far better informed about BCBS 248 reporting than at the start of 2016. There is a clear global push towards implementation although the degree of readiness varies across jurisdictions. This is in part due to the fact that certain national financial authorities have chosen to take a tougher line than others. The picture is further complicated as some local regulators have not yet issued final reporting requirements.

Producing BCBS 248 reports is a complex task and financial institutions must gather a large volume of real-time information from clearing systems (in the case of direct participants) or, (in the case of indirect participants), from correspondent banks.

Indirect participants face a particular challenge in that they require time stamped intraday data from correspondent banks. Few correspondent banks currently provide such information, making accurate reporting extremely difficult. Clearly, this state of affairs needs to alter. A switch away from end-of-day to intraday messaging is technically possible: Swift MT 900 and MT 910 confirmations of debit and credit transactions already include an optional timestamp field. Intraday messages are, however, relatively expensive to receive and so customers generally opt for end-of-day messages. If change is to take place, correspondent banks must find a way of providing low cost intraday messaging.

Effective BCBS 248 reporting is greatly assisted by financial institutions having the appropriate IT systems in place. The technology generally in use at banks, however, is not necessarily as helpful as it could be. Liquidity management systems usually operate on an end-of-the-day basis and so firms



September 28, 2016: Banque Saudi Fransi (BSF), a leading provider of banking products and services, headquartered in the Kingdom of Saudi Arabia, selects SmartStream Technologies Corona Cash & Liquidity solution. Pictured left to right: Mohammed Egily (Info System Group Back Office Department Manager, BSF); Rudolph Schnepf (Solution Director, SmartStream); Saadoun Al-Saadoun (Operations Group Head, BSF); Anji Al-Jaroudi (Financial Institution Head, BSF); Haytham Kaddoura (CEO, SmartStream); Christian Schiebl (EVP, SmartStream); Khaled Al-Toukhi (Chief Innovation Officer, BSF)

do not have clear, up-to-the minute visibility of the outflow and inflow of funds. Additionally, they lack centralised tools relying, instead, on separate systems to manage, monitor and report on intraday liquidity.

Managing intraday liquidity on an end-of-day basis has a number of economic implications for financial institutions. It can leave banks facing gaps in liquidity, obliging them to turn to credit lines and therefore also needing to make use of expensive collateral. Furthermore, it prevents a clear understanding of what the payment of funds actually costs.

In 2014, Raiffeisen Bank International, a long-term user of SmartStream's Corona solution, sought to respond proactively to the forthcoming BCBS 248 regulation, even though Austrian regulator, the FMA, had not set a deadline for its reporting requirements. The bank saw this as an opportunity to improve their intraday visibility and gain operational advantage. The bank partnered with SmartStream's Vienna-based product development team on enhancements to Corona Cash, a collaboration which resulted in the creation of SmartStream's Corona Cash and Liquidity application.

Other financial institutions have taken advantage of the newly developed technology, too. Banque Saudi Fransi in Saudi Arabia implemented Corona Cash and Liquidity in September 2016, while Dutch financial institution, Bank Mendes Gans, is also set to go live.

Strong interest in the solution is currently being shown by a number of other banks. This, the author believes, is driven by several factors. Firstly, the solution enables efficient regulatory reporting as defined in the Basel III BCBS 248 specification. The solution allows reliable and accurate reports to be produced, using reconciled data, a critical factor given that reports must be submitted to regulators and should be based on "trusted" data.

Secondly, the technology provides a centralised view of cash positions and therefore greatly enhanced visibility of liquidity. Following its recent implementation of Corona Cash and Liquidity, Bank Mendes Gans – which handles 500,000

transactions per month and has a large number of correspondents – is able to monitor all transactions with correspondent banks, in multiple currencies, and in real time.

Clearer visibility of cash positions has an important economic upside: liquidity can be managed more effectively, with far fewer gaps, thereby reducing the use of credit lines and so lessening the need for expensive collateral. Anecdotal evidence from one client indicates that, following its installation of Corona Cash and Liquidity, the bank may eventually be able to reduce its collateral buffer considerably.

A centralised database enables Corona Cash and Liquidity to support not only BCBS 248 reporting but intraday monitoring and management of cash positions. In addition, different teams – each with their own view – can work simultaneously on the same data set. The ability to carry out these activities using one centralised tool removes the need for investment in separate software or infrastructure and minimises the risk that discrepancies arise through the use of multiple systems.

Importantly, Corona Cash and Liquidity is natively multi-tenanted. It provides one global, enterprise-wide view of liquidity but can be used by numerous legal entities. This characteristic has allowed Banque Saudi Fransi, for example, to create both a Centre of Excellence to serve its own operational needs and also to offer a valuable service to corporate clients.

In conclusion, BCBS 248 should not be treated as a box-ticking exercise but should be regarded as an opportunity to gain greater control over intraday liquidity and, in doing so, cut overheads and create economic opportunities. Critically, not having proper visibility of intraday liquidity can have disastrous consequences as the lesson of Lehman Brothers – undone by its inability to control intraday liquidity – so clearly teaches. ■


 The logo for SmartStream features a stylized orange and yellow wave above the company name "SmartStream" in a bold, sans-serif font.

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