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The Impact and Ramifications of Intraday Liquidity Management

Written by Gita Seshadri

The 2008 financial crisis was arguably the worst economic downturn since the Great Depression. Results from annual Basel III liquidity monitoring exercises have revealed that despite some unintended consequences, from the flurry of regulations that followed, there have been many positive outcomes, which include for example, year on year improvements in capital and liquidity reserve levels at Financial Institutions which in turn collectively improves the stability of the financial system as a whole.

At a Financial entity level, optimal management of intraday liquidity, near real-time reconciliation of payments and receipts with same day updates of books and records can have tangible balance sheet impacts. *For instance moving call notices on cash collateral issuance from two days to same day can rake* ***in several hundreds of basis points in savings****.*

The importance of Intraday Liquidity Monitoring cannot be stressed enough

- Principle 8 of the Basel Committee on Banking Supervision (BCBS) highlights the importance of intraday liquidity management for the "**smooth functioning of payment and settlement systems**".
- BCBS 248 outlines 7 monitoring tools that need to be built to forecast, monitor, manage and report on intraday liquidity.

Sounds easy, right? Regulatory guidance is welcome but for conformance there is a need to effectively manage risk data. The challenge lies in tracking down the right data at the right time and presenting it visually in near real-time. This ensures that:

- Accurate Intraday position views are built.
- Short-term and Long-term liquidity needs can be fulfilled.
- Appropriate strategies for liquidity optimization can be built for revenue generation.

An intensively Data-driven Exercise that has to be run intraday, everyday

Reporting liquidity at the aggregate and entity level calls for massive co-ordination across business lines, product teams, business and legal entities spread across various jurisdictions and time-zones. Data that drives this exercise includes time-stamped transactional level data, Legal Entity Identifiers (LEIs), Account balances/debits/credits related data, Collateral data, Data related to Funding sources and their availability, daily peaks and troughs in inflows and outflows counterparty data, currency data and time-specific related data which spans across multiple jurisdictions.

Stay tuned to Part 2 of this blog that sheds insights into how powerful calculation engines and monitoring tools introduce elements of automation to not only churn out liquidity

ratios, identify funding shortfalls and concentration risks and other foreseen and unforeseen risks in normal or stressed circumstances, but also increase operational efficiency along this journey across the value chain.

About the Author

Gita Seshadri is a Solutions Architect, in the Risk and Treasury Management space, at Intellect. She is an accomplished practitioner with over 15 years of experience in the Capital Markets and Banking arena. She has been focusing on compliance and regulatory issues for several years and has lead large programs linked to a wide range of regulatory legislation including The Dodd Frank Act, Basel II/III, FATCA, ESA Cost basis reporting and BSA/AML. She has architected technology enabled solutions across the trade life cycle: pre-trade to post-trade encompassing front, middle and back office operations. Over the course of her career she has participated in various product engineering initiatives from conceptualization to go-to-market stages, including rolling out Early Risk Warning Systems, US Banking CAMELS rating and reporting, Emerging markets pricing and corporate actions services, enterprise risk management and best execution frameworks, smart order routing, low latency and hardware acceleration solutions, reference data models, portfolio accounting, cash management and reconciliation for separately managed accounts (SMA).

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