Managing Intraday Liquidity in the modern-day regulatory landscape

Written by Gita Seshadri

Broadly, BCBS 248 provides guidance for banks to get a better handle on their intraday liquidity risk across all accounts in order to meet payment and settlement obligations in a timely manner under all circumstances. Regulators are essentially saying "tear down those silos, report to us monthly on your daily maximum intraday liquidity usage, your start of day available intraday liquidity, total payments...collect statistics daily, run a few arithmetic operations and provide us the results on a monthly report".

The Devil is in the details or rather in the data. Data, at the transactional level, has to be gathered intraday from across business lines, systems, accounts and currencies on a daily basis. This data aggregation effort needs to be extended to all the other branches, accounts and legal entities. This aggregated data needs to be reported on a periodic basis by system and by significant currency. Regulators are demanding the ability to navigate through the data lineage of every report. Amidst all these complexities, risk managers still need to actively search for intraday optimization opportunities.

Major business & technological needs of treasurers and risk managers in the Intraday liquidity management space

Conformance to BCBS 248 intraday liquidity risk management requirements include the ability to actively monitor, manage intraday liquidity risk in near real-time in order to meet payment obligations in a timely manner. Data has to be captured intraday at the transactional level from across organizational and functional silos, consolidated, and reported on a monthly basis to regulators.

Banking correspondents should have the ability to deliver data in real-time to their correspondent bank customers. Respondents in turn should be equipped to:

- Receive the data in real-time from across various channels in multiple formats (eg. SWIFT MT950/900/910, Fedwire etc.)
- Monitor bi-directional cash flows and updates to actual and projected balances on intraday dashboards as Start of Day, intraday and End of Day Reconciliation runs in the background

Major pain-points faced by financial institutions while adopting Intraday Liquidity Management Systems

Data Aggregation and Consolidation Challenged faced by banks:

- Data aggregation across organizational and functional silos at the transactional level that includes time stamps, entity data, counterparty data, currency data, account credits and debits, actual and forecasted data and many other elements depending on the category of reporting required.
- Not only does monitoring and analyzing streams of cash flow transactions in near real-time present practical challenges, but stochastically analyzing the drivers and

other details behind those transactions and running forecasts on them present additional technical challenges.
- Data harmonization across global entities, across jurisdictions, time zones and generating reports in accordance with local and international regulatory requirements, is yet another inherently major challenge to be reckoned with.

Data and Systems integration challenges: Traditional batch driven processes and legacy systems pose challenges in this new paradigm of near-real-time reporting. Being unable to scale up to the requirements can not only present additional risks but also result in lost opportunities as well.

Salient Characteristics of an ideal Intraday Liquidity Management Solution, which can resolve the needs of decision makers and cater to the pain-points faced by banks/financial institutions:

- It should have the capability to be componentized to supplement or complement existing IT infrastructure and systems
- It should accept data from multiple channels and formats
- It should support real-time processing and visualization
- It should offer intraday reconciliation capabilities
- It should possess the ability to integrate with upstream, downstream, internal and external systems seamlessly across the ecosystem that includes or supports limits, collateral management, reconciliation, payments, funding, cash management systems. This helps in providing a 360 degree integrated view of transactions and positions
- It should have the ability to generate Liquidity Reports/ Graphs in the system without Manual Intervention
- It should have Liquidity projection capability
- It should provide Contingency Fund Planning support to tackle unforeseen liquidity crunch situations
- It should provide automated liquidity reporting
- It should have the capability to automate payment scheduling and releases
- It should enable Historical Trend Analysis

Is there an ideal solution in your mind or are you working along similar lines?

The ideal solution is a componentized offering accessible anytime, anywhere (on the Cloud), with the ability to integrate into a firm's existing infrastructure in a non-disruptive manner. The system's underlying architecture and data models should be scalable and flexible to accommodate changing business and regulatory needs, provide transparency from a national or global level down to the transactional level.

Share your views on the critical business enabling benefits offered by the ideal solution which differentiate it in the marketplace

Ideally the solution should provide benefits beyond conformance. The system should bridge the nexus and connect the dots between Treasury, Trading, Finance and Risk Management. The solution that offers real time processing capabilities, integrated views of cash and exposure, dynamic forecasts of cash, not only detects potential liquidity squeezes but also helps address it by analyzing optimal funding costs to mitigate the shortfall, minimize uninvested cash while at the same time maximizing yields on investments in a risk controlled environment thereby providing the most bang for the buck.

The investment in BCBS conformance should not only be used for managing liquidity risk but also for increasing operational efficiencies, optimizing liquidity and funding strategies and supporting revenue generating activities as well.

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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