

Intraday Liquidity Management and Reporting: The Business Case

The SWIFT Institute invites proposals for research on the business case for intraday liquidity management and reporting.

Effective management of intraday liquidity has never been more important. The financial crisis highlighted fundamental weaknesses in the liquidity risk management of banks across the globe. This raised concerns among regulators about the ability of financial institutions to cover their payment obligations, particularly during periods of market stress.

The result is an increased focus by global regulators on liquidity risk, including banks' ability to effectively manage their intraday liquidity risk. In April 2013, the Basel Committee on Banking Supervision (BCBS) published a set of monitoring tools that focus on intraday liquidity monitoring and reporting. The monitoring tools set out in the BCBS paper require banks to assemble the necessary data to enable supervisors to have sufficient information to monitor banks' intraday liquidity risk, and their ability to meet payment and settlement obligations on a timely basis, under both normal and stressed conditions. This reporting comes on top of the two liquidity ratios defined as Basel III obligations put forward by the BCBS because the Liquidity Coverage Ratio (LCR) does not include intraday liquidity within its calibration.

Although the reference of the BCBS to Principles 8 of Basel II implies that banks should manage their liquidity flows in real-time, some communities and institutions are rather looking to implement the reporting on a fully retrospective basis at the lowest cost possible. They seem to believe there is no business case for the necessary changes to their operational processes. This assumption is based on the fact that current BCBS reporting obligations on intraday flows is retrospective.

Is this short-sighted, as national regulators could, say in the UK or US, require banks to also provide evidence of real-time management of their liquidity? Beyond the potential costs of non-compliance with the required reporting in the different impacted jurisdictions, what is the effective financial business case of managing liquidity in near real-time?

Research proposals should focus on the idea of a business case for real-time liquidity management. Examples of the types of questions that proposals could address are:

- To what extent does real-time liquidity management help improve the payment flow control thereby reducing settlement issues and increasing the trading capability?
- Does real-time liquidity management lead to a reduced use of intra-day credit lines and what is the quantitative impact on the related interest costs?
- What challenges, if any, does the microstructure of different markets or trading venue pose for a successful implementation of real-time liquidity management?

CALL FOR PROPOSALS

- Does real-time liquidity management lead to a reduced need for emergency funding thereby reducing the related funding costs and risks especially during times of higher market volatility?
- To what extent does it help reduce the exceptions' turnaround time thereby decreasing the related interests or compensation costs as well as the exposure and reputational risks?
- What is the ultimate potential impact of real-time liquidity management on a bank's liquidity buffer?
- Can real-time liquidity management reduce the contribution of financial institutions to systemic risk? If so, what are the aggregated effects?
- To what extent does real-time liquidity reporting and management help reduce counterparty risk?
- What commercial considerations come into play? Is real-time management of liquidity a pre-requisite to enable banks to develop new timed payments services and charge their customers for the use of their intra-day liquidity?
- What are the implications of active and widespread intra-day liquidation management for the operation of the interbank market for intra-day funds? What existing and new financial instruments are most likely to play a role, and how will the pricing of intra-day and overnight funds be affected?

Grant & Working Paper

A grant of EUR 15,000 will be awarded to the author of the selected proposal. 50% will be paid immediately; the remaining 50% will be paid on acceptance of a working paper.

Proposal Submission

Please submit your research proposal as follows:

1. CV / bio including education, work history, research experience, publications, etc.
2. Description of your research project (2,500 words maximum) to include the following:
 - Objective of your research
 - Methods by which you intend to undertake your research
 - Timeframe by which you intend to complete your research
3. By email in MS Word or pdf.

Deadline: Proposals must be submitted no later than 25 March 2015.

Email: Send submissions to: nancy.murphy@swift.com