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Deputy Advisor Prudential Policy,  
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Ms. Li Wenhong  
Deputy Director General, Policy Research Department  
China Banking Regulatory Commission

Mr. Morten Linnemann Bech  
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Dear Mr. Janssens, Ms. Li and Mr. Bech:

**Re: Intraday Liquidity Monitoring Tools Terms and Definitions**

The global implementation of monitoring tools for intraday liquidity management (“Monitoring Tools” or the “Tools”)<sup>1</sup> is of crucial importance to the financial services industry and the international regulatory community. The Institute of International Finance (the “IIF” or the “Institute”) believes there continues to be a need for cross-border dialogue on implementation alongside standardization of data and definitions across the industry internationally, which we hope can be accomplished in cooperation with the Basel Committee on Banking Supervision (“Basel Committee” or the “Committee”), the Committee on Payments and Market Infrastructures (“CPMI”) and national authorities.

In June 2015, the IIF, alongside BAFT and the Clearing House, submitted a paper to the Basel Committee and the CPMI concerning the Monitoring Tools that outlined the challenges and outstanding issues relative to historical reporting and real-time management for direct and indirect clearing.<sup>2</sup> The paper offered recommendations on ways to better ensure global transparency and consistency in implementation. Recommendations on standardizing definitional terms for the monitoring of intraday liquidity were also presented for consideration in order to help foster such consistency across jurisdictions and financial institutions.

The definitional recommendations were presented as a glossary of terms for direct and indirect clearing and matched terms from the Monitoring Tools framework. They were developed by a joint working group of the IIF, BAFT and the Clearing House with input from market infrastructures and clearing and settlement service providers. Review was also undertaken to consider the structure of the definitions in light of other Basel standards (including the Basel III liquidity framework) alongside the FSB Data

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<sup>1</sup> Basel Committee on Banking Supervision; *Monitoring Tools for Intraday Liquidity Management*, April 2013, available at: <http://www.bis.org/publ/bcbs248.pdf>.

<sup>2</sup> IIF, BAFT, and the Clearing House: *Implementation Challenges, Outstanding Issues and Recommendations Regarding the Basel Committee Monitoring Tools for Intraday Liquidity Management*, June 2015: <https://www.iif.com/publication/regulatory-comment-letter/iif-baft-tch-submission-intraday-liquidity-reporting-and>

Gaps Initiative. The purpose of the glossary is to facilitate greater consistency and clarity in understanding of the terms outlined in the Monitoring Tools and to provide recommended definitions where terms are silent.

The IIF firmly believes common and clear definitions will aid in overcoming the data and transparency hurdles for reporting and management of intraday liquidity for both direct and indirect participants. As the glossary project is considered an iterative process, whereby definitions will continue to adapt as data, IT and infrastructure changes develop, the IIF has undertaken a further review of our suggested definitions and we have applied updates where appropriate. In the attached submission you will find a current term sheet with our suggested definitions as they pertain to intraday liquidity monitoring.

We have put forward only the terms we believe need a specific amendment (or in the case of silent terms, a specific new definition) to apply most effectively to the monitoring of intraday liquidity. We respectfully suggest these terms be considered for use in a Frequently Asked Questions (“FAQ”) document pertaining to the Monitoring Tools or be incorporated as an addendum or update to the CPMI glossary of payments and market infrastructure terminology.<sup>3</sup>

If the latter suggestion were to be adopted, including specific definitions for intraday liquidity in the CPMI glossary would greatly aid in furthering the glossary’s intent as a reference to the standard terms and definitions used in connection with payment, clearing, settlement and related arrangements. We note that where there is overlap in a current CPMI definition that is applied more broadly (rather than just in reference to the Monitoring Tools), arrangement should be made to standardize the suggested industry definition as specific to implementation of the Tools.

We believe that if the CPMI and the Basel Committee are able to provide consistent definitions where specificity is either missing or where terms are silent, this will assist both national authorities and cross-border financial institutions in implementing the Tools in the most effective and efficient manner on a global scale.

We look forward to further dialogue with you on this going forward. Should you have any questions, please do not hesitate to contact myself or Matthew Ekberg ([mekberg@iif.com](mailto:mekberg@iif.com)).

Very truly yours,

A handwritten signature in black ink, appearing to read "David Schraa", with a long horizontal flourish extending to the right.

David Schraa

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<sup>3</sup> CPMI Glossary: <http://www.bis.org/cpmi/publ/d00b.htm>

**Glossary of Terms for Direct and Indirect Clearing as they concern Intraday Liquidity Monitoring and Reporting**<sup>1</sup>

Direct/Indirect	Terms	Suggested Definition Pertaining to Intraday Liquidity Reporting and Monitoring
Direct	Large-value payment system (LVPS)	A funds transfer system that typically handles large-value and high-priority payments. In contrast to retail payment systems, many LVPSs are operated by central banks, using an RTGS or equivalent mechanism. For the purposes of intraday liquidity reporting, hybrid systems that have direct access to a RTGS system to draw or release liquidity (such as CHIPS and EURO1 or are part of a settlement system using commercial banks, such as RMB CHATS, USD CHATS) are considered ancillary systems for reporting systems and not in scope as a LVPS.
Direct	Direct participant	A participant in a large-value payment system that can settle transactions without using an intermediary. Banks can be a direct participant in a large-value payment system while using a correspondent bank to settle particular payments, for example, payments for an ancillary system.
Indirect	Correspondent Bank	A Correspondent Bank provides an arrangement under which one bank (correspondent) holds deposits owned by other banks (respondents) and provides payment and other services to those respondent banks. Such arrangements may also be known as agency relationships in some domestic contexts. In international banking, balances held for a foreign respondent bank may be used to settle foreign exchange transactions.

<sup>1</sup> The Glossary of Terms for Direct and Indirect Clearing was originally developed in 2015 by a joint working group of the IIF, BAFT and the Clearing House with input from market infrastructures and clearing and settlement service providers. Terms listed match terms from the Intraday Liquidity Monitoring Tools framework document published by the Basel Committee in April 2013. Review was also undertaken to consider the structure of the definitions in light of other Basel standards (including the Basel III liquidity framework) alongside the FSB Data Gaps Initiative. The purpose of the glossary, as stated in the accompanying letter, is to facilitate greater consistency and clarity in understanding of the terms outlined in the Monitoring Tools and to provide recommended definitions where terms are silent. The IIF facilitated this update of the glossary in 2016 to encourage review of these terms by the Basel Committee, CPMI and national authorities, as common and clear definitions will aid in overcoming the data and transparency hurdles for reporting and management of intraday liquidity for both direct and indirect participants. Adoption of the terms may be possible through a FAQ document published by the Committee or through adoption by the CPMI as an addendum or update to the CPMI glossary of payments and market infrastructure terminology, though this is considered an iterative process whereby definitions will continue to adapt as data, IT and infrastructure changes develop.

Indirect	Correspondent Banking Customer	A client of a Correspondent Bank, otherwise known as respondent bank, and limited to a bank unless specified otherwise by individual jurisdictional regulatory bodies.
Direct	Time-specific obligation	A payment which is due at a specific time (or before a specific cut-off) within the business day and where there would be a potential for systemic impact or breach of contractual arrangement if the payment were not made on time, as opposed to payments which are due on a value date without further deadline within the business day. Types of payments which are in scope include, but are not limited to, CLS TIMED payments, settlement for ancillary systems that are paid at specific times in the day from an LVPS account, TIMED payments and margin calls. Variations on these types of payments may exist across markets and jurisdictions. A direct participant's time critical obligations may include time critical payment obligations sent by the correspondent bank customers under a contractual agreement with the direct participant.
Indirect	Time-specific obligation	A payment which is due at a specific time (or before a specific cut-off) within the business day and where there would be a potential for systemic impact or breach of contractual arrangement if the payment were not made on time, as opposed to payments which are due on value date without further deadline within the business day. Types of payments which are in scope include, but are not limited to, CLSTIMED payments, settlement for ancillary systems that are paid at specific times in the day from an LVPS account, TIMED payments and margin calls, where the indirect participant has contractual service terms for time critical payment obligations with its correspondent bank. Variations on these types of payments may exist across markets and jurisdictions.
Direct	Business Day	The opening hours of the LVPS or of correspondent banking services during which a bank can receive and make payments in a local jurisdiction.
Indirect	Business Day	The opening hours of the LVPS or of correspondent banking services during which a bank can receive and make payments in a local jurisdiction.
Direct	Intraday Liquidity Risk	The risk that a bank fails to manage its intraday liquidity effectively, which could leave it unable to meet a payment obligation at the time expected, thereby affecting its own liquidity position and that of other parties.

Indirect	Intraday Liquidity Risk	The risk that a bank fails to manage its intraday liquidity effectively, which could leave it unable to meet a payment obligation at the time expected, thereby affecting its own liquidity position and that of other parties. The risk is borne by both the Correspondent Bank in the context of meeting its obligations and those of its clients and by the Correspondent Banking Customer.
Direct	Ancillary system	Ancillary systems include other payment systems such as retail payment systems, CLS, securities settlement systems and central counterparties and for the purposes of intraday liquidity monitoring and reporting can include hybrid payment systems and those using commercial banks for settlement.
Direct	Collateral Pledged	Collateral that can be used to generate cash for intraday liquidity at any time intraday. For intraday purposes, any collateral pledged is separate from overnight collateral calculations. For reporting purposes, the same collateral shall only be listed once.
Indirect	Collateral Pledged	Collateral that can be used to generate cash for intraday liquidity at any time intraday. For intraday purposes, any collateral pledged is separate from overnight collateral calculations. Any collateral posted at a third party becomes de-facto encumbered. For reporting purposes, the same collateral shall only be listed once.
Direct	Unencumbered Asset	An asset free of legal, regulatory, contractual or other restrictions on the ability of the bank to liquidate, sell, transfer, or assign the asset.
Indirect	Unencumbered Asset	An asset free of legal, regulatory, contractual or other restrictions on the ability of the bank to liquidate, sell, transfer, or assign the asset.
Direct	Credit lines	An intraday line of credit extended for the purposes of settling payments for a period of less than one business day. These intraday credit lines may be provided by central banks (committed and secured through central bank intraday liquidity facilities) or ancillary systems (committed or un-committed, secured or unsecured).When collateral pledged (daily repo) is used to obtain intra-day credit, it should not be double counted as a liquidity source.
Indirect	Credit lines	An intraday line of credit provided by a correspondent bank (committed or un-committed, secured or unsecured) that is extended for the purposes of settling payments.

Indirect	Internalized Payment	A payment which is made between two customers' accounts within the same correspondent bank. (Otherwise known as a book transfer). These payments are relevant for intraday liquidity reporting from the perspective of the correspondent bank customer as they impact their available balance with the Correspondent Bank.
Direct	Net Cumulative Position	The net running balance of all payments made and received during the day over their settlement account, either with the central bank (if a direct participant) or over their account held with a correspondent bank (or accounts, if more than one correspondent bank is used to settle payments) The net position should be determined by settlement time stamps (or the equivalent) using transaction-by- transaction data over the account(s). The three daily peak positive and peak negative net cumulative positions are reported along with the average daily peaks positive and negative net cumulative positions. The average positions are calculated based on a mean average of daily peak positive and peak negative net cumulative positions. The range of business days considered in calculating the average should only include business days.
Indirect	Net Cumulative Position	The net running balance of all payments made and received during the day over their settlement account, either with the central bank (if a direct participant) or over their account held with a correspondent bank (or accounts, if more than one correspondent bank is used to settle payments) The net position should be determined using settlement time stamps (or the equivalent) for the transactions processed over the account(s). The three daily peak positive and peak negative net cumulative positions are reported along with the average daily peaks positive and negative net cumulative positions. The average positions are calculated based on a mean average of daily peak positive and peak negative net cumulative positions. The range of business days considered in calculating the average should only include business days.
Direct	Gross Payments Sent/Received	For each business day in a reporting period, banks should calculate the total of their gross payments sent and received in the LVPS and/or, where appropriate, across any account(s) held with a correspondent bank(s).

Indirect	Gross Payments Sent/Received	For each business day in a reporting period, banks should calculate the total of their gross payments sent and received in the LVPS and/or, where appropriate, across any account(s) held with a correspondent bank(s).
Direct	Intraday Throughput	Direct participants should report the daily average in the reporting period of the percentage of their outgoing payments (relative to total payments) that settle by specific times during the day, by value within each hour of the business day. Total value of payments (debits only) processed on LVPS accounts by a certain time period, as a percent of total payments on that day. For a particular throughput bucket, total payments are up to but not including the specified time (e.g. throughput at 10:00 includes payments from 9:00 to 9:59).
Direct	Value of Payments Made on Behalf of Correspondent Banking Customers	Correspondent banks should calculate the total value of payments they make on behalf of all customers of their correspondent banking services each day and report the three largest daily total values and the daily average total value of these payments in the reporting period. The term 'customers' includes all entities for which the correspondent bank provides correspondent banking services.
Direct	Settlement time stamp	The settlement time provided by a LVPS or the time a LVPS Participant receives confirmation of settlement of an amount of money from a LVPS.
Indirect	Settlement time stamp	A time where liquidity is made available or ceases to be available to a customer by a correspondent bank.
Direct	Central Bank Reserves	The cash balance available in an account at the start of the business day that can be used for settlement purposes at a central bank.
Indirect	Balance with Correspondent Bank	The cash balance available at the start of the day in correspondent accounts (commercial money held in nostro accounts).
Direct	Balance	The cash balance available in a LVPS account at any given time.
Indirect	Balance	The balance is the cash balance available in correspondent bank account (commercial money held in nostro accounts).
Direct	Direct intraday liquidity bridge	A technical functionality built into two or more LVPS that allows banks to make transfers directly from one system to the other on an intraday basis.

Direct	Payments	A cash liquidity in- or outflow in a LVPS account.
Indirect	Payments	A cash liquidity in- or outflow in a correspondent bank account.
Direct	Peak Credit Line Usage	Largest credit line usage under intraday credit lines (secured, unsecured, committed or uncommitted) by a correspondent banking customer (subject to discussions with a bank's local regulator).
Direct	De Minimis	An internationally consistent materiality threshold of 5% of total value of payments processed (direct and indirect clearing in scope).
Indirect	De Minimis	An internationally consistent materiality threshold of 5% of total value of payments processed (direct and indirect clearing in scope).
Direct	Balances with other banks	Additional cash balances held at another bank that could be transferred to the reporting account intraday as an additional source of intraday liquidity.
Indirect	Balances with other banks	Additional cash balances held at another bank that could be transferred to the reporting account intraday as an additional source of intraday liquidity.