



Project: Enhancing Banks' Liquidity Risk Management

Time: Wednesday, 20 May, 2009, 15:00

Location: Albanian Association of Banks

Second Working Group Meeting

AGENDA

- I. Project Progress Briefing
- II. [Main Findings of the Current Practices Survey](#) (Discussion and approval)
- III. [Presentation of the BoA Draft Proposal](#) (Discussion and approval)
- IV. [Cost Benefit Questionnaire Draft](#) (Discussion and approval)
- V. Conclusions and Distribution of Tasks
- VI. Closing Remarks

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SPI Albania Project: Enhancing banks' liquidity risk management

Main Findings on banks' experience in liquidity risk management

1. Summary findings

1.1. Respondent banks represent a large share of the banking market, therefore the aggregated responses are a good evidence of the practices and experience of banks in managing liquidity risk.

1.2. Almost all respondent banks have in act a policy for liquidity risk management, approved by the bank's management and revised continuously, which cover for normal course of business and crisis situations. In most of the banks, the policy includes daily monitoring and monthly reporting for liquidity.

1.3. 7 out of 12 respondent banks (G1, G2 and G3¹ groups) use stress tests for liquidity, using different scenarios for type of deposits and currencies.

1.4. 6 out of 12 respondent banks, (G1 and G3 banks) representing have set warning signals for possible liquidity crises.

1.5. All respondent banks use internal liquidity indicators, and have set internal limits for most of these indicators. The largest number of indicators used is reported by G2 banks.

1.6. 6 out of 11 banks, (G1, G2 and G3) use risk factors to build their indicators on liquidity.

¹ G1 banks are small banks with market share less than 2%; G2 banks have a market share higher than 2% and lower than 7%; and G3 banks have a market share higher than 7%.

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2. Detailed presentation of the survey findings

2.1. Characteristics of the surveyed sample

Total members of AAB (no.):	16 banks
Market Share (100%):	100%
Total respondent banks (no.):	12 banks
Respondent ratio:	75.0%
Market share of the respondent banks: (reference indicator: total assets)	67.6%
Size of the respondent banks:	small, medium, large

Most of the commercial banks operating in Albania answered to the questionnaire on banks experiences in managing liquidity risk.

The composition of the group of respondent by banks of different size is important, since they deal with different situations of liquidity as well as use different policies and strategies to manage liquidity risk.

2.2. Qualitative aspects of liquidity risk management

Conclusions:

- **Almost all (11 out of 12) respondent banks have in act a policy for liquidity risk management, approved by the bank's management and revised continuously.**
- **In 9 out of 12 banks, this policy covers both for normal course of business and crisis situations.**
- **In most of the banks, the policy includes daily monitoring and monthly reporting for liquidity.**
- **7 out of 12 respondent banks use stress tests for liquidity and they are G1 (1) G2 (2) banks and G3 (4) banks. The scenarios used are different by type of deposits and currencies.**
- **6 out of 12 respondent banks, (G1 and G3 banks) representing 32.1% of market share, have set warning signals for possible liquidity crises.**

11 out of 12 respondent banks representing 54.7% of the market have in act a policy or strategy for liquidity risk management, which is approved by the bank's management or supervisory council.

Table 1. Use of Liquidity Policy / Strategy

	Yes	No
No. of banks	11	1
% of market share	54.7	12.9

Except for one case, all other banks that have a strategy / policy for liquidity risk management revise it continuously.

Table 2. Continuous revision of Liquidity Policy / Strategy

	Yes	No
Nr. of banks	10	1
% of market share	48.1	6.6

4 banks, G1, G2 and G3 sizes, and representing 23.6 of the market, have responded to revise their policies at least once a year. Other 2 banks, respectively G2 and G3, apply the revision once in two years, while 4 other banks from groups G1, G2 and G3 have different frequencies of revisions. Their decision for revision is taken when deemed necessary, depending on market conditions changes, or Board of Directors and Group banks instructions and decisions.

Table 3. Frequency of revision of Liquidity Policy / Strategy

	6 months	1 year	2 years	Other
Nr. of banks	1	4	2	4
% of market share	0.5	23.6	16.6	15.9
Size	G1	G1, G2, G3	G2, G3	G1, G2, G3

In all banks that have a strategy / policy, there is a set of guidelines that addresses liquidity management in a normal course of business. For 9 of them from all 3 groups, with a total market share of 50.4%, it also covers crisis situations.

Table 4. Coverage of Liquidity Policy / Strategy

	Normal course of business	Crisis situations
No. of banks	11	9
% of market share	54.7	50.4
Size	G1, G2, G3	G1, G2, G3

All the banks (including the one having no specified liquidity strategy), do monitor liquidity regularly with the aim to better manage it.

9 banks monitor liquidity daily: one of them does also weekly monitoring, and 6 of them also monthly monitoring. Meanwhile most of the banks provide monthly reports on liquidity. There is one responding bank (G2) which does also quarterly monitoring and reporting of liquidity management.

Table 5. Frequency of Monitoring and Reporting Liquidity

Periodicity	Monitoring			Reporting		
	No. of banks	%	Size	No. of banks	%	Size
Daily	9	55.5	G1, G2, G3	3	15.2	G1, G2, G3
Weekly	2	16.4	G2, G3	1	9.8	G3
Monthly	8	52.6	mainly G3	11	54.7	G1, G2, G3

Only 7 out of the 12 respondent banks use stress tests on liquidity as part of their liquidity management strategy. These are one G1 bank, two G2 banks and four G3 banks representing 55.5% of the market share. For the G1 bank the stress tests are run at a group level only.

Table 6. Use of stress tests on liquidity

	Yes	No
No. of banks	7	5
% of market share	55.5	12.1
Size	G1, G2, G3	G1, G2

The types of scenarios these banks use are different, and may be market crisis scenarios and bank specific crisis scenario. Scenarios include asset liabilities mismatches and are usually divided by currencies.

The table below presents the types of scenarios that are mostly used in G2 and G3 banks.

Table 7. Types of scenarios used for stress tests on liquidity

Type of Scenario	Frequency of running stress tests
Static scenarios using the percentages of decrease of deposits in crisis situations	Monthly
Interest Rate Shock of 250 bp* for local currency	Monitored weekly reported monthly
Interest Rate Shock of 50 bp for G20 countries' currencies	Monitored weekly reported monthly
Decrease / Increase of 100 bp; 200 bp, 400 bp (EUR)	Quarterly
Increase of 50 bp in treasury bills interest rate change	Quarterly
0 change in short run, 100 bp medium-term, 200 bp long-term	Quarterly
Change in different foreign currencies exchange rate of 30%	Quarterly
Change of FX rate (historical) of EUR/USD, and EUR/GBP BY 20%	Quarterly
Withdrawals of deposits	Monthly
Delays of loan repayments	Monthly
Liquidation of trading portfolio	Monthly
Market Crisis Scenario	Monthly

*bp – basis point (1/100 of 1%)

6 of the banks that use stress tests for liquidity have different scenarios by types of deposits, currency and type of depositors.

Half of the respondent banks, with a market share of 32.2%, continuously monitor *bid-ask spreads* for financial instruments. They follow mainly their Group bank policies in doing so.

Table 8. Monitoring of bid-ask spreads for financial instruments

	Yes	No
No. of banks	6	6
% of market share	32.2	35.4
Size	G1, G2, G3	G1, G2, G3

6 out of 12 respondent banks, G1 and G3 banks, representing 32.1% of the market share have set *warning signals* for possible liquidity crises.

Table 9. Use of warning signals

	Yes	No
No. of banks	6	6
% of market share	32.1	35.5
Size	G1, G3	mainly G2

The events listed by these banks as warning signals of possible liquidity crises are the following:

1. Increase in withdrawals request
2. Unforeseen, sudden and heavy deposits withdrawals
3. Counterparty's defaults, sudden bankruptcies, and loss of contingency back up facilities.
4. Shrinkage and volatility of Deposits
5. Shortage of Foreign Currency
6. Sudden increase in Nonperforming Loans (short-run)
7. Domestic currency (ALL) devaluation
8. Significant Decrease of Liquid Accounts / Deposits
9. Deterioration of Loans Repayments
10. Volatility of interbank credit lines and rates

2.3. Quantitative aspects of liquidity risk management

Conclusions:

- All respondent banks use internal liquidity indicators, and have set internal limits for most of these indicators.
- The largest number of indicators used is reported by G2 banks
- 6 out of 12 banks, (G1, G2 and G3) use risk factors to build their indicators on liquidity.
- G2 banks have reported a set of such risk factors used.

All respondent banks use internal liquidity indicators. Not all of them and not for all types of ratios set up limits. However they are regularly monitored and reported. In the following tables the reported indicators used by banks are described broken down by size of banks.

Table 10. Indicators and liquidity ratios used by G1 banks

Description of the liquidity indicator	Definitions of the factors used to calculate the indicator	Internal Limit of the bank	Frequency of monitoring
Ratio of liquid assets against total assets	Liquid assets/total assets	15%; 20%	Monthly
Ratio of liquid assets against short-term liabilities	Liquid Assets/Short-Term Liabilities Fixed Deposits up to 7 days, cash, t-bills / time deposits, borrowing, current& savings accounts	50%	Monthly
Liquidity ratio by maturity time bands	GAP	25%	Monthly
Ratios of maturity transformation of short term sources in long term placements	Spread(Interest Rate Risk) and GAP		
Maturity Mismatches (related to the size of the maturity gaps; cash inflows / cash outflows including off-balance sheet items)	Spread(Interest Rate Risk) and GAP; 3 months cumulative GAP in total; 3 months cumulative GAP for each currency	+/-40% of total assets; +/-55% of total assets	Weekly; Monthly

Table 11. Indicators and liquidity ratios used by G2 banks

Description of the liquidity indicator	Definitions of the factors used to calculate the indicator	Internal Limit of the bank	Frequency of monitoring
Ratio of liquid assets against total assets	Liquid assets/total assets (Liquid Assets are all assets with remaining maturity of 30 days)	15%; For ALL min 10%; for FC min 20%	Weekly monitoring monthly reporting
Ratio of highly liquid assets against total assets		>+20%; >15%	Weekly; Monthly
Ratio of liquid assets against short-term liabilities	Short-term liabilities are liabilities with remaining maturity of 30 days	>+25%; >30%; For ALL min 20%; for FC min 40%	Monthly; (Weekly Monitoring)
Ratio of liquid assets against short-term liabilities	Cash, nostro accounts, securities, etc (1 month) Assets/Liabilities up to 1 month & as Total	80% 100%	Monthly Weekly
Liquidity ratio by maturity time bands	Net funding up to 30days / total liabilities; net funding up to 90days / total liabilities	Min -30% (-50%) for ALL; min -25% (-35%) for FC	Weekly; Monthly

Description of the liquidity indicator	Definitions of the factors used to calculate the indicator	Internal Limit of the bank	Frequency of monitoring
Indicators of deposit concentration (individually and as group of related parties), volatility and sensitivity	Ratio of 10 largest depositors	No limit defined	Daily; Weekly; Monthly
Maturity Mismatches (related to the size of the maturity gaps; cash inflows / cash outflows including off-balance sheet items)	Net funding up to 30days / total liabilities; net funding up to 90days / total liabilities	Min -30% (-50%) for ALL; min -25% (-35%) for FC	Monthly
Short term liquidity GAP	Net funding up to 30days / total liabilities;	Min -30% (-50%) for ALL;	
Ratio of Cumulative Gap 3 months against total assets		>- 25%	Monthly
Total Equity against total assets		NA	Monthly
Risk Assets against total assets		NA	Monthly
Reserves for loan losses against net loans		NA	Monthly
Total deposits against total liabilities		NA	Monthly
Core deposits against total assets		NA	Monthly
Short term borrowing against total liabilities		NA	Monthly
Cummulative Balance of Overnight Time Bucket Assets up to 30 Days/ Borrowed Funds		> 20%	Monthly
Cummulative Balance of ASSETS-BALANCE of the Overnight Time Bucket up to 30 Days/ Borrowed Funds		> - 20%	Monthly
Loans to Assets	Total loans to total assets	<40% Lek; <55% USD, <65% EUR	Monthly
Loans to (Deposits + Current Accounts)	Total amounts	80%	Weekly; Monthly
Forecasting of net liquidity needs to total available liquidity	Cash nostro, vostro accounts, current accounts, interbanks securities, loans partially	>30%	Monthly

Table 12. Indicators and liquidity ratios used by G3 banks

Description of the liquidity indicator	Definitions of the factors used to calculate the indicator	Internal Limit of the bank	Frequency of monitoring
Ratio of liquid assets against total assets	Liquid Assets / Total Amount of Liabilities (without including the Capital) (both on & off balance sheet)	15%	Monthly
Ratio of liquid assets against short-term liabilities	Liquidity Position (Assets – Liabilities less than 30 days) / Total Amount of Liabilities (without including the Capital) (both on & off balance sheet) (Cumulative assets /cumulative liabilities)	100%	Daily
Liquidity ratio by maturity time bands	Cumulative liquidity gap up to 3 months/total assets	-40%	Monthly
Ratios of maturity transformation of short term sources in long term placements			Monthly
Indicators of deposit concentration (individually and as group of related parties), volatility and sensitivity	Top 10 and Top 20 Depositors concentration and trend; - Concentration by main deposits categories; - Concentration of Wholesale Funding; - Concentration of Retail Funding	NA	Daily; Monthly
Maturity Mismatches (related to the size of the maturity gaps; cash inflows / cash outflows including off-balance sheet items)	Distribute items with undefined maturity and Off Balance Sheet items on time buckets for monthly reporting purposes. The ratio used is cumulated GAP for cash flow Out and In for each time bucket up to 1 Year	GAP > 0 for the first year than slightly negative but next to 0 for the other periods.	
Short term liquidity GAP	The ratio of cumulated cash flow In to Cash Flow Out for each time bucket up to 1 Year; Short Term (<30 days) Liquidity GAP (on & off balance sheet)	The ratio >=1	Daily, Weekly

In order to have a sense of the indicators most used by banks as part of their liquidity management, in the following table are collected the indicators used by more than one bank, and for which banks have reported to set internal limits.

Table 13. Indicators on liquidity most used by banks

Liquidity indicators	No. of banks	% of market share	Size
Ratio of liquid assets against short-term liabilities	11	54.7	G1, G2, G3
Ratio of liquid assets against total assets	8	49.8	G1, G2, G3
Total negative mismatches between assets and liabilities in respect of maturities	6	45.3	G1, G2, G3
Liquidity ratio by maturity time bands	5	30.5	G1, G2, G3
Indicators of deposit concentration (individually and as group of related parties), volatility and sensitivity	5	38	G2, G3
Maturity Mismatches (related to the size of the maturity gaps; cash inflows / cash outflows including off-balance sheet items)	5	20.6	G1, G2, G3
Short term liquidity GAP	5	38	G2, G3
Ratio of liquid assets against total deposits	2	14.7	G2, G3
Ratios of maturity transformation of short term sources in long term placements	2	10.2	G1, G3

When building up indicators on liquidity, 6 out of 12 banks, representative of all three groups of banks by size, with a market share of 40.7% use risk factors for assets and liabilities according to their degree of liquidity. In one of the G2 banks work is in progress for implementing risk factors.

Table 14. Use of risk factors

	Yes	No
No. of banks	6	6
% of market share	40.7	26.9
Size	G1, G2, G3	G1, G2, G3

Some types of risk factors used as reported by G2 banks are shown in the following table:

Table 15. Risk and probability factors used by G2 banks

Loans	
Loans to banks repayable on Demand	100%
Interbank loans to Group Entities & Central Bank Obligatory Reserves	0%
Demand Loans due within 1 month (maturity <2 yr)	75%
Demand Loans due within 1 month (maturity> 2 yr)	100%
Loans and Advances to Customers	0% -30%
Treasury Bills	60% -100%
T-Bills due within 1 Month	100%
T- Bills and Bonds Due more than 1 Months	95%
Deposits	

Due to Customers (Demand + Saving + Term Deposit)	10%-50%
Deposits due within 1 Month	70%
Deposits due within more than 1 Month	25%
Debt Issues & Cheques and Orders Payable	100%
Off Balance Sheet (both Assets & Liabilities side)	20%
Liabilities due within one month	25%
Capital	100%
Cash	100%
Statutory Deposits with BOA	100%
Repos & Loans due within 1 month	100%



SPI ALBANIA PROJECT ON ENHANCING LIQUIDITY RISK MANAGEMENT

Regulatory Draft Proposal

ISSUE	ACTUAL REGULATORY FRAMEWORK	REGULATORY PROPOSAL	PWG COMMENTS
General			
Legal form	Guideline	Regulation	
Definitions on:	<ul style="list-style-type: none"> - Liability degree - A group of related depositors 	<ul style="list-style-type: none"> - Liquidity - Liquidity Risk - Emergency situations - Contingency plan - Net cash flows - Contractual Maturity (of assets and liabilities) - Relying on funding sources - Stress testing 	
System for liquidity risk management			
Organizational framework for liquidity risk management		<p>Banks should have in place effective organizational structure for liquidity risk management with a clear set of procedures and policies on liquidity risk management, defined competences, power and responsibility of the bank's bodies.</p> <p>Banks' boards should mainly:</p> <ul style="list-style-type: none"> - Approve the Strategy and policies for liquidity risk management, including contingency plans - Review the appropriateness of the Strategy and policies <i>annually</i>; - Approve internal limits for liquidity management, 	Banks do have already structures and strategies for the management of liquidity risk, therefore the requirements of the new proposed regulation are well accepted.

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		<ul style="list-style-type: none"> - Review stress tests reports <p>The Committee of risk management should mainly:</p> <ul style="list-style-type: none"> - Develop and implement and monitor Strategy and policies, - Establish and develop methods for liquidity risk management and stress tests methodologies, - Report to Board on status and perspective of bank's liquidity; 	
Internal control system	<p>Bank's internal control shall review:</p> <ul style="list-style-type: none"> a) whether the report compiling system is designed in such a way as to truly reflect the actual liquidity of the bank, b) whether liquidity reports as of December 31 are correct. 	<p>The internal control system for liquidity risk management, integrated in the overall system of internal control, should include:</p> <ul style="list-style-type: none"> - Setting limits in conformity with those defined in this regulation; - Monitoring and reporting on limits exceeding; - Regular check of timelines, accuracy and comprehensiveness of data and assumptions used; - Application of means and measures for correction of noted weaknesses; - Continuous development of methods and methodologies; - Identification of all operating risks related to liquidity risk management, their monitoring and control; and - Compliance with the Law, regulations and by-laws and other documents of the bank. 	
Management	Through its information	Banks should develop an information system to	

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Information System	<p>system, the bank shall classify its assets, liabilities and off-balance sheet items, according to:</p> <p>a) the maturity date of fixed term assets, liabilities and off-balance sheet items;</p> <p>b) the expected development of fixed term liabilities;</p> <p>c) the depositor's behavior in the past;</p> <p>d) the liquidity degree of assets;</p> <p>e) the amount of deposits by a individual depositor or a group of joint depositors;</p> <p>f) the type and the degree of liability for off-balance sheet items given or received by the bank;</p> <p>g) the currencies in which assets, liabilities and off-balance sheet items are denominated, with special</p>	<p>assure measurement, monitoring, and control of the liquidity risk management. It should provide for:</p> <ul style="list-style-type: none"> - Measuring and monitoring bank's liquidity position on a daily basis and in predetermined time periods, and for each foreign currency that considerably affects bank's liquidity; - Monitoring observance of established liquidity risk exposure limits ; - Generating information in order to calculate liquidity indicators and prepare reporting forms; - Concentration report and monitoring on bank deposits; - Spreadsheets for Stress tests performing and scenario analysis. 	

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	focus on Lek, convertible and non-convertible currencies.		
Stress-testing	-	<p>Banks should perform periodical stress tests and / or scenarios analysis, to identify situations that influence its liquidity position</p> <p>The frequency of stress tests is chosen by the bank but should <i>not be less than twice in a year</i>. Bank of Albania can require more frequent stress tests.</p> <p>The results of stress tests are reviewed by the banks' Board and used to improve the strategy, identify main issues, and develop effective contingency plans.</p> <p>Scenarios could be developed as bank specific, based on factors within the banks, and scenarios arising from market or macro economical conditions (exogenous factors).</p> <p>The proposed regulation gives several possible scenarios that banks can use; however, it is up to banks to use the scenarios that better fit them.</p> <p>Banks should define the methodology of performing stress tests including the periodicity, the scenarios used, the periodical revision of assumptions used, the form and reporting of the results, and the actions to</p>	<p>Most of banks already perform stress testing for their internal control on liquidity.</p> <p>The issue raised by banks is that there should be a clear definition in the regulation about the required number and formats of the basic scenarios to be followed for the stress tests.</p> <p>The models provided in this draft regulation are indicative, and banks can choose the ones that better suit them. BoA will however consider the option of defining 2 or 3 of them as obligatory.</p>

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		be undertaken based on the stress tests results.	
Contingency planning	The banks should draft and report to BoA a contingency plan for unusual events, which may threaten bank's liquidity, that should comprise a compiling method and its terms of use including designation of a responsible employee, identification and value (volume) of assets, which, according to the plan, are held to promote and secure bank's liquidity. The bank should regularly update the contingency plan with respect to changing internal (asset and liability structure of the bank) and external (situation in the interbank market) conditions.	<p>The bank shall adopt a contingency plan for liquidity risk management that should include:</p> <ul style="list-style-type: none"> - Clear distribution of tasks, powers and responsibilities in the bank regarding the plan implementation; - Early Warning Signals that indicate the emergency conditions (some of them are shown in Annex 1.) - Conditions in which the plan is to be applied; - Define actions to be undertaken, identify possible fund sources, the priorities and time limits within which the actions should be undertaken; - Forms of communication with key depositors, commercial partners, other customers and general public; - Contacts of persons responsible for the implementation of the plan <p>The bank shall, periodically and whenever needed, review and revise the plan and, in difficult economic-financial situations, collaborate and exchange information with Bank of Albania.</p>	The early warning signals are a novelty of this draft regulation,
Indicators for measuring monitoring and managing liquidity risk			
Measuring		The planning of cash flow should include all types of	

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and Monitoring Funds Flows		<p>actual and expected inflows and outflows including those regarding off-balance sheet items.</p> <p>Expected inflows are those from deposits, loan repayments, sales of securities, interbank loans, inflows from off balance items (for derivative instruments) and all other inflows that could be materialized in the future.</p> <p>Expected outflows are those for: approved loans, purchases of securities, interbank loans, repayment of clients' deposits, as well as off balance sheet items (for derivative instruments) and all outflows of funds that are expected to materialize for the respective period.</p>	
Maturity Gaps		<p>The bank monitors maturity structure of assets and liabilities in order to identify the possible gaps of maturity. It groups incoming and outgoing flows of assets (rights), liabilities (obligations) and off balance sheet items according to their maturity (the date of collection of the rights is considered the latest date possible and that of payment of obligations the first possible):</p> <p>a) up to 7 days b) 7 days to 1 month</p>	

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		<p>c) 1 month to 3 months d) 3 months to 6 months e) 6 months to 12 months</p> <p>The proposed regulation provides guidelines on how to determine the maturity bucket based on the contractual and remaining maturity of assets and liabilities.</p> <p>Supervising Inspectors from Bank of Albania might require the application of different assumptions or adjusting factors in the projections and monitoring of flows according to their maturity if judged suitable.</p>	
Monitoring and concentration of funds resources	<p>In order to ensure the necessary liquidity, the bank should:</p> <ul style="list-style-type: none"> - obtain funds from stable sources within agreed terms, - diversify funding sources according to maturity, type of bank instrument and bank's clientele, 	<p>The bank should monitor periodically its funding sources in order to preserve diversification and identify concentrations.</p> <p>The proposed regulation gives guidelines on monitoring funding sources and their concentration.</p> <p>Large depositors are considered to be the first 20 depositors with the largest weight in the total banks deposits.</p>	
Monitoring of guarantees		<p>The bank should manage its collateral positions in order to identify free assets from assets blocked as guarantees.</p>	

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		<p>An effective management should comply with several requirements regarding the collateral, related with the insurance of long term, short term and daily liquidity.</p> <p>The bank should hold sufficient amount of collateral to answer to expected or unexpected needs for borrowing.</p>	
Liquidity Indicator	<p>Bank calculates certain liquidity ratios, which are: highly-liquid assets to total assets, the ratio of highly-liquid assets to short-term liabilities, the ratio of net cumulative balance sheet position (GAP) for a period up to 3 months, to total assets, as well as other ratios established by it. The bank shall establish the degree and methodology of their calculations.</p>	<p>The liquidity ratio is calculated as liquid assets divided by liquid liabilities and banks should monitor it within the following limits:</p> <ul style="list-style-type: none"> a) minimum 0.8 – within a working day; b) minimum 0.9 – in 3 consequent working days; c) minimum 1 – up to one month (calculated as average of the working days) <p>In case of failure to meet the established limits, the banks should report to the Bank of Albania not later than the following working day.</p>	<p>Banks have argued that not all of them can fully monitor these indicators on a daily basis.</p> <p>It is still to be discussed whether the daily limits should only be indicative, and whether the reporting period in case of failure to meet the limits should be extended.</p>
Liquid Assets Ratios		<p>The bank should monitor and respect in every moment the following limits:</p>	<p>Some of the banks have argued that these ratios are very high and not reachable in the</p>

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		a. ratio of liquid assets to total assets at a minimal level of 20%; b. ratio of liquid assets in foreign currency to total assets in foreign currency at a minimal level of 30%; c. ratio of loans in foreign currency to deposits in foreign currency at a maximum level of 100%.	medium term. Bank of Albania will reconsider the ratios with the aim to accommodate all banks and their specifics, holding to the best practices of liquidity risk management. On the last indicator, the discussion is open on whether to add some conditions for the part of loans over the 100% ratio.
Liquid Assets Definition	Liquid-assets minimally include the integrity of the following elements: <ul style="list-style-type: none"> - Monetary assets, - other accounts in the central banks, - T-bills and other re-financing bills accepted by the central banks, relationship with the other banks, - securities operations (net). Highly liquid assets shall mean cash values, current accounts with other	a. Cash; b. Accounts with Bank of Albania including the legal reserve up to 50% of its usable amount; c. Treasury Bills (up to 80%) and obligations issued by BoA or Government of Republic of Albania; d. other re-financing bills accepted by the central bank; e. Current accounts with banks, credit institutions and other financial institutions; f. Deposits with banks, credit institutions and other financial institutions with remaining maturity up to 7 days; g. Loans to banks, credit institutions and other financial institutions with remaining maturity up to 7 days (excluding subaccount 157); h. securities issued by central government and central banks with rating assigned by internationally recognized rating agency equivalent to rating of S&P	There are some clarifications needed on the definition of liquid assets in terms of: <ul style="list-style-type: none"> - Percentage of overdrafts (on and off balance sheet) to be considered as liquid – banks should provide information on their historical data and average percentages used for their internal control on liquidity. - Securities issued by financial institutions to be considered liquid – banks have argued that the A⁺ rating might be questionable as an indicator of liquidity for the security. BoA will reconsider on providing another approach.

ISSUE	ACTUAL REGULATORY FRAMEWORK	REGULATORY PROPOSAL	PWG COMMENTS
	banks, short-term deposits with other banks with maturity up to 7 days, treasury bills, short-term bonds of central banks and other similar instruments, and excess reserves with the Bank of Albania	<p>not less than BBB⁻ (investment grade);</p> <p>i. securities issued by financial institution with rating assigned by internationally recognized rating agency equivalent to rating of S&P not less than A⁺, assessed not earlier than 6 months from the reporting period;</p> <p>j. securities that have not been rated but issued by international development banks listed in the regulation of Bank of Albania “On risk management arising from the large exposures of Banks”;</p> <p>k. Securities with remaining maturity up to one month;</p> <p>l. Securities purchased in a repurchase agreement with a remaining maturity up to one month;</p> <p>m. irrevocable credit facilities approved to the bank.</p> <p>Liquid assets are included on a net basis excluding accrued interest and subtracting provisions.</p>	
Short Term Liabilities Definition	<p>Short – term liabilities are minimally the integrity of the following elements:</p> <ul style="list-style-type: none"> - Interbank operations (class 1), - demand deposits (class 2), - 10% of current 	<p>a. Liabilities to the Central Bank (including current accounts, on sight deposits and deposits with remaining maturity up to 7 days, loans from the central bank refinanced by an international financial institution and not financed by an international financial institution with remaining maturity up to 7 days, and other accounts with the central bank with remaining maturity up to 7 days);</p> <p>b. Treasury bills and other bonds suitable for</p>	<p>There are some clarifications needed on the definition of short term liabilities in terms of:</p> <ul style="list-style-type: none"> - Percentage of overdrafts (on and off balance sheet) – banks should provide information on their historical data and average percentages used for their internal control on liquidity. - Percentage of current accounts and on sight deposits to be considered as short term

ISSUE	ACTUAL REGULATORY FRAMEWORK	REGULATORY PROPOSAL	PWG COMMENTS
	accounts of credit outstanding (class 2).	refinancing with the Central Bank; c. Current accounts with banks, credit institutions and other financial institutions; d. Deposits with banks, credit institutions and other financial institutions with remaining maturity up to 7 days; e. Loans from banks, credit institutions and other financial institutions with remaining maturity up to 7 days; f. Other accounts with banks, credit institutions and other financial institutions with remaining maturity up to 7 days; g. Current accounts and on sight deposits of the Albanian Government and public administration and time deposits with remaining maturity up to 7 days; h. Securities sold in a reverse repurchase agreement with a remaining maturity up to one month; i. 30% of current accounts with credit balance; j. 30% of on sight deposits; k. 10% of time deposits; l. 5% of guarantees and other commitments (off balance sheet); m. 20% of irrevocable unused approved credit lines.	liabilities (items (i) and (j) of article 8 of the draft regulation – banks have argued that 30% figure is quite high, they will provide information on their averages based on historical data, that could be suitable, and Bank of Albania will consider revising the figure.
Other Indicators		a. Cumulative GAP up to one month / liquid assets; b. Cumulative GAP up to three months / liquid assets; c. Loans / Deposits (calculated in total and separately	Banks require a clearer definition of the composition and maturities of the assets composing the buckets used to calculate GAPs.

ISSUE	ACTUAL REGULATORY FRAMEWORK	REGULATORY PROPOSAL	PWG COMMENTS
		in Lek and foreign currency) d. Loans / Deposits and financing lines e. Liquid Assets / Total Deposits f. Cash / Short Term Liabilities g. Liquidity Ratio by maturity bands; h. Ratio of maturity transformation of short term sources in long term placements; i. Indicator of deposits concentration (by type of depositor, currency, sector, ect.) and their volatility; j. Weighted average interest rate on assets and liabilities; k. Average marginal cost of liquidity l. Limits of placements in other banks; m. Forecasting future needs for liquidity (disposable liquid assets – necessary liquid).	Bank of Albania will consider providing an indicative table, and clearer definitions.
Reporting to Bank of Albania			
Forms	The reporting form attached each month.		Bank of Albania will provide with reporting forms and modalities.
Liquidity Management Structures	Name and organizational structures responsible for the management of Liquidity and the respective policies.		
Policies	The internal regulation that stipulates, according to this regulation, the principles for composing		

ISSUE	ACTUAL REGULATORY FRAMEWORK	REGULATORY PROPOSAL	PWG COMMENTS
	the contingency plan for unusual events threatening bank's liquidity.		



SPI Project: “Enhancing Banks’ Liquidity Risk Management”

Cost and Benefit Questionnaire on Impact on the banking system of the new Liquidity Risk Management Framework

Prepared by
SPI Albania Secretariat

Contact persons:

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I. Context

Bank of Albania is seeking to enhance banks' liquidity risk management by reviewing the regulatory framework according to international guidelines and best practice. The actual regulatory framework provides only principles for the liquidity management, and banks have independence in managing the liquidity level based only on principles set by the BoA, with no quantitative prudential ratios (thresholds).

The financial crisis that originated in USA in 2008 and the tight conditions on liquidity in the international markets are factors that might influence the activity of the banking system in Albania as well.

During year 2008, the Basel Committee and the Committee of European Banking Supervisors both released revised principles and recommendations containing new regulatory requirements for the management of liquidity risk, i.e. Principles for Sound Liquidity Risk Management and Supervision (by the Basel Committee) and Second Part of CEBS's Technical Advice to the European Commission on Liquidity Risk Management (by the CEBS).

The principles emphasizes the importance of supervisors assessing the adequacy of a bank's liquidity risk management framework and its level of liquidity, and suggests steps that supervisors should take if these are deemed inadequate.

The Albanian regulatory framework should also be aligned to the revised Basel Committee guidelines.

SPI Albania, with the authorization of SPI Committee, has undertaken e project on the revision of the Liquidity Risk Management regulatory framework with the following objective:

To enhance banks' liquidity risk management by reviewing the current regulatory framework according to international guidelines and best practice, including introduction of quantitative prudential ratios, in order to prevent the occurrence of systemic liquidity difficulties.

PWG composition

Project Owner:	Mr. Indrit Bank , Supervision Department, Bank of Albania.
Project Manager:	Mrs. Miranda Ramaj , Supervision Department, Bank of Albania.
Deputy Project Manager:	Ms. Enkelejda Bargjo , Market and Liquidity Risk, Tirana Bank
Technical Anchor (TAN):	One pier reviewer from Central Banks in the region
Project Working Group Members:	Donata Totokoci / Persefoni Papa , ProCredit Bank Artiola Agalliu , Alpha Bank-Albania Altin Sholla , Bis Banca Christian Canacaris / Rigels Kristo , RBAL Altin Koci , ICB

Jola Dima, Intesa Sanpaolo Bank
Eralda Gurga / Gresa Panajoti, Emporiki
Miranda Kacani, BKT
Elvira Jaze / Admir Ramadani, First
Investment Bank
Erjon Tace, Banka Popullore

II. Purpose of the banking survey

We are seeking through this survey to get your validation on the qualitative cost-benefit analysis, to assess the readiness to implement a new regulatory framework on Liquidity Risk Management, and the impact of the new quantitative requirements for liquidity indicators.

III. Procedures to run the banking survey

You are kindly requested to support the Liquidity Risk Management framework revision processes by answering this questionnaire.

Please send your answers to SPI Secretariat who stands ready to offer you more details.

Your answers will be treated in strict confidentiality. The results of the banking survey will be disclosed only at aggregate level

Please send your answers by **xx.xx.2009**.

For eventual further clarification needs, please indicate below the contacts of the person who completed the questionnaire:

Name.....

Position.....

Bank.....

Email address:.....

Tel/Fax.....

Thank you for participating in this survey!

IV. Questions

A. Qualitative Impact Assessment

Effective liquidity risk management helps ensure a bank's ability to meet cash flow obligations, which are uncertain as they are affected by external events and other agents' behavior.

A better management of liquidity risk is a key determinant of the soundness and stability of the banking sector, which will decrease the probability of banks' default and will give thus an enhanced consumer protection.

Bank of Albania is seeking to enhance banks' liquidity risk management by reviewing the regulatory framework according to international guidelines and best practice.

The actual regulatory framework provides only principles for the liquidity management, and banks have the liberty to manage the liquidity level based on principles set by the BoA, with no quantitative prudential ratios (thresholds).

In order to prevent the occurrence of systemic liquidity difficulties, and driven by the need to align Albanian regulatory framework to the revised Basel Committee guidelines, BoA is considering the introduction of quantitative minimum/prudential ratios.

We would very much appreciate if you could validate our assessments by ticking in the respective boxes¹. In case you do not agree with the stated impact/rational, please state there your reasons.

Banks

	Impact	Comments	Validation/ Comments	Rejection/ Comments
Costs	Higher			
One-off	Higher			
Compliance costs	+	As a result of the move from current liquidity reporting requirements to the proposed new ones, banks would need to change their procedures, as well as to hire additional staff to ensure compliance with the new requirements.		
Other	+	Other compliance costs that may arise, such as administrative costs derived from demands for more and better information from investors and other counterparties on the liquidity risk profile.		
On going	+/-			
Compliance costs	+	The new liquidity risk management requirements involve a higher volume of reporting, monitoring and complying activities.		
Missed	+	The immediate impact of firms having to hold		

¹ **Legend:** + increase
- decrease
= no effect

revenues		more liquid assets than previously would be a diminution in their revenues.		
Funding Costs	-/+	The reduction in risk might reduce firms' funding costs. On the other side, banks might be subject to increasing funding costs if they were to increase their liquid assets.		
Expected losses	-	Banks' balance sheets would be less risky, so expected losses would be lower		
Benefits	Higher			
Cost saving / + revenues	+	Reduced probability of banks failing and thus reduced expected costs of such events.		
Total impact	Higher costs and Higher benefits	Higher costs during the implementation process, and higher long run benefits		

Consumers

	Impact	Comments	Validation/Comments	Rejection/Comments
Costs	Slightly higher costs			
Higher risks	-	Safer banking system, would reduce risk / increase protection for depositors and investors		
Higher prices	+/=	The additional one off costs could be reflected on the prices (cost transfer from the banks), but no significant effect.		
Lower quality of service	=	No direct effect		
Benefits	No effect	No direct effect		
Better choice	=			
Price reduction	=			
Improved access	=			
Total impact	Slightly higher costs	Slightly higher costs but more protection for depositors as a consequence of a safer banking system.		

Authorities

	Impact	Comments	Validation/Comments	Rejection/Comments
Costs	Higher			
One-off	+	Higher costs of the Banking Supervision Authority related to the drafting, enactment and implementation the modified regulations. Higher costs related to the training of the supervisors and/or external assistance.		
On going	+			
Additional resources	+	The supervision applied to banks subject to the new liquidity regime will be more intensive and complicated for supervisors.		
Benefits	Higher			
Statutory goals	++	The banking supervisory authority		

		accomplishes its statutory obligations of ensuring the financial stability. The new regime could reduce the frequency of systemic financial crises, which historically have large negative impacts on the whole economy		
Better consumer protection	+	The enhancements of Liquidity Risk Management of banks will make it less likely that they will fail. This will have a positive outcome for consumer protection.		
Total impact	Higher costs and higher benefits	The costs related to the process of new regulations, but the benefits are much higher.		

Summary of CBA

Stakeholders	Costs	Benefits	Total
Regulated firms	Higher	Higher	Higher
Consumers	Slightly higher	No effect	Slightly higher
Authorities	Higher	Higher	Higher
Overall economy			More benefits Higher costs



SPI Project on Enhancing Banks' Liquidity Risk Management

Project Objective

To enhance banks' liquidity risk management by reviewing the current regulatory framework according to international guidelines and best practice, including introduction of quantitative prudential ratios, in order to prevent the occurrence of systemic liquidity difficulties.

Project Management Team

Project Owner (PO): Indrit Banka, Supervision Director, BoA

Project Manager (PM): Miranda Ramaj, Supervision Deputy Director, BoA

Deputy Project Manger (DPM): Enkelejda Bargjo, TB, Market and Liquidity Risk Coordinator

Minutes

Second meeting

May 20, 2009—AAB premises

Attendees: Miranda Ramaj (PM)

Enkelejda Bargjo, TB, (DPM)

Ermira Curri, BoA (member)

Eralda Tafaj, EB (member)

Gresa Panajoti, EB (alternate member)

Altin Koci, ICB (member)

Edlira Heba, CB (member)

Jola Dima, ISBA, (member)

Gerona Ziu, BoA, (observer)

Aida Deliu, BoA, (observer)

Brisilda Bala, BoA, (observer)

Endrita Xhaferaj, SPI Albania, Director of Financial Modernization and Analytics

Anuela Ristani, SPI Albania, Director of Operations

SPI Albania Secretariat

Mrs. Anuela Ristani, Director of Operations, anuela.ristani@spi-albania.eu

Ms. Endrita Xhaferaj, Director of Financial Modernization Program and Analytics, endrita.xhaferaj@spi-albania.eu

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AGENDA

- I. Project Progress Briefing
- II. Main Findings of the Current Practices Survey
- III. Presentation of the BoA Draft Proposal
- IV. Cost Benefit Questionnaire Draft
- V. Conclusions and Distribution of Tasks
- VI. Closing Remarks

I. Project Progress Briefing

SPI Secretariat welcomed all the PWG members to the second PWG meeting and made a brief introduction of the project progress recorded in the time between the first and second meeting:

- SPI drafted a brief questionnaire to assess the actual internal methodologies and policies of the banks in managing liquidity risk. The SPI Secretariat collected all individual inputs and drafted a summary note on the aggregated results. These results were delivered to the BoA team in order to assist their drafting process through giving more info on the actual situation of the banks.
- Based on the findings of the SPI Albania run survey, on international experience and Basel Committee principles, BoA prepared a draft proposal for amending the current regulatory framework with regards to liquidity risk management.
- With reference to the BoA proposal, the SPI Secretariat has prepared the qualitative part of the cost-benefit questionnaire to be amended with the quantitative part upon consultations with the PWG members.

II. Main Findings of the Current Practices Survey

SPI Secretariat presented the document on the main findings of the survey on the current banks' practices in managing liquidity risk. Respondent banks represented a large share of the banking market, providing good evidence of the practices and experience of banks in managing liquidity risk. Almost all respondent banks do have their policies for liquidity risk management approved by the bank's management and continuously updated. These policies cover the normal course of business and crisis situations. In most of the banks, the policy includes daily monitoring and monthly reporting for liquidity. 7 out of 12 respondent banks for small, medium and large banks use stress tests for liquidity through different scenarios for different types of deposits and currencies. 6 out of 12 respondent banks have set warning signals for possible liquidity crises. All respondent banks use internal liquidity indicators, and have set internal limits for most of these indicators. The largest number of indicators used is reported by medium size banks. In addition, 6 out of 11 banks use risk factors to build their indicators on liquidity.

The PWG members welcomed the findings of the survey and found the information provided very useful. However, BoA PWG members once more stressed the importance of liquidity management as the banks own responsibility before any other obligation set forth in the format of a regulation by the Supervision Department. BoA encourages banks to elaborate their own practices in parallel with the principles of prudence set for by BoA as the regulator.

The PWG approved the findings of the survey on Banks' current practices in managing liquidity risk and congratulated the Secretariat on their work.

III. Presentation of the BoA Draft Proposal

SPI Secretariat presented the BoA draft proposal of the new regulation on Bank's Liquidity Risk Management. SPI Secretariat prepared a table based on the current BoA directive and the proposed changes and invited the PWG members representing the banks to comment on the proposed changes. Banks' comments and suggestions are reflected accordingly in the APPENDIX I.

IV. Cost Benefit Questionnaire Draft

SPI Secretariat presented the qualitative draft of the cost benefit questionnaire which in order to be completed with the quantitative part demands for information from the PWG members representing the banks. The PWG members suggested they send their spreadsheets or algorithms used internally to calculate main liquidity indicators (to be used for calculating the impact assessment of the new regulation on banks).

VII. Conclusions and distribution of tasks

SPI Secretariat, in consultation with the PWG members from BoA, will summarize all the issues discussed in the meeting with regards to the BoA's proposal in order to facilitate the opinion issuing by the participating PWG banks. Consequently for the next PWG meeting:

- SPI Secretariat will send all the questions for which PWG's opinion is needed with regards to the proposal and the cost-benefit questionnaire;
- PWG members will send to SPI Secretariat their responses to the issues raised by the draft proposal and their spreadsheets/algorithms for the construction of the quantitative cost-benefit analysis;
- SPI Secretariat will collect individual inputs and will present them in a structured approach to BoA team;
- BoA will revise the regulatory proposal based on opinions gathered from banks and will send to SPI Secretariat the new version;
- Based on the revised version of the new regulatory proposal and with the help the spreadsheets/algorithms provided by banks, SPI Secretariat will prepare the draft Cost-Benefit Questionnaire for approval by the PWG members.

VII. Closing Remarks

The third PWG meeting is preliminarily scheduled to take place in mid June 2009.

SPI ALBANIA PROJECT ON ENHANCING LIQUIDITY RISK MANAGEMENT

Regulatory Draft Proposal

ISSUE	ACTUAL REGULATORY FRAMEWORK	REGULATORY PROPOSAL	PWG COMMENTS
General			
Legal form	Guideline	Regulation	
Definitions on:	<ul style="list-style-type: none"> - Liability degree - A group of related depositors 	<ul style="list-style-type: none"> - Liquidity - Liquidity Risk - Emergency situations - Contingency plan - Net cash flows - Contractual Maturity (of assets and liabilities) - Relying on funding sources - Stress testing 	
System for liquidity risk management			
Organizational framework for liquidity risk management		<p>Banks should have in place effective organizational structure for liquidity risk management with a clear set of procedures and policies on liquidity risk management, defined competences, power and responsibility of the bank's bodies.</p> <p>Banks' boards should mainly:</p> <ul style="list-style-type: none"> - Approve the Strategy and policies for liquidity risk management, including contingency plans - Review the appropriateness of the Strategy and policies annually; - Approve internal limits for liquidity management, - Review stress tests reports <p>The Committee of risk management should mainly:</p> <ul style="list-style-type: none"> - Develop and implement and monitor Strategy and 	Banks do have already structures and strategies for the management of liquidity risk, therefore the requirements of the new proposed regulation are well accepted.

ISSUE	ACTUAL REGULATORY FRAMEWORK	REGULATORY PROPOSAL	PWG COMMENTS
		<p>policies,</p> <ul style="list-style-type: none"> - Establish and develop methods for liquidity risk management and stress tests methodologies, - Report to Board on status and perspective of bank's liquidity; 	
Internal control system	<p>Bank's internal control shall review:</p> <ul style="list-style-type: none"> a) whether the report compiling system is designed in such a way as to truly reflect the actual liquidity of the bank, b) whether liquidity reports as of December 31 are correct. 	<p>The internal control system for liquidity risk management, integrated in the overall system of internal control, should include:</p> <ul style="list-style-type: none"> - Setting limits in conformity with those defined in this regulation; - Monitoring and reporting on limits exceeding; - Regular check of timelines, accuracy and comprehensiveness of data and assumptions used; - Application of means and measures for correction of noted weaknesses; - Continuous development of methods and methodologies; - Identification of all operating risks related to liquidity risk management, their monitoring and control; and - Compliance with the Law, regulations and by-laws and other documents of the bank. 	
Management Information System	<p>Through its information system, the bank shall classify its assets, liabilities and off-balance sheet items, according to:</p> <ul style="list-style-type: none"> a) the maturity date of fixed term assets, liabilities and off-balance sheet items; b) the expected development of fixed 	<p>Banks should develop an information system to assure measurement, monitoring, and control of the liquidity risk management. It should provide for:</p> <ul style="list-style-type: none"> - Measuring and monitoring bank's liquidity position on a daily basis and in predetermined time periods, and for each foreign currency that considerably affects bank's liquidity; - Monitoring observance of established liquidity risk exposure limits ; - Generating information in order to calculate 	

ISSUE	ACTUAL REGULATORY FRAMEWORK	REGULATORY PROPOSAL	PWG COMMENTS
	<p>term liabilities; c) the depositor's behavior in the past; d) the liquidity degree of assets; e) the amount of deposits by a individual depositor or a group of joint depositors; f) the type and the degree of liability for off-balance sheet items given or received by the bank; g) the currencies in which assets, liabilities and off-balance sheet items are denominated, with special focus on Lek, convertible and non-convertible currencies.</p>	<p>liquidity indicators and prepare reporting forms; - Concentration report and monitoring on bank deposits; - Spreadsheets for Stress tests performing and scenario analysis.</p>	
<p>Stress-testing</p>	<p>-</p>	<p>Banks should perform periodical stress tests and / or scenarios analysis, to identify situations that influence its liquidity position</p> <p>The frequency of stress tests is chosen by the bank but should <i>not be less than twice in a year</i>. Bank of Albania can require more frequent stress tests.</p> <p>The results of stress tests are reviewed by the banks' Board and used to improve the strategy, identify main issues, and develop effective contingency plans.</p> <p>Scenarios could be developed as bank specific, based</p>	<p>Most of banks already perform stress testing for their internal control on liquidity.</p> <p>The issue raised by banks is that there should be a clear definition in the regulation about the required number and formats of the basic scenarios to be followed for the stress tests.</p> <p>The models provided in this draft regulation are indicative, and banks</p>

ISSUE	ACTUAL REGULATORY FRAMEWORK	REGULATORY PROPOSAL	PWG COMMENTS
		<p>on factors within the banks, and scenarios arising from market or macro economical conditions (exogenous factors). The proposed regulation gives several possible scenarios that banks can use; however, it is up to banks to use the scenarios that better fit them.</p> <p>Banks should define the methodology of performing stress tests including the periodicity, the scenarios used, the periodical revision of assumptions used, the form and reporting of the results, and the actions to be undertaken based on the stress tests results.</p>	<p>can choose the ones that better suit them. BoA will however consider the option of defining 2 or 3 of them as obligatory.</p>
<p>Contingency planning</p>	<p>The banks should draft and report to BoA a contingency plan for unusual events, which may threaten bank's liquidity, that should comprise a compiling method and its terms of use including designation of a responsible employee, identification and value (volume) of assets, which, according to the plan, are held to promote and secure bank's liquidity. The bank should regularly update the contingency plan with respect to changing internal (asset and liability structure of the</p>	<p>The bank shall adopt a contingency plan for liquidity risk management that should include:</p> <ul style="list-style-type: none"> - Clear distribution of tasks, powers and responsibilities in the bank regarding the plan implementation; - <i>Early Warning Signals</i> that indicate the emergency conditions (some of them are shown in Annex 1.) - Conditions in which the plan is to be applied; - Define actions to be undertaken, identify possible fund sources, the priorities and time limits within which the actions should be undertaken; - Forms of communication with key depositors, commercial partners, other customers and general public; - Contacts of persons responsible for the implementation of the plan <p>The bank shall, periodically and whenever needed, review and revise the plan and, in difficult economic-financial situations, collaborate and exchange information with Bank of Albania.</p>	<p>The early warning signals are a novelty of this draft regulation,</p>

ISSUE	ACTUAL REGULATORY FRAMEWORK	REGULATORY PROPOSAL	PWG COMMENTS
	bank) and external (situation in the interbank market) conditions.		
Indicators for measuring monitoring and managing liquidity risk			
Measuring and Monitoring Funds Flows		<p>The planning of cash flow should include all types of actual and expected inflows and outflows including those regarding off-balance sheet items.</p> <p>Expected inflows are those from deposits, loan repayments, sales of securities, interbank loans, inflows from off balance items (for derivative instruments) and all other inflows that could be materialized in the future.</p> <p>Expected outflows are those for: approved loans, purchases of securities, interbank loans, repayment of clients' deposits, as well as off balance sheet items (for derivative instruments) and all outflows of funds that are expected to materialize for the respective period.</p>	
Maturity Gaps		<p>The bank monitors maturity structure of assets and liabilities in order to identify the possible gaps of maturity. It groups incoming and outgoing flows of assets (rights), liabilities (obligations) and off balance sheet items according to their maturity (the date of collection of the rights is considered the latest date possible and that of payment of obligations the first possible):</p> <p>a) up to 7 days b) 7 days to 1 month c) 1 month to 3 months</p>	

ISSUE	ACTUAL REGULATORY FRAMEWORK	REGULATORY PROPOSAL	PWG COMMENTS
		<p>d) 3 months to 6 months e) 6 months to 12 months</p> <p>The proposed regulation provides guidelines on how to determine the maturity bucket based on the contractual and remaining maturity of assets and liabilities.</p> <p>Supervising Inspectors from Bank of Albania might require the application of different assumptions or adjusting factors in the projections and monitoring of flows according to their maturity if judged suitable.</p>	
<p>Monitoring and concentration of funds resources</p>	<p>In order to ensure the necessary liquidity, the bank should:</p> <ul style="list-style-type: none"> - obtain funds from stable sources within agreed terms, - diversify funding sources according to maturity, type of bank instrument and bank's clientele, 	<p>The bank should monitor periodically its funding sources in order to preserve diversification and identify concentrations.</p> <p>The proposed regulation gives guidelines on monitoring funding sources and their concentration.</p> <p>Large depositors are considered to be the first 20 depositors with the largest weight in the total banks deposits.</p>	
<p>Monitoring of guarantees</p>		<p>The bank should manage its collateral positions in order to identify free assets from assets blocked as guarantees.</p> <p>An effective management should comply with several requirements regarding the collateral, related with the insurance of long term, short term and daily liquidity.</p> <p>The bank should hold sufficient amount of collateral to answer to expected or unexpected needs for</p>	

ISSUE	ACTUAL REGULATORY FRAMEWORK	REGULATORY PROPOSAL	PWG COMMENTS
		borrowing.	
Liquidity Indicator	Bank calculates certain liquidity ratios, which are: highly-liquid assets to total assets, the ratio of highly-liquid assets to short-term liabilities, the ratio of net cumulative balance sheet position (GAP) for a period up to 3 months, to total assets, as well as other ratios established by it. The bank shall establish the degree and methodology of their calculations.	<p>The liquidity ratio is calculated as liquid assets divided by liquid liabilities and banks should monitor it within the following limits:</p> <ul style="list-style-type: none"> a) minimum 0.8 – within a working day; b) minimum 0.9 – in 3 consequent working days; c) minimum 1 – up to one month (calculated as average of the working days) <p>In case of failure to meet the established limits, the banks should report to the Bank of Albania not later than the following working day.</p>	<p>Banks have argued that not all of them can fully monitor these indicators on a daily basis.</p> <p>It is still to be discussed whether the daily limits should only be indicative, and whether the reporting period in case of failure to meet the limits should be extended.</p>
Liquid Assets Ratios		<p>The bank should monitor and respect in every moment the following limits:</p> <ul style="list-style-type: none"> a. ratio of liquid assets to total assets at a minimal level of 20%; b. ratio of liquid assets in foreign currency to total assets in foreign currency at a minimal level of 30%; c. ratio of loans in foreign currency to deposits in foreign currency at a maximum level of 100%. 	<p>Some of the banks have argued that these ratios are very high and not reachable in the medium term. Bank of Albania will reconsider the ratios with the aim to accommodate all banks and their specifics, holding to the best practices of liquidity risk management.</p> <p>On the last indicator, the discussion is open on whether to add some conditions for the part of loans over the 100% ratio.</p>
Liquid Assets Definition	Liquid-assets minimally include the integrity of the following elements:	<ul style="list-style-type: none"> a. Cash; b. Accounts with Bank of Albania including the legal reserve up to 50% of its usable amount; 	There are some clarifications needed on the definition of liquid assets in terms of:

ISSUE	ACTUAL REGULATORY FRAMEWORK	REGULATORY PROPOSAL	PWG COMMENTS
	<ul style="list-style-type: none"> - Monetary assets, - other accounts in the central banks, - T-bills and other re-financing bills accepted by the central banks, relationship with the other banks, - securities operations (net). <p>Highly liquid assets shall mean cash values, current accounts with other banks, short-term deposits with other banks with maturity up to 7 days, treasury bills, short-term bonds of central banks and other similar instruments, and excess reserves with the Bank of Albania</p>	<ul style="list-style-type: none"> c. Treasury Bills (up to 80%) and obligations issued by BoA or Government of Republic of Albania; d. other re-financing bills accepted by the central bank; e. Current accounts with banks, credit institutions and other financial institutions; f. Deposits with banks, credit institutions and other financial institutions with remaining maturity up to 7 days; g. Loans to banks, credit institutions and other financial institutions with remaining maturity up to 7 days (excluding subaccount 157); h. securities issued by central government and central banks with rating assigned by internationally recognized rating agency equivalent to rating of S&P not less than BBB⁻ (investment grade); i. securities issued by financial institution with rating assigned by internationally recognized rating agency equivalent to rating of S&P not less than A⁺, assessed not earlier than 6 months from the reporting period; j. securities that have not been rated but issued by international development banks listed in the regulation of Bank of Albania “On risk management arising from the large exposures of Banks”; k. Securities with remaining maturity up to one month; l. Securities purchased in a repurchase agreement with a remaining maturity up to one month; m. irrevocable credit facilities approved to the bank. <p>Liquid assets are included on a net basis excluding accrued interest and subtracting provisions.</p>	<ul style="list-style-type: none"> - Percentage of overdrafts (on and off balance sheet) to be considered as liquid – banks should provide information on their historical data and average percentages used for their internal control on liquidity. - Securities issued by financial institutions to be considered liquid – banks have argued that the A⁺ rating might be questionable as an indicator of liquidity for the security. BoA will reconsider on providing another approach.

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Short Term Liabilities Definition	<p>Short – term liabilities are minimally the integrity of the following elements:</p> <ul style="list-style-type: none"> - Interbank operations (class 1), - demand deposits (class 2), - 10% of current accounts of credit outstanding (class 2). 	<ul style="list-style-type: none"> a. Liabilities to the Central Bank (including current accounts, on sight deposits and deposits with remaining maturity up to 7 days, loans from the central bank refinanced by an international financial institution and not financed by an international financial institution with remaining maturity up to 7 days, and other accounts with the central bank with remaining maturity up to 7 days); b. Treasury bills and other bonds suitable for refinancing with the Central Bank; c. Current accounts with banks, credit institutions and other financial institutions; d. Deposits with banks, credit institutions and other financial institutions with remaining maturity up to 7 days; e. Loans from banks, credit institutions and other financial institutions with remaining maturity up to 7 days; f. Other accounts with banks, credit institutions and other financial institutions with remaining maturity up to 7 days; g. Current accounts and on sight deposits of the Albanian Government and public administration and time deposits with remaining maturity up to 7 days; h. Securities sold in a reverse repurchase agreement with a remaining maturity up to one month; i. 30% of current accounts with credit balance; j. 30% of on sight deposits; k. 10% of time deposits; l. 5% of guarantees and other commitments (off balance sheet); m. 20% of irrevocable unused approved credit lines. 	<p>There are some clarifications needed on the definition of short term liabilities in terms of:</p> <ul style="list-style-type: none"> - Percentage of overdrafts (on and off balance sheet) – banks should provide information on their historical data and average percentages used for their internal control on liquidity. - Percentage of current accounts and on sight deposits to be considered as short term liabilities (items (i) and (j) of article 8 of the draft regulation – banks have argued that 30% figure is quite high, they will provide information on their averages based on historical data, that could be suitable, and Bank of Albania will consider revising the figure.
Other		a. Cumulative GAP up to one month / liquid assets;	Banks require a clearer definition of

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Indicators		b. Cumulative GAP up to three months / liquid assets; c. Loans / Deposits (calculated in total and separately in Lek and foreign currency) d. Loans / Deposits and financing lines e. Liquid Assets / Total Deposits f. Cash / Short Term Liabilities g. Liquidity Ratio by maturity bands; h. Ratio of maturity transformation of short term sources in long term placements; i. Indicator of deposits concentration (by type of depositor, currency, sector, ect.) and their volatility; j. Weighted average interest rate on assets and liabilities; k. Average marginal cost of liquidity l. Limits of placements in other banks; m. Forecasting future needs for liquidity (disposable liquid assets – necessary liquid).	the composition and maturities of the assets composing the buckets used to calculate GAPs. Bank of Albania will consider providing an indicative table, and clearer definitions.
Reporting to Bank of Albania			
Forms	The reporting form attached each month.		Bank of Albania will provide with reporting forms and modalities.
Liquidity Management Structures	Name and organizational structures responsible for the management of Liquidity and the respective policies.		
Policies	The internal regulation that stipulates, according to this regulation, the principles for composing the contingency plan for unusual events threatening bank's liquidity.		

