

Regulation No. 11

on Liquidity Management and Supervision of Banks

(Issued by the Bulgarian National Bank on 22 December 1997;
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Chapter One

General Provisions

Subject

Article 1. (1) This Regulation shall provide for banks' obligations to maintain adequate liquidity, as well as for the liquidity supervision exercised by the Bulgarian National Bank (BNB).

(2) Banks shall manage their assets and liabilities in a manner that ensures they can regularly and without delay meet daily obligations, both in a normal banking environment and in a crisis situation.

(3) A main goal of a good liquidity management system is to plan for the bank's survival in the event of unforeseen outflow of its funds due to unexpected developments, such as large loan losses, fraud or similar adverse occurrences.

(4) The system for management of a bank's liquidity shall include:

1. written internal liquidity management policies and rules;
2. a liquidity management body directly responsible to the board of directors (managing board) of the bank;
3. efficient management information system.

Chapter Two

Liquidity Management System

Management Principles

Article 2. The liquidity management system shall be based on:

1. centralized control on a bank's liquidity, exercised by the liquidity management body;
2. regular monitoring and assessment of the bank's prospective cash flow requirements and the adequacy of liquid assets;
3. diversification of deposits and other funding sources; and
4. appropriate contingency planning.

Internal Rules

Article 3. (1) The board of directors (managing board) of each bank shall adopt internal liquidity management rules.

(2) The internal liquidity management rules shall specify:

1. liquidity management principles for managing the bank's normal operations as a 'going concern';
2. contingency plans outlining the measures and the assigned management responsibilities to be activated in the event of the bank experiencing a liquidity crisis;
3. the method of liquidity management employed, the rationale and the principles for its implementation;
4. the structure, composition and powers of the body entrusted with the bank's liquidity management;
5. the obligations of bank employees and managers responsible for liquidity monitoring, accounting and management.

(3) Internal rules and material amendments thereto shall be submitted to the Bulgarian National Bank for review within seven days from their adoption.

Liquidity Management Body

Article 4. (1) Each bank shall constitute a liquidity management body which shall be directly accountable to the board of directors (managing board) of the bank and shall have as members at least one of the individuals under Article 8, para. 1 of the Law on Banks.

(2) The liquidity management body shall periodically submit regular reports to the board of directors (managing board) concerning its operational decisions. The board of directors (managing board) shall regularly review and assess the effectiveness of these decisions.

(3) The liquidity management body shall have measurement systems in place to recognize the probable consequences of their bank facing a liquidity crisis, and proactive contingency plans with a clear allocation of responsibilities for the senior management officials concerned.

Management Information System

Article 5. Information system for monitoring a bank's liquidity shall be based on:

1. constructing and maintaining a maturity ladder;
2. assessment and management of cash flows; and
3. maintaining adequate amount of liquid assets.

Maturity Ladder

Article 6. (1) The liquidity management body under Article 4 shall construct and maintain a maturity ladder of cash flows per Article 7, para. 1. Information contained in the maturity ladder shall be monitored and updated on the basis of a daily review to assess the bank's short and medium-term liquidity requirements.

(2) Separate maturity ladders shall be constructed and maintained both under a 'going concern' scenario and a 'liquidity crisis' scenario.

(3) A 'going concern' scenario is in place where the bank operates normally, without difficulties, in a stable banking system, earns sufficient profit, and shows no danger of running into insolvency.

(4) A 'liquidity crisis' scenario is in place where the bank is unable to meet a portion or all of its obligations at their maturity, and shows signs of confidence crisis concerning its viability or the viability of the banking system, which may cause the bank to run into insolvency.

(5) The 'liquidity crisis' maturity ladder shall be assessed in the course of on-site inspections per Article 10, para. 2. Alternatively, if a bank is experiencing liquidity problems, it may be obliged to submit its 'liquidity crisis' maturity ladder for supervisor review under Article 9, para. 2.

Cash Flow Assessment

Article 7. (1) Each bank shall assess its cash inflows and outflows on the basis of:

a) the remaining term to maturity of each individual asset, liability and off-balance-sheet item whose maturity is certain, and

b) by projecting expected and probable cash flows for those components where maturity is uncertain.

(2) Under the 'going concern' scenario a bank shall take into consideration historic cash flows for projecting cash flows on assets, liabilities and off-balance-sheet components with uncertain maturities, adjusted as needed to take into account seasonal fluctuations and prevailing economic and market conditions.

(3) Under the 'liquidity crisis' scenario a bank's cash flows shall take into consideration its contingency plans for an orderly sale of assets to the degree necessary to accommodate short-term cash outflows attributable to accelerating deposit withdrawals and other anticipated cash payments.

(4) The maturity ladder assessments shall focus on short and medium-term cash flow imbalances, in the form of a net outflow or a net inflow for each time bracket, and on the underlying assumptions for actual and projected maturities of asset, liability and off-balance-sheet components.

Adequate Liquid Asset Holdings

Article 8. (1) Within the meaning of this Regulation the term ‘liquid assets’ shall include:

1. banknotes and coins – cash;
2. balances held on accounts with the BNB less minimum required reserves under Article 41 of the Law on the BNB;
3. balances on current accounts with other banks;
4. treasury bills and bonds of the Government of Bulgaria;
5. other assets meeting the requirements of the Bulgarian National Bank for eligible liquid assets.

(2) The following ratios have been introduced for monitoring the adequacy of liquid assets:

1. adjusted liquid assets ratios – the cumulative net inflow or outflow for the time bands per the maturity ladder, expressed as a percentage of liquid assets; the applicable time frames for the numerator are:

- a) seven days after the reporting date;
- b) one month after the reporting date;
- c) three months after the reporting date; and
- d) six months after the reporting date.

2. liquid assets ratio – liquid assets as a percentage of ‘attracted funds’ (deposits);

3. adjusted liquid assets to deposits ratio – liquid assets less the cumulative net outflows, or plus net inflows for each of the four selected time bands, expressed as a percentage of deposits.

(3) The Bulgarian National Bank shall monitor the amount and composition of a bank’s liquid assets and, where appropriate, establish minimum liquidity ratios on a bank-by-bank basis per Article 12, para. 1.

Chapter Three

Liquidity Supervision

Reports

Article 9. (1) Banks that are operating normally or with minimal liquidity problems are required to submit to the BNB monthly cash flow reports on a ‘going concern basis’ showing projected lev and foreign currency cash flows. The reports are to be completed and delivered to the BNB by the 15th day of the month.

(2) If the Banking Supervision Department finds out that a bank has a material liquidity problem that requires prompt action, the Deputy Governor heading the Banking Supervision Department shall oblige the bank to submit its lev and foreign currency cash flow reports weekly or daily on a ‘liquidity crisis’ basis to reflect its

plans for survival.

(3) All liquidity reports are to be authorized and signed by two members of the bank's liquidity managing body, at least one of them being among the persons under Article 8, para. 1 of the Law on Banks.

On-site Inspections

Article 10. (1) In the course of periodical on-site inspections the Bank Supervision Department shall assess the effectiveness of a bank's liquidity management system, the reliability of the reports submitted, diversification of assets and liabilities and the adequacy of liquid asset holdings.

(2) On-site inspections may also be initiated by the Bulgarian National Bank, without notice to the bank, to review and assess the adequacy of:

1. the bank's net cash flows projections reflecting a liquidity crisis scenario;
2. contingency planning procedures that would be implemented in the event of a liquidity crisis; and
3. survival time implicit in its liquid asset holdings.

Supervisory Assessment of the Liquidity Management System

Article 11. Based on the information collected under Articles 9 and 10, banking supervision authorities will conduct an on-going assessment of the liquidity management of each individual bank, including the adequacy of the bank's survival strategy should it be the target of a run on deposits.

Enforcement Measures and Sanctions

Article 12. (1) When a bank is experiencing liquidity difficulties, the Deputy Governor heading the Banking Supervision Department may set a minimum liquid assets ratio to be attained by the bank in a limited time frame, whereby liquid assets are expressed as a percentage of attracted funds per Article 8, para. 2, item 2.

(2) Where a bank is in violation of the requirements of this Regulation and fails to implement remedial actions that have been conveyed by the BNB, the Deputy Governor heading the Banking Supervision Department shall impose administrative measures and sanctions for correction of such violations based on Article 65, para. 2 of the Law on Banks.

Additional Provision

§ 1. Within the meaning of this Regulation:

1. 'banks' shall be local banks, branches of foreign banks in the country and the State Savings Bank.

Transitional and Final Provisions

§ 2. This Regulation is issued on the grounds of Article 25 in connection with § 19 of the Transitional and Final Provisions of the Law on Banks, and is adopted by Resolution No. 501 of 27 November 1997 of the Managing Board of the Bulgarian National Bank.

§ 3. This Regulation shall repeal Regulation No. 11 on the Liquidity of Banks (State Gazette, issue 67 of 1993).

§ 4. Within three months after this Regulation comes into force, banks shall establish liquidity management system by adopting internal rules under Article 3, para. 2, constituting the managing body under Article 4, and creating information system under Article 5.

§ 5. The Deputy Governor heading the Banking Supervision Department issues mandatory instructions on the enactment of this Regulation.