

Ordinance No. 11

on Bank Liquidity Management and Supervision

(Issued by the Bulgarian National Bank on 1 March 2007; published in the Darjaven Vestnik, issue 22 of 13 March 2007; amended, Darjaven Vestnik, issue 85 of 2010)

Chapter One

General Provisions

Subject

Article 1. (1) This Ordinance shall provide for banks' liquidity management requirements and the procedure for exercising liquidity supervision by the Bulgarian National Bank (BNB).

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

(3) (repealed; Darjaven Vestnik, issue 85 of 2010, effective as of 31 December 2010)

(4) (repealed; Darjaven Vestnik, issue 85 of 2010, effective as of 31 December 2010)

(5) (new; Darjaven Vestnik, issue 85 of 2010, effective as of 31 December 2010) Banks shall apply robust strategies, policies, processes and systems for identification, measurement, management and monitoring of liquidity risk, which shall meet the following requirements:

1. they are developed over an appropriate set of time horizons, including intraday, so as to ensure that banks maintain adequate levels of liquidity buffers;

2. they shall be tailored to business lines, currencies and entities in the group and shall include adequate allocation mechanisms of liquidity costs, benefits and risks;

3. they shall be proportionate to the complexity, risk profile, scope of operation of the bank and risk tolerance set by the management body of the bank;

4. they shall reflect the bank's importance in each Member State in which it carries on business.

(6) (new; Darjaven Vestnik, issue 85 of 2010, effective as of 31 December 2010) The system for identification, measurement, management and monitoring of the liquidity risk (liquidity management system) is primarily aimed at maintaining the liquidity funds for ensuring the mismatches between cash inflows and outflows.

Chapter Two
Liquidity Management System
Requirements

Article 2. (1) (new; Darjaven Vestnik, issue 85 of 2010, effective as of 31 December 2010) The liquidity management system shall include:

1. rules and procedures for identification, measurement, management and monitoring of the liquidity;
2. the liquidity management body directly subordinated to the bank's competent managing body;
3. effective management information system.

(2) (former wording of Article 2, amended; Darjaven Vestnik, issue 85 of 2010, effective as of 31 December 2010) The liquidity management system shall meet the following requirements:

1. (repealed; Darjaven Vestnik, issue 85 of 2010, effective as of 31 December 2010)
2. (amended; Darjaven Vestnik, issue 85 of 2010, effective as of 31 December 2010) the competent managing body shall ensure an adequate management structure for effective liquidity management in accordance with the approved strategies, policies, rules, procedures and systems for measurement and management of the liquidity risk;
3. (amended; Darjaven Vestnik, issue 85 of 2010, effective as of 31 December 2010) the competent managing body has set a liquidity risk tolerance and relevant position limits and liquid buffers which shall be periodically reviewed over the individual time horizons;
4. the management information system for monitoring, measuring and controlling liquidity risk shall comprise net cash flows and liquidity positions in BGN and in most often used foreign currencies;
5. (amended; Darjaven Vestnik, issue 85 of 2010, effective as of 31 December 2010) each bank shall maintain the required degree of diversification of liabilities ensuring liquid funds for their repayment in conformity with their maturity structure and market conditions, and shall also have regard to existing legal, regulatory and operational limitations to potential transfers of liquidity and unencumbered assets;
6. (amended; Darjaven Vestnik, issue 85 of 2010, effective as of 31 December 2010) each bank shall conduct periodic stress tests, scenario analyses and liquidity assessment under adverse circumstances by using alternative scenarios on liquidity positions and on risk mitigants; the alternative scenarios shall address, in particular, off-balance sheet items and other contingent liabilities, including those of Securitisation Special Purpose Entities (SSPE) or other special purpose entities, in relation to which the bank acts as a sponsor or provides material liquidity support;
7. (amended; Darjaven Vestnik, issue 85 of 2010, effective as of 31 December 2010) each bank shall exercise internal liquidity management control which includes

a regular independent overview and assessment of the system efficiency, compliance with liquidity management rules and prescriptions made.

Internal Rules

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

(2) The internal liquidity management rules shall specify:

1. liquidity management principles for implementing the bank's normal operations under a 'going concern' scenario;

2. (amended; Darjaven Vestnik, issue 85 of 2010, effective as of 31 December 2010) contingency plans and a 'liquidity crisis' scenario outlining the measures, actions and the relevant responsibilities to be activated in the event of the bank experiencing a liquidity crisis; these plans shall be subject to a periodic review, updating based on the results of applying alternative scenarios, reporting and approval by the competent managing body and shall lead to appropriate changes in internal policies and processes;

3. methods employed in liquidity management, including the methodology used to calculate the minimum balance on deposits and a description of the principles thereon;

4. (new; Darjaven Vestnik, issue 85 of 2010, effective as of 31 December 2010) the methodology for identification, measurement, management and monitoring of funding positions, which shall include the current and projected material cash flows in and arising from assets, liabilities, off-balance-sheet items, including contingent liabilities and the possible impact of reputational risk;

5. (new; Darjaven Vestnik, issue 85 of 2010, effective as of 31 December 2010) liquidity risk mitigation tools, including a system of limits and liquidity buffers in order to be able to withstand a range of different stress events and an adequately diversified funding structure and access to funding sources;

6. (former item 4; Darjaven Vestnik, issue 85 of 2010, effective as of 31 December 2010) the powers, structure and composition of the liquidity management body;

7. (former item 5; Darjaven Vestnik, issue 85 of 2010, effective as of 31 December 2010) the duties of bank employees and competent managers responsible for liquidity monitoring, reporting and management.

(3) (new; Darjaven Vestnik, issue 85 of 2010, effective as of 31 December 2010) Banks shall distinguish between pledged and unencumbered assets that are available at all times, in particular during emergency situations. Banks shall take into account the legal entity in which assets reside, the country where assets are legally recorded either in a register or in an account, as well as their eligibility. They shall also monitor how assets can be mobilised in a timely manner.

(4). (former paragraph 3; Darjaven Vestnik, issue 85 of 2010, effective as of 31 December 2010) Internal rules and material amendments thereto shall be submitted to the Bulgarian National Bank for review within ten 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 competent managing body of the bank and shall have as members at least one of the individuals under Article 10, paragraph 1 of the Law on Credit Institutions.

(2) The liquidity management body shall be responsible for developing and employing the liquidity management system.

(3) (amended; Darjaven Vestnik, issue 85 of 2010, effective as of 31 December 2010) The liquidity management body shall prepare contingency plans in case of unexpected outflows of funds due to unforeseen events or adverse circumstances, taking into account the potential impact of institution-specific, market-wide and combined alternative scenarios. Different time horizons and varying degrees of stressed conditions shall be considered.

(4) (amended; Darjaven Vestnik, issue 85 of 2010, effective as of 31 December 2010) The liquidity management body shall periodically submit reports to the competent managing body concerning its operational decisions, including also results of the periodic stress tests, taking into account the outcome of the alternative scenarios referred to in paragraph 3.

(5) (new; Darjaven Vestnik, issue 85 of 2010, effective as of 31 December 2010) The competent managing body shall review and assess periodically the effectiveness of the decisions under paragraph 4 and shall also adjust accordingly the strategies, internal rules and limits for liquidity risk, in which appropriate measures for applying them in possible liquidity shortfalls are envisaged.

(6) (new; Darjaven Vestnik, issue 85 of 2010, effective as of 31 December 2010) The competent managing body shall communicate risk tolerance to all relevant business lines.

Management Information System

Article 5. (1) (amended; Darjaven Vestnik, issue 85 of 2010, effective as of 31 December 2010) The system for measurement, monitoring and controlling bank's liquidity shall maintain all information required for the current calculation of the liquidity position taking into account the liquidity profile of the bank and liquidity of the markets on which the bank operates.

(2) The system shall be based on:

1. constructing and maintaining a maturity ladder of assets, liabilities and off-balance sheet items;

2. assessing cash inflows and outflows; and

3. (amended; Darjaven Vestnik, issue 85 of 2010, effective as of 31 December 2010) calculating the required amounts of liquid assets and liquid buffers.

4. (new; Darjaven Vestnik, issue 85 of 2010, effective as of 31 December 2010) using adequate allocation mechanisms of liquidity costs, benefits and risks.

Maturity Ladder

Article 6. (1) The liquidity management body under Article 4 shall construct and maintain a maturity ladder of assets, liabilities, off-balance sheet items and cash flows under Article 7, paragraph 1.

(2) 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.

(3) The maturity ladder shall comprise the following maturity time bands:

1. at sight up to seven days;
2. eight days to one month;
3. over one month to three months;
4. over three months to six months;
5. over six months to one year;
6. over one year.

(4) Each bank shall construct and maintain separate maturity ladders under a 'going concern' scenario and a 'liquidity crisis' scenario.

(5) A 'going concern' scenario is in place where in the coming one-year period the bank has no intention or no need to reduce or significantly limit its activity, operates without difficulties in a stable banking system and shows no danger of running into insolvency or a liquid crisis.

(6) A 'liquidity crisis' scenario is in place where the bank is unable to meet its obligations and shows signs of confidence crisis concerning its stability or the stability of the whole banking system which may cause the bank to run into insolvency.

(7) The 'liquidity crisis' maturity ladder shall be assessed in the course of on-site inspections under Article 10, paragraph 2; if a bank is experiencing liquidity problems, it may be obliged to submit its 'liquidity crisis' maturity ladder under Article 9, paragraph 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 and liability whose maturity is certain, and
- b) by projecting expected and probable cash flows for those components where maturity is uncertain, including off-balance sheet items.

(2) In projecting cash flows on assets, liabilities and off-balance-sheet items under the 'going concern' scenario, the bank shall take into consideration historic cash flows adjusted as needed to take into account seasonal fluctuations and prevailing economic and market conditions.

(3) (amended; Darjaven Vestnik, issue 85 of 2010, effective as of 31 December 2010) Under the 'liquidity crisis' scenario, the bank's cash flows shall take into consideration its contingency plans and actions, including sale of assets and methods of

financing which ensure service of near-future outflows attributable to accelerating deposit withdrawals and other anticipated cash payments.

(4) The maturity ladder assessments of both scenarios shall focus on expected short and medium-term cash flow mismatch between outflows and inflows in various time bands of the maturity ladder, and on the underlying assumptions for actual and projected maturities of assets, liabilities and off-balance-sheet items. Where inflows within a given maturity band exceed the outflows within the same time band, excess liquidity from the preceding time band shall be considered as additional inflow of liquid assets in the following time band, and in case of liquidity shortage – as additional outflow in the following time band.

Liquid Assets

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

1. cash and cash balances with the BNB;
2. balances on current accounts with other banks and interbank deposits with a term of up to seven days;
3. tradable debt securities issued by central governments or central banks which are assigned 20 per cent or more favourable risk weight in accordance with Chapter Four of Ordinance No. 8 of the BNB on the Capital Adequacy of Credit Institutions;
4. treasury bills and bonds of the Government of the Republic of Bulgaria other than those under item 3;
5. tradable debt securities issued by institutions which are assigned 20 per cent or more favourable risk weight in accordance with Chapter Four of Ordinance No. 8 of the BNB on the Capital Adequacy of Credit Institutions;
6. tradable debt securities issued by international banks for development and international organisations in accordance with Lists 1 and 2 of Appendix 3 to Ordinance No. 8 of the BNB on the Capital Adequacy of Credit Institutions;
7. gold in bullions or plates with weights accepted by gold markets.

(2) The following ratios have been introduced for monitoring liquidity:

1. liquid asset ratios – the ratio between the amount of available liquid assets under paragraph 1 and the amount of deposits and other bank’s liabilities;
2. liquidity ratios by maturity time bands – the ratio of the amount of assets (cash inflow) for the relevant maturity time band plus the excess of the net cash flow from the preceding time band to deposits and other bank’s liabilities (cash outflow) for the same maturity time band; where a shortage of the net cash flow from the preceding time band is established in calculating the ratio, the shortage shall be added to deposits and other bank’s liabilities (cash outflow);

(3) The liquidity of a bank shall be deemed acceptable if the liquidity ratios by maturity time bands are not under 1 at least for the first two maturity time bands.

(4) The Bulgarian National Bank shall monitor the amount and composition of banks' liquid assets and, where appropriate, establish minimum liquidity ratios on a bank-by-bank basis under Article 12, paragraph 1.

Chapter Three

Liquidity Supervision

Reports

Article 9. (1) Banks shall submit to the BNB monthly liquidity reports on a 'going concern basis' showing projected BGN cash flows and correspondingly the BGN equivalent of foreign currency-denominated assets and liabilities. The reports shall be prepared and submitted to the BNB by the 15th day of the month.

(2) If the BNB finds out that a bank has a material liquidity problem that requires prompt action, the Deputy Governor heading the Banking Supervision Department may oblige the bank to submit liquidity reports weekly or daily prepared on a 'liquidity crisis' basis to reflect its plans for survival.

(3) All liquidity reports shall be approved and signed by two executive directors of the bank.

(4) (new; Darjaven Vestnik, issue 85 of 2010, effective as of 31 December 2010) The auditors referred to in Article 76 of the Law on Credit Institutions shall conduct a review of the annual supervisory report prepared by the bank and express an opinion under the provisions of Article 4, paragraph 1, item 3 of Ordinance No. 14 of the BNB on the Content of the Audit Report for Supervisory Purposes.

On-site Inspections

Article 10. (1) In the course of on-site inspections, the Banking 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 liquidity.

(2) The Bulgarian National Bank may, without notice to the bank, carry out on-site inspections to review and assess the adequacy of:

1. the bank's net cash flows projections reflecting a liquidity crisis scenario;
2. contingency planning procedures to be implemented in the event of a liquidity crisis; and
3. (amended; Darjaven Vestnik, issue 85 of 2010, effective as of 31 December 2010) the ability of the bank to meet liquidity crises and the survival time implicit in its liquid asset holdings.

Supervisory Review Process and Evaluation of the Liquidity Management System

(Title amended; Darjaven Vestnik, issue 85 of 2010, effective as of 31 December 2010)

Article 11. (amended; Darjaven Vestnik, issue 85 of 2010, effective as of 31 December 2010) (1) The supervisory review process under Article 79 of the Law on Credit Institutions, respectively Article 11, paragraph 1, item 4 of Ordinance No. 8 of the BNB on Capital Adequacy of Credit Institutions shall cover the exposure to and management of liquidity risk, including the development of alternative scenario analyses, the management of risk mitigants, in particular the level, composition and quality of liquidity buffers, and effective contingency plans.

(2) Based on the information collected under Articles 9 and 10, the BNB shall regularly carry on an on-going assessment of the stability of 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.

(3) While conducting the supervisory review under paragraph 1, the BNB shall have regard to the role played by a bank in the financial markets.

(4) The Bulgarian National Bank shall duly consider the potential impact of exercising its supervisory powers under this Ordinance on the financial stability in other Member States.

Enforcement Measures and Sanctions

Article 12. (1) (amended; Darjaven Vestnik, issue 85 of 2010, effective as of 31 December 2010) Where an individual bank experiences liquidity difficulties or systemically fails to fulfill requirements for the acceptable level of liquidity set out in Article 8, paragraph 3, the Deputy Governor heading the Banking Supervision Department may set minimum liquid asset ratios to be attained by the bank within a limited time frame.

(2) Where a bank is in violation of the requirements of this Ordinance and fails to implement remedial actions that have been conveyed by the BNB, the Deputy Governor heading the Banking Supervision Department may impose administrative measures and sanctions for correction of such violations under Article 103, paragraph 2 of the Law on Credit Institutions.

Transitional and Final Provisions

§ 1. This Ordinance is issued on the grounds of Article 42 in connection with § 13 of the Law on Credit Institutions, and is adopted by Resolution No. 25 of 1 March 2007 of the Governing Council of the Bulgarian National Bank and repeals Ordinance No. 11 on Liquidity Management and Supervision of Banks (Darjaven Vestnik, issue 125 of 1997).

§ 2. The Deputy Governor heading the Banking Supervision Department shall issue mandatory instructions on the enactment of this Ordinance.

Transitional and Final Provisions
to the Ordinance on Amendment of Ordinance No. 11 of
2007 on Bank Liquidity Management and Supervision

(published; Darjaven Vestnik, issue 85 of 2010,
effective as of 31 December 2010)

§ 11. This Ordinance is issued on the grounds of Article 16, item 5 of the Law on the Bulgarian National Bank and Article 42, paragraph 2 in connection with § 13 of the Transitional and Final Provisions of the Law on Credit Institutions and is adopted by Resolution No. 95 of 6 October 2010 of the Governing Council of the Bulgarian National Bank.

§ 12. This Ordinance shall come into force as of 31 December 2010.