



Bulgarian National Bank

**TO
THE EXECUTIVE DIRECTORS
OF BANKS**

Recommendations for the development of information and precautions to be taken to improve the management of liquidity risk contingency

Dear Chief Executives,

The results of the stress tests of the European banking system gave clear indication of a number of weaknesses, including the management of liquidity. In this regard, the European Banking Authority (EBA) conducted a separate analysis of the state of liquidity risk and the problems arising from it.

Considering the results of this analysis, the EBA adopted series of necessary measures to enhance the resilience of banks to future liquidity problems. This is essential, especially when taking into account the recent development of a debt crisis in the European Union and problems encountered in providing adequate funding from European banking groups, some of which operate in Bulgaria. In this context, the EBA issued recommendations to the supervisory authorities of the Member States to take measures which will ensure adequate monitoring and management of liquidity risk in banks.

In this context, and in relation to the supervisory review and evaluation process as stipulated in Art. 79 of LCI and Art. 11, paragraph 1 of Ordinance No 11 of the BNB on Bank Liquidity

Management and Supervision, banks should at all times be in possession of the following information, which will be demanded by the Banking Supervision Department of the BNB, whenever considered necessary:

- Data on the size and composition of the planned liquidity buffers provided for both "going concern" and "liquidity crisis" scenarios;
- Sources of additional funding and time to activate liquidity buffers;
- The bank's strategy to maintain and increase liquidity buffers pursuant to Art. 3, para. 2, point 5 of Ordinance No. 11 of the BNB;
- Assessment of the amount of funds that can be ordered by customers of the bank;
- Forecast data for the number of days needed to meet the 10%, 20% and 30% of cash withdrawals from bank accounts of individuals and households;
- Description of potential weaknesses in the sudden withdrawal of funds from customer accounts leading to a lack of funding;
- Limits on the size, maturity and type of currency (leva, euro and other currencies) exposures to domestic and foreign banks;
- Measures taken to balance the existing currency mismatches between cash inflows and outflows.

In addition, we demand from the banks from 01.11.2011. to:

- Establish and maintain on a daily basis a report of the Bank under BNB Ordinance No. 11 for any date , which should be available for provision upon request for any date to the Banking Supervision Department of the BNB;
- Update of any existing or introducing an entirely new action plans consistent with the

current situation, aimed at balancing inflows and outflows with the purpose of increasing the stability of funding sources;

- Development of measures to reduce the concentration in individual sources or types of funding.

With a view to the above, you should present by **1 November 2011**, to the Banking Supervision Department of the BNB information on the actions taken to effectively implement the measures prescribed above, including with respect to the required update of your internal policies and control systems for liquidity and liquidity risk management.

RESPECTFULLY YOURS,

**BNB Deputy Governor
Banking Supervision Department**