Unofficial translation

NATIONAL BANK OF ROMANIA

Regulation No. 18/2009

on governance arrangements of the credit institutions, internal capital adequacy assessment process and the conditions for outsourcing their activities,

subsequently amended and supplemented by:

- Regulation No. 1/2010

- Regulation No. 22/2010
- Regulation No. 25/2010
- Regulation No. 10/2011
- Regulation No. 29/2011
- Regulation No.10/2012
- Regulation No. 15/2012
- Regulation No. 16/2012

Having regard to the provisions of art. 24, art. 77, art. 101, art. 104, art. 108 para. (1), art. 122, art. 148, art. 149, art. 289, art. 320, art. 384 para. (1), art. 385 para. (1) of the *Government Emergency Ordinance No. 99/2006 on credit institutions and capital adequacy*, approved as further amended and supplemented by Law No. 227/2007, subsequently amended and supplemented, as well as the provisions of art. 47 para. (1) of the *Government Emergency Ordinance No. 90/2008 on the statutory audit of the annual financial conditions and of the consolidated annual financial conditions*, approved as further amended and supplemented by Law No. 278/2008, subsequently amended and supplemented,

In virtue of the provisions of art. 25 para. (2) letter a) and of art. 48 para. (1) of *Law No. 312/2004 regarding the Statute of the National Bank of Romania*,

the **National Bank of Romania** issues the present regulation.

CHAPTER I

General provisions

Art. 1 – (1) The present regulation is applied to credit institutions, Romanian legal persons and regulates, on individual and/or, as appropriate, consolidated or sub-consolidated level, as well as at cooperative network level, the general framework for:

a) governance arrangements of credit institutions;

b) internal capital adequacy assessment process;

c) conditions for outsourcing the activities.

(2) This regulation is applied accordingly also to branches of credit institutions from third countries.

(3) The provisions regarding liquidity risk management from Chapter III – Internal capital adequacy assessment process and Chapter IV – Stress testing shall be applied accordingly also to branches of credit institutions from Member States.

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Art. 2 – …

(5) Within the meaning of the present regulation, the terms and expressions below have the following meaning:

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j^1) unhedged borrowers – borrowers without a natural or financial hedge operation;

j^2) natural hedges operation – operation within which the borrowers receive income in foreign currency, including remittances or export receipts;

j^3) financial hedge operation – operation which presumes a contract with the credit institution with the purpose of hedging the foreign exchange risk;

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CHAPTER II

Governance arrangements of credit institutions

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Section 3

Internal control system of a credit institution

3.1 General provisions concerning the internal control system

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Art. 28 – …..

(3)[1] Credit institutions should have in place management information systems capable of responding to the demands imposed by the regulatory and reporting requirements.

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CHAPTER III

Internal capital adequacy assessment process

Section 1

General provisions regarding internal capital adequacy assessment process

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Art. 65 – (1) For the internal capital adequacy assessment process, the credit institution shall identify and assess all the material risks is or might be exposed to, including:

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b) risks which are not fully covered by the regulated capital requirements:

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v) the risks implied by foreign currency lending to unhedged borrowers.

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Section 3

Credit risk

3.1 General provisions on credit risk and country risk

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Art. 99[1] – In order for own funds to maintain their capacity to ensure ongoing activity and losses absorption on an ongoing basis, credit institutions shall incorporate in an appropriate manner their foreign currency lending risks in their internal risk management system of credit risk.

Art. 99[2] – For the purposes of art.99[1], credit institutions shall have in place appropriate policies and procedures to the size and complexity of their activities in order to ensure an accurate identification and assessment of the foreign currency lending risks and to reflect

them both in their internal risk pricing processes and internal capital adequacy assessment process.

Art. 99^{3} – (1) Credit institutions shall document a method to determine the internal reference prices for the foreign currency lending for unhedged borrowers taking into consideration all their risk assumed.

(2) The method provided in para.1 shall ensure that the internal reference prices reflect the required costs for covering all their foreign currency lending risks in order to ensure ongoing activity of the credit institution.

(3) In the sense of para.2, at least the following costs are considered:

a) the costs for the coverage of the expected losses that occur regularly in the normal course of the activity;

b) the costs for the risks with low frequency but with high importance through the level of the losses that they can produce;

c) the operating costs;

d) the costs relative to the financing sources of the credits denominated in foreign currency.

Art. 99^{4} – In the sense of art. 99^{2}, within the internal capital adequacy assessment process, the credit institutions must determine, plan, maintain and allocate internal capital in order to cover all the risks implied by the foreign currency lending granted to unhedged borrowers.

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Section 6

Liquidity risk

Art. 155 – (1) Credit institutions shall ensure that an adequate level of liquidity reserves is in place.

(2) In the meaning of para. (1), credit institutions shall have in place strategies, policies, processes and systems to identify, measure, manage and monitor liquidity risk, developed over an appropriate set of time horizons, including intraday.

(3) The strategies, policies, processes and systems referred to in para. (2) shall be structured on business lines, currencies and legal entities and include adequate mechanisms to allocate costs, benefits and liquidity risks.

(4) The strategies, policies, processes and systems referred to in para. (2) shall be suited to the size and complexity of credit institutions' activities, credit institutions' role in the financial system, as well as their risk profile and their level of risk tolerance.

(5) The liquidity risk management policies and processes shall consider also how other risks -such as credit risk, market risk and operational risk- may impact the credit institution's overall liquidity strategy.

(6) The strategies, policies, processes and systems referred to in para. (2) shall be approved and reviewed by the management body at least annually. A credit institution's bodies having supervisory function shall ensure that the bodies having management function manage liquidity risk effectively.

(7) The bodies having management function shall develop the strategies, policies, processes and systems to manage liquidity risk in accordance with the established risk tolerance, as well as to ensure that the credit institution maintains sufficient liquidity.

(8) The bodies having management function shall continuously review information on the credit institution's liquidity developments and report to the bodies having supervisory function on a regular basis.

(9) The bodies having supervisory function shall ensure that the bodies having management function define adequate processes and organisational structures to implement the strategies, policies, processes and systems referred to in para. (2).

(10) A credit institution's organisational structure shall provide for the segregation of duties between operational and monitoring functions in order to prevent conflict of interests. Credit institutions shall pay special attention to the powers and responsibilities of the unit in charge of providing funds. Credit institutions shall consider all time horizons, from intraday to long-term, when tasks are allocated.

Art. 156 – (1) A credit institution shall develop a sound process for the identification, measurement, management and monitoring of **liquidity positions**. This process shall include a robust framework for **cash-flow projection arising from assets, liabilities and**

off-balance sheet items, including contingent liabilities, as well as from counterbalancing capacity, over an appropriate set of time horizons, both under normal and stressed conditions. Cash-flow projection shall be broken down along major business lines, instruments and maturity buckets, taking into account the possible impact of reputational risk. The application of stress scenarios for cash-flow projection shall be based on the business-as-usual projections, with the review of flows in all lines and for all maturity buckets according to the assumptions made under the stress scenarios.

(2) In the meaning of para. (1), cash flows arising from assets, liabilities and off-balance sheet items are a function of the business strategy and the business model of credit institution, and counterbalancing capacity shall be considered a plan to hold, or have access to, excess liquidity to allow the continuity of the activity over the short, medium and long-term time horizons, under the conditions of stress scenarios, as well as a plan for further liquidity generation capabilities, whether through tapping additional funding sources, making adjustments to the business or through other more fundamental measures.

(3) Credit institutions shall determine the liquidity of an asset based not on its trading book/non-trading book classification or its accounting treatment but on its liquidity-generating capacity.

(4) **A credit institution shall identify, measure, monitor and control the liquidity risk positions for:**

a) future cash flows of assets and liabilities;

b) sources of contingent liquidity demand and related triggers associated with off-balance sheet positions;

c) currencies in which a credit institution is active;

d) correspondent, custody and settlement activities.

(5) In the meaning of para. (4) letter a), a credit institution shall:

a) have a robust liquidity risk management framework providing dynamic cash flow forecasts that include assumptions on the likely behavioural responses of key counterparties to changes in conditions and are carried out at a sufficiently granular level;

b) make realistic assumptions about its future liquidity needs for both the short- and long-term that reflect the complexities of its underlying businesses, products and markets;

c) analyse the quality of assets that could be used as collateral, in order to assess their potential for providing secured funding in stressed conditions;
d) manage the timing of incoming flows in relation to known outgoing sources in order to obtain an appropriate maturity distribution for its sources and uses of funds.
(6) In the meaning of para. (4) letter b), a credit institution shall identify, measure, monitor and control potential cash flows relating to off-balance sheet commitments and other contingent liabilities. A special attention shall be given to management of liquidity risk related to the relationship with special purpose entities, in relation to which the credit institution acts as sponsor or provides material liquidity support, **financial derivatives** and guarantees and commitments.
(7) In the meaning of para. (4) letter c), a credit institution shall:
a) assess its aggregate foreign currency liquidity needs and determine acceptable currency mismatches;
b) undertake a separate analysis of its strategy for each currency in which it has significant activity, considering potential constraints in times of stress;
c) assess the likelihood of loss of access to the foreign exchange markets as well as the likely convertibility of the currencies in which the credit institution carries out its activities.
(8) In the meaning of para. (4) letter d), a credit institution shall understand and have the capacity to manage how the provision of correspondent, custodian and settlement bank services can affect its cash flows.

Art. 157 – (1) A credit institution subject to consolidated supervision by the National Bank of Romania shall have knowledge of the strategic liquidity risk and liquidity risk management, the liquidity positions of members of its group, as well as the potential liquidity flows between different entities of the group in normal and stressed times.
(2) In the meaning of para. (1), the credit institution shall monitor and control liquidity risk exposures and funding needs at the level of individual entities and its group as a whole, within and across business lines and currencies, taking into account legal, regulatory and operational limitations to the transferability of liquidity and unencumbered assets which can be used as collateral, both within and outside the European Economic Area.

(3) Under the liquidity risk management processes, for each country in which it is active, a credit institution shall ensure that it has the necessary expertise about country-specific features of the regulatory regime that influence liquidity risk management, including arrangements for dealing with failed credit institutions, deposit insurance, central bank's operational framework and collateral policy.

Art. 158 – (1) Credit institutions shall employ measurement tools or metrics to quantify liquidity risk.
(2) To obtain a forward-looking view of liquidity risk exposures, a credit institution shall use metrics that assess the structure of the balance sheet, as well as metrics that project cash flows and future liquidity positions, taking into account off-balance sheet items risks. These metrics shall span vulnerabilities across business-as-usual and stressed conditions over various time horizons.

Art. 159 – (1) The measurement and analysis of liquidity risk shall be tailored to the credit institutions' business mix and complexity, as well as their risk profile.
(2) The measurement and analysis of liquidity risk shall incorporate the cash flows and liquidity implications arising from **all material assets, liabilities, off-balance sheet positions and other activities of the credit institutions.** The analysis shall be forward-looking and shall identify **potential future funding mismatches so that the credit institution can assess its exposure to the mismatches and identify liquidity sources to mitigate the potential risks.** The credit institution shall project cash flows over time under a number of alternative scenarios. **These projections shall serve to produce a liquidity gap analysis** based on assumptions of the future behaviour of assets, liabilities and off-balance sheet items, and then used to calculate the cumulative net excess or shortfall over the time frame for the liquidity assessment.
(2^1) In the meaning of para. (2), **credit institutions shall fill the liquidity gap from various funding sources that are part of the counterbalancing capacity, or carry over from other longer maturities.**
(3) Credit institutions shall take steps to ensure that the assumptions referred to in para. (2) are reasonable and appropriate, documented and periodically reviewed and approved.

Art. 160 – (1) Credit institutions shall consider different liquidity risk mitigation tools, including a system of limits and liquidity buffers in order to control the liquidity risk exposure and vulnerabilities and to be able to withstand a range of different stress events and shall review them regularly.
(2) In the meaning of para. (1), limits shall be relevant to the business in terms of complexity of activity, nature of products, currencies and markets served.
(3) Credit institutions shall set limits to manage day-to-day liquidity within and across lines of business and entities of their group under normal and stressed conditions.
(4) A credit institution shall establish internal limits on intragroup liquidity risk to mitigate the risk of contagion under stress, including for each currency used by the credit institution.
(5) Where a credit institution or its group's foreign currency business- either directly, or indirectly through lending in foreign exchange to domestic borrowers- is significant, or where a particular currency in which a credit institution has material exposure is experiencing problems, the credit institution shall set and regularly review limits on the size of its **cash flow mismatches for foreign currencies in aggregate and for each significant individual currency.**

Art. 161 – (1) Credit institutions shall design a set of early warning indicators to aid the process to identify the emergence of increased risk or vulnerabilities in the liquidity position or potential funding needs.
(2) Early warning indicators can be quantitative or qualitative in nature and may include but are not limited to:
a) rapid asset growth, especially when funded with potentially volatile liabilities;
b) growing concentrations in assets or liabilities;
c) increases in currency mismatches;
d) a decrease of weighted average maturity of liabilities;
e) repeated incidents of positions approaching or breaching internal or regulatory limits;
f) negative trends or heightened risk associated with a particular product line;
g) significant deterioration in the credit institution's earnings, asset quality, and overall financial condition;
h) negative publicity;

i) a credit rating downgrade;

j) stock price declines or rising debt costs;

k) widening debt or credit-default-swap spreads;

l) rising wholesale or retail funding costs;

m) counterparties' request for additional collateral for credit risk exposures or their resistance to entering into new transactions;

n) elimination or decrease of the credit lines given to correspondent credit institutions;

o) increasing retail deposit outflows;

p) increasing redemptions of CDs before maturity;

q) difficulty accessing longer-term funding;

r) difficulty placing short-term liabilities -eg commercial paper-.

(3) A credit institution shall have early warning indicators that signal whether embedded triggers in certain products -e.g. OTC derivative transactions- are about to be breached or whether contingent risks are likely to crystallise.

Art. 162 – (1) A credit institution shall have a reliable management information system designed to provide the bodies having supervisory function, the bodies having management function and other appropriate personnel with timely and forward-looking information on the liquidity position.

(2) Credit institutions shall have appropriate IT systems and processes that are commensurate with the complexity and materiality of their activities and the techniques they use to measure liquidity risks. The adequacy of the IT systems and processes shall be reviewed regularly.

(3) To effectively manage and monitor its net funding requirements, a credit institution shall have the ability to calculate liquidity positions on an intraday basis, on a day-to-day basis for the shorter time horizons, and over a series of more distant time periods thereafter.

(4) The management information system referred to in para. (1) shall be used in day-to-day liquidity risk management to monitor compliance with the credit institution's established policies, procedures and limits.

(5) The management information system referred to in para. (1) shall have the ability to calculate liquidity positions in all of the currencies in which the credit institution conducts

business, both on a subsidiary/branch basis in all jurisdictions in which the credit institution is active and on an aggregate group basis.

(6) The management information system referred to in para. (1) shall capture all sources of liquidity risk, including contingent risks and the related triggers and those arising from new activities, and have the ability to deliver more granular and time sensitive information during stress events.

Art. 163 - The bodies having management function shall establish a set of reporting criteria, specifying the scope, manner and frequency of reporting for every category of recipients and the parties responsible for preparing the reports.

Art. 164 – (1) Credit institutions' strategies shall provide **effective diversification of the funding sources in the short-, medium- and long term.**

(2) **The bodies having management function shall be aware of the composition, characteristics and diversification of the credit institution's assets and funding sources** and regularly review its funding strategy.

(3) In the meaning of para. (1), credit institutions shall maintain **an active presence within markets relevant to their funding strategy and build strong relationships with funds providers.** To this end, credit institutions shall continuously invest in adequate infrastructures, processes and information collection systems.

(4) Credit institutions shall regularly gauge **the capacity to raise funds quickly from each source.**

(5) In the meaning of para. (1), funding sources diversification targets shall be part of the medium- to long-term funding plans and be aligned with the budgeting and business planning process of the credit institutions. **For diversification of the funding sources purposes, credit institutions shall establish limits by counterparties, secured versus unsecured market funding, instrument types, securitisation vehicles, currencies and geographic market.**

(6) The bodies having management function shall ensure that market access, from both the credit institution's ability to raise new funds and to liquidate assets, is being actively managed, monitored and tested by the appropriate staff.

(7) A credit institution shall consider the impact of both market disruptions and name-risk issues on cash flows and access to short- and long-term funding markets.

(8) **A credit institution shall identify and build strong relationships with current and potential investors.**

(9) **A credit institution shall take a prudent view of the relationships with funds providers in times of stress,** as well as effects that losses and the resulting reduction in share capital can have on the credit institution's ability to maintain funding relationships. These aspects shall be considered in case of stress test scenarios and contingency funding plans.

(10) **The bodies having management function shall regularly review and test the fund-raising options to evaluate their effectiveness at providing liquidity in the short-, medium- and long-term.**

Art. 165 – (1) Credit institutions shall actively manage intraday liquidity positions and risks to meet payment and settlement obligations on a timely basis under both normal and stressed conditions.

(2) A credit institution shall adopt intraday liquidity management objectives that allow it to identify and prioritise time-specific and other critical obligations in order to meet them when expected, and settle other less critical obligations as soon as possible.

(3) A credit institution's strategy to achieve its intraday liquidity management objectives shall include the following operational objectives:

a) credit institution shall have the capacity to measure expected daily gross liquidity inflows and outflows, anticipate the intraday timing of these flows where possible, and forecast the range of potential net funding shortfalls that might arise at different points during the day;

b) credit institution shall have the capacity to monitor intraday liquidity positions against expected activities and available resources -balances, remaining intraday credit capacity, available collateral-;

c) credit institution shall arrange to acquire sufficient intraday funding to meet its intraday objectives;

d) credit institution shall have the ability to manage and mobilise collateral as necessary to obtain intraday funds and also understand the timeframes required to mobilise different forms of collateral, including collateral held on a cross-border basis;
e) credit institution shall have a robust capability to manage the timing of its liquidity outflows in line with its intraday objectives;
f) credit institution shall be prepared to deal with unexpected disruptions to its intraday liquidity flows. Stress testing and contingency funding plans shall reflect intraday considerations. A credit institution shall also understand the level and timing of liquidity needs that may arise as a result of the failure-to-settle procedures of payment and settlement systems in which it is a direct participant.
(4) A credit institution shall have policies, procedures and systems to support the operational objectives referred to in para. (3) in all of the financial markets and currencies in which it has significant payment and settlement flows. The tools and resources shall be tailored to the credit institution's business model and role in the financial system, as well as how it conducts its activities for a particular market –e.g. via direct participation in a payment or settlement system or via correspondent or custodian credit institutions-, by taking into consideration the correspondent or custodian services and intraday credit facilities it provides to other credit institutions, firms or systems.

Art. 166 – (1) A credit institution shall actively manage its assets positions that may be used as collateral, distinguishing between encumbered and unencumbered assets, that are available at all times, in particular during emergency situations.
(2) Credit institution shall monitor the level of available collaterals by legal entity and jurisdiction in which those collaterals are recorded, either in a register or in an account, and by currency. Credit institution shall also monitor the eligibility of collaterals, as well as how these collaterals can be mobilised in a timely manner, given the possibility of accessing them in the physical location – the custodian credit institution or securities settlement system with which collateral is held.
(3) Credit institution shall diversify the sources of collateral.
(4) In order to ensure sound collateral management, credit institutions shall:

a) have policies in place for the identification and estimation of their collateral needs as well as of all collateral resources, over different time horizons;
b) understand and address the legal and operational constraints underpinning the use of collaterals;
c) have an overall policy, approved by the bodies having management function, that includes a conservative definition of collateral and specifies the level of unencumbered collateral that shall be available at all times to face unexpected funding needs; and
d) implement the policies and organise collateral management in a way that is suited to the operational organisation.
(5) Credit institutions shall have cash and collateral management systems that adequately reflect the procedures and processes of different payment and settlement systems in order to ensure effective monitoring of their intraday needs, at a credit institution's level as well as at the regional or group level, depending on the liquidity risk management in place.
(6) When using netting arrangements, credit institutions shall consider all legal and operational factors relating to those agreements in order to ensure that the risk mitigation effect is assessed correctly in all circumstances.

Art. 167 – (1) Credit institutions shall consider explicitly the extent to which contingent liquidity risk shall be addressed by readily available liquidity reserves as opposed to other counterbalancing capacity.
(2) Credit institutions shall adopt an operational organisation to manage short-term - overnight and intraday- liquidity within the context of their strategic longer-term objectives of liquidity risk management.
(3) Credit institutions shall set up continuous monitoring and control of operations, have at their disposal sufficient intraday funding, assign clearly defined responsibilities, and establish adequate back-up procedures to ensure the continuity of operations.
(4) Credit institutions shall pay special attention to monitoring sources of unexpected liquidity demands under stressed conditions.

Art. 168 – (1) The liquidity risk management framework shall ensure that credit institution has in place adequate liquidity, including a liquidity buffer.

(2) In the meaning of para. (1), the liquidity buffer represents available liquidity, covering the additional need for liquidity that may arise over a defined short period of time, under stress conditions. The liquidity buffer represents the short end of the counterbalancing capacity, under stress conditions.
(3) The size of the liquidity buffer shall be aligned with the established risk tolerance of the credit institution.

Art. 168[1] – (1) The liquidity buffer shall be calibrated in three dimensions:
a) the severity and characteristics of the stress scenarios,
b) the time horizon fixed as the survival period,
c) the characteristics of the assets in the buffer.
(2) In the meaning of para. (1) letter a), credit institutions shall consider three types of stress scenarios: idiosyncratic stress; market specific stress and a combination of the two. In all these three types of scenarios, credit institution shall divide wholesale funding as follows: financial corporates, large non-financial corporates and small and medium-sized enterprises.
(3) In the meaning of para. (2), idiosyncratic stress should assume a loss of market confidence in a credit institution or its group, equivalent to a multi-notch downgrade. In this type of scenario, the plausible assumption should be no rollover of unsecured wholesale funding and some outflows of retail deposits are recorded.
(4) In the meaning of para. (2), market-wide stress (defined as the simultaneous tightening of available funding in several markets and uncertainty about, or a general decline in, the value of financial assets and the impact of economic recession) assumes a decline in the liquidity value of certain assets and deterioration in market conditions where credit institution can raise funds. In this type of scenario, the plausible assumption should be that wholesale funding (both secured and unsecured) declines first and is most affected.
(5) In the meaning of para. 1 letter b), the survival period represents the period during which the credit institution can continue operating without needing to generate additional funds and still meet the payments due under the assumed stress scenarios. Credit institutions shall consider a survival period, which shall be divided as follows: a short time

horizon of acute stress (up to one or two weeks) and a longer period of less acute, but more persistent stress (up to one or two months).

(6) In the meaning of para. (5), the resulting buffer requirements shall reflect the assumed liquidity strains in the respective two sub-periods as determined by the stress scenarios, and the distribution of the buffer, in terms of composition and relative size over the two horizons, shall reflect the projected liquidity needs, given the underlying assumptions. Beyond these two horizons, credit institutions shall consider other measures (such as contingency funding plans, activity adjustment, business model change) in order to assure the longer-term activity.

(7) In the meaning of para. (1) letter c), the liquidity buffer shall be composed mainly of cash and high liquid assets, even in stressed circumstances, which credit institution can sell or repo without accepting large fire sale discounts, which would erode the market's confidence in them and generate mark-to-market losses for other banks holding similar instruments.

(8) In the meaning of para. (7), eligible cash represents the liquid assets, held by the credit institution, corresponding to the monetary base as defined by the central bank and shall exclude cash that is unavailable due to business-as-usual requirements (such as cash held in ATMs). In the case of compulsory minimum reserves, credit institutions shall consider the time horizon over which these are available. For the short time horizon (up to one or two weeks) the entire overnight cash holdings at central banks, including reserves, can be included in the liquidity buffer. When an averaging mechanism in the reserve requirement regime applies, credit institutions shall establish predefined action plans to regularize the reserve requirements when the risk of a breach starts to arise and define formal trigger points for implementing these plans. Over the longer time horizon (up to one or two months), only excess of liquid assets, held by the credit institution, above reserve requirements, may be included in the liquidity buffer.

(9) In the meaning of para. (7), credit institutions shall hold assets that are central bank eligible and highly liquid in markets (such as high quality unencumbered government bonds, covered bonds) to guard against severe, but short-term (up to one or two weeks) periods of stress, where market liquidity is under strain and credit institutions shall be able

to generate liquidity immediately and at predictable values without adding to the market strain.

(10) In the meaning of para. (7), for the longer term (up to one or two months) periods of stress, credit institutions may hold a wider set of liquid assets, subject to the credit institution demonstrating to National Bank of Romania – Supervision Department the ability to generate liquidity from those assets under stress within the specified period of time. In their internal policies, credit institutions shall specify criteria relevant for distinguishing assets that remain liquid under stress (such as characteristics of the issuer of a security, the depth of the relevant market over a sufficiently long period of time).

(11) Credit institutions shall have a clear understanding of the terms and conditions under which central bank may provide funding against assets eligible as collateral under stressed conditions. In this respect, credit institutions shall periodically test whether central bank will effectively provide funding against these assets and shall apply appropriate haircuts to reflect the amount of funding that central bank might provide in stressed conditions. Credit institutions shall demonstrate to the National Bank of Romania – Supervision Department the existence of an adequate diversification of the assets in the composition of the buffer so as to guarantee that they are not relying too heavily on access to central bank facilities.

Art. 168^2 - (1) Credit institutions shall manage the stock of liquid assets to ensure, to the maximum extent possible, that this will be available in times of stress. Credit institutions shall avoid holding concentrations of single assets and ensure that there are no legal or operational impediments to using these assets.

(2) In the meaning of para. (1), in determining the liquidity of assets and whether they remain liquid in times of stress, credit institutions may use factors such as: issuer-specific factors (such as the issuer's credit quality), issuance-specific factors (such as the maturity and the size of the issuance) and institutional factors (such as whether the asset is traded in centralized markets or over the counter and whether it has a diversified investor base).

(3) In the meaning of para. (1), the diversification of holding assets shall be done by factors such as issuer, maturity or currency.

(4) In the meaning of para. (1), credit institutions shall seek to be active on a regular basis in each market in which they act directly and hold assets for liquidity purposes.

Art. 169 – (1) Credit institutions shall conduct stress tests on a regular basis to identify sources of potential liquidity strain and to ensure that current exposures remain in accordance with the established liquidity risk tolerance.
(2) Credit institutions shall use stress test outcomes to adjust the strategies, policies and limits on liquidity risk and develop effective contingency plans.
(3) Credit institutions shall conduct stress tests in accordance with the provisions of Chapter IV.

Art. 170 – (1) Credit institutions shall have formal contingency funding plans that set out the strategies for addressing liquidity shortfalls in emergency situations that include both credit institution-specific and more generalised market-wide stress, for currencies in which credit institutions are active.
(2) In the meaning of para. (1), a contingency funding plan shall include policies to manage a range of stress environments, establish clear lines of responsibility and include clear solving procedures.
(3) Contingency funding plans shall be commensurate with the credit institutions' complexity, risk profile and role in the financial system.
(4) A contingency funding plan shall include a clear description of a diversified set of potential contingency funding measures for preserving liquidity and making up cash flow shortfalls in adverse situations, with the articulation of the available potential contingency funding sources and of the amount of funds which can be derived from these sources.
(5) In the meaning of para. (4), at a minimum, contingency funding plans shall consider the contingency funding sources available in the event of a reduction in supply from different counterparty classes.
(6) Contingency funding plans shall address a range of different time horizons, including intraday, and be integrated with the ongoing analysis of liquidity risk and with the results of the scenarios and assumptions used in stress tests.
(7) Contingency funding plans shall be approved by the bodies having management function of the credit institutions.

(8) Credit institutions shall regularly test and update the plans referred to in para. (1) to ensure that these are operationally robust.
(9) In the meaning of para. (8), credit institutions shall consider the feasibility of measures included in the contingency funding plans if more than one credit institution tries to undertake them at the same time.

Art. 171 – Credit institutions shall demonstrate to the National Bank of Romania that all measures were taken to ensure the necessary conditions to apply contingency plans quickly when appropriate, including by entering into funding agreements.

Art. 172 – Under the overall liquidity risk management framework, credit institutions shall also consider the liquidity risk arising from the impossibility of applying some funding agreements as a result of lack of contractual clauses and possible implicit support.