



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

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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