

05 spi albania project liquidity cb draft questionnaire assignment

[Business](#)



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 Contact persons: Ms. Endrita Xhaferaj, Director, Financial Modernization Program and Analytics endrita.eu Mrs. Anuela Ristani, Director of Operations, anuela.eu Address: Twin Tower I, Kati 6, Apt. A3. Tel. 355 42 280 359; Fax. + 355 42 280 371 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

<https://assignbuster.com/05-spi-albania-project-liquidity-cb-draft-questionnaire-assignment/>

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 a 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: Project Manager: Deputy Project Manager: Technical Anchor (TAN): Mr. Indrit Bank, Supervision Department, Bank of Albania.

Mrs. Miranda Ramaj, Supervision Department, Bank of Albania. Ms. Enkelejda Bargjo, Market and Liquidity Risk, Tirana Bank One peer 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 2 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

<https://assignbuster.com/05-spi-albania-project-liquidity-cb-draft-questionnaire-assignment/>

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! 3 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

<https://assignbuster.com/05-spi-albania-project-liquidity-cb-draft-questionnaire-assignment/>

quantitative minimum/prudential ratios. We would very much appreciate if you could validate our assessments by ticking in the respective boxes 1 . In case you do not agree with the stated impact/rational, please state there your reasons. Banks Impact Costs One-off Compliance costs Higher Higher +
 Comments Validation/ Rejection/ Comments Comments

Other + 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 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. The new liquidity risk management requirements involve a higher volume of reporting, monitoring and complying activities.

The immediate impact of firms having to hold On going Compliance costs Missed 1 +/+ + Legend: + increase - decrease = no effect 4 revenues Funding Costs -/+ Expected losses Benefits Cost saving / + revenues Total impact Higher + more liquid assets than previously would be a diminution in their revenues. 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.

Banks' balance sheets would be less risky, so expected losses would be lower Reduced probability of banks failing and thus reduced expected costs of such events. Higher costs during the implementation Higher costs and process, and higher long run benefits Higher benefits Consumers Impact

Costs Slightly higher costs +/- Comments Validation/ Comments Rejection/
 Comments Higher risks Higher prices Lower quality of service Benefits Better
 choice Price reduction Improved access Total impact = No effect = = =
 Slightly higher costs

Safer banking system, would reduce risk / increase protection for depositors
 and investors The additional one off costs could be reflected on the prices
 (cost transfer from the banks), but no significant effect. No direct effect No
 direct effect Slightly higher costs but more protection for depositors as a
 consequence of a safer banking system. Authorities Impact Costs One-off
 Higher + Comments 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. The supervision applied to banks subject to the new liquidity
 regime will be more intensive and complicated for supervisors. The banking
 supervisory authority Validation/ Comments Rejection/ Comments On going
 Additional resources Benefits Statutory goals + + Higher ++ 5 Better
 consumer protection Total impact 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 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. Higher The costs related to the process of new costs and

<https://assignbuster.com/05-spi-albania-project-liquidity-cb-draft-questionnaire-assignment/>

regulations, but the benefits are much higher higher. benefits Summary of
CBA Stakeholders Regulated firms Consumers Authorities Overall economy
Costs Higher Slightly higher Higher Benefits Higher No effect Higher Total
Higher Slightly higher Higher More benefits Higher costs 6