BANKIGA DHEXE EE SOOMAALIYA

البنك المركزي

CENTRAL BANK OF SOMALIA

Licensing and Supervision Department

Qaybta Shati-siinta iyo Kormeerka

REGULATION ON LIQUIDITY RISK MANAGEMENT, 2015
CBS/BS/REG/03

Contents

1. INTRODUCTION

1.1. Authority

This regulation is made by the Central Bank pursuant to its authority set forth in Sections 16(1) and 34 of the Financial Institution Law, 2012 ("FIL"), and Sections 38(1) and 52(1) of the Central Bank of Somalia Law, 2011, for the purpose of implementing Section 16 (Minimum Holding and Computation of Liquid Assets) of the FIL.

1.2. Applicability

This regulation applies to all persons licensed by the Central Bank to engage in banking business in Somalia. The requirements of this regulation apply to each bank individually, and on a fully consolidated basis to each bank, its holding company, and members of its group, if applicable.

1.3. Definition of High Quality Liquid Assets

The unencumbered balances of the following assets are deemed by the Central Bank to be *High Quality Liquid Assets*:

1.3.1. Cash on hand

1.3.2. Balances with the Central Bank of Somalia

1.3.3. Balances with domestic banks

1.3.4. Balances with banks abroad

1.3.5. Marketable securities issued or guaranteed by Sovereigns, Central Banks, Public Service Entities, the Bank for International Settlements, the International Monetary Fund, the European Central Bank and European Community, or multilateral development banks; provided that the asset possesses all of the following characteristics:
- (i) Is assigned a risk-weight of 0% or 20%
- (ii) Is traded in an active market
- (iii) Has been a reliable source of liquidity in the past even during stressed market conditions
- (iv) Is not an obligation of a financial institution or of any affiliate of a financial institution.

1.3.6. Corporate debt securities (including commercial bills and promissory notes); provided that the asset possesses all of the following characteristics:
- (i) Is rated at least AA- by a recognized external credit assessment institution
- (ii) Is traded in an active market
- (iii) Has been a reliable source of liquidity in the past even during stressed market conditions

(iv) Is not an obligation of a financial institution or of any affiliate of a financial institution.

2. REQUIREMENTS

Each licensed bank shall at all times maintain a level of High Quality Liquid Assets which exceeds the Liquid Assets Ratio and the Liquidity Coverage Ratio.

2.1. LIQUID ASSETS RATIO

2.1.1. Minimum Requirement

Each bank shall at all times maintain a Liquid Assets Ratio equal to or greater than 20%; LAR ≥ 20%.

2.1.2. Calculation

LAR = (High Quality Liquid Assets / Total Assets) x 100

2.2. LIQUIDITY COVERAGE RATIO

2.2.1. Minimum Requirement

Each bank shall at all times maintain a Liquidity Coverage Ratio equal to or greater than 100%; LCR ≥ 100%.

2.2.2. Calculation

LCR = (High Quality Liquid Assets / 30-Day Net Funding Requirement) x 100

2.2.3. 30-Day Net Funding Requirement

For purposes of calculating the LCR, a bank's 30-Day Net Funding Requirement is the *greater* of the following two amounts:

(i) The sum of Cash Outflows during the next 30 days *-/minus/less* the sum of Cash Inflows during the next 30 days; *or*

(ii) 25% of the Sum of Cash Outflows during the next 30 days.

Cash Outflows
Next 30 days

- Retail deposits
- Unsecured wholesale funding
- Secured funding
- Undrawn balances of credit and liquidity commitments
- Other contingent funding liabilities (such as guarantees, letters of credit, revocable credit and liquidity facilities)
- Other additional contractual outflows
- Net derivative cash outflows

Cash Inflows
Next 30 days

- Maturing secured lending transactions backed by High Quality Liquid Assets
- Margin lending backed by all other collateral
- All other assets
- Credit or liquidity facilities provided to the bank
- Operational deposits held at other financial institutions
- Inflows from retail counterparties
- Inflows from non-financial wholesale counterparties
- Inflows from financial institutions and Central Banks
- Other contractual inflows
- Net derivative cash inflows

3. LIQUIDITY RISK MANAGEMENT SYSTEM

The board of directors of each bank shall ensure that management develops, implements, maintains, monitors and adjusts as necessary a Liquidity Risk Management System. At a minimum, each bank's Liquidity Risk Management System shall address the following requirements.

3.1. Establish a Risk Management Committee

The board of directors shall establish a Risk Management Committee consisting of at least three of its members for the purpose of providing oversight of the efforts to manage the risks to which the bank is exposed, including liquidity risk.

3.2. Implement a Liquidity Risk Management Policy

The board of directors shall adopt, and ensure that bank management implements, a written policy for the management of the bank's liquidity risk that includes a strategy for the day-to-day management of liquidity.

3.2.1. The policy should be communicated throughout the bank

3.2.2. At regular times during the year, management shall review the underlying assumptions of the policy and strategy to ensure that they remain valid, and recommend changes as deemed necessary.

3.2.3. On a regular basis, the board of directors shall review the bank's liquidity position and management's adherence to the approved liquidity strategy and policy.

3.2.4. At least annually, the board of directors shall review the liquidity strategy, policy, and underlying assumptions, and approve revisions to the strategy and policy as deemed necessary.

3.2.5. To be considered adequate, the liquidity risk management policy shall address the following measures:

(i) Articulate the liquidity risk tolerance of the bank as determined by the board of directors based on the bank's business plan, and require that management operate within that tolerance when managing the bank's liquidity.

(ii) Include a liquidity strategy and a liquidity management plan to monitor, control, and limit liquidity risk overall, and for each currency in which the bank is materially active;

(iii) Set limits on the size of the bank's liquidity position over particular time horizons;

(iv) Provide for methods to ensure proper oversight of the bank's liquidity risk management by senior management, the Risk Management Committee, and the board of directors;

(v) Require that management develop policies and processes to implement the approved strategy and ensure adherence to established controls and limits;

(vi) Require that a crisis plan be developed and ready for implementation in case of a period of liquidity stress, whether bank-specific or system-wide;

(vii) Ensure that the bank's liquidity risk management process is adequately covered by the bank's internal control system and reviewed by both the internal and external auditors; and

(viii) Provide for a reporting mechanism to management and the board of directors on the bank's liquidity position, both on a regular basis and in emergencies.

3.3. Analyze Net Funding Requirements

A bank shall measure, project, and monitor its net funding requirements over various specified periods of time and under alternative, including adverse, scenarios. In analyzing net funding requirements, consideration shall be given to how other risks (credit, market, and operational risks) may impact the bank's overall liquidity strategy.

3.4. Diversify Funding Sources

A bank shall have diverse funding sources and avoid undue concentrations based on providers and types of instruments. A bank shall regularly assess its funding sources under normal and alternative, including adverse, scenarios.

3.5. Conduct Stress Testing

A bank shall analyze its liquidity and its liquidity management plan under various scenarios that differ from the normally expected scenario. The tested scenarios should address both internal (bank specific) and external (market related) stress factors across different time horizons and in each currency in which the bank is materially active.

3.6. Develop a Contingency Funding Plan

A bank shall have a written Contingency Funding Plan for managing liquidity during a crisis that shall include:

3.6.1. Methods to cover shortfalls in liquidity across a range of stress environments.

3.6.2. Clear responsibilities and procedures that define when to invoke the Contingency Funding Plan and when to escalate actions under the plan.

3.6.3. Timely and consistent communication (Central Bank, media, analysts, customers, employees).

3.6.4. Regularly tested and updated.

3.7. Maintain a Good Management Information System

A bank shall establish and maintain a management information system that provides administrators with adequate and timely information to:

3.7.1. Track the bank's liquidity positions, including trends, in all currencies in which the bank has material activity;

3.7.2. Project the bank's liquidity position over different time periods, including daily and longer-term, and under alternative scenarios including stress scenarios;

3.7.3. Review risk measures on a timely basis;

3.7.4. Compare current liquidity exposures with limits established by the board of directors;

3.7.5. Show the extent of the bank's compliance with:
(i) Board-approved policies, procedures, and limits; and
(ii) The Central Bank's liquidity requirements.

4. REPORTS TO THE CENTRAL BANK

Within 15 days of each month-end, each bank shall submit to the Central Bank a report, in the format prescribed by the Central Bank, showing the bank's daily compliance with the Liquidity Ratio each day throughout the previous month.

CENTRAL BANK OF SOMALIA
Financial Institution Law, 2012

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Regulation on Liquidity Risk Management, 2014

REPORT ON LIQUIDITY

	High Quality Liquid Assets	**Amount**
10	Cash on hand	
20	Balances with the Central Bank of Somalia	
30	Balances with domestic banks	
40	Balances with banks abroad	
50	Treasury bills and other securities issued by the Government of Somalia or the Central Bank of Somalia	
60	Eligible marketable securities issued or guaranteed by Sovereigns, Central Banks, Public Service Entities, the Bank for International Settlements, the International Monetary Fund, the European Central Bank and European Community, or multilateral development banks	
70	Eligible corporate debt securities	
80	Other high quality liquid assets approved by the Central Bank of Somalia	
90	**TOTAL HIGH QUALITY LIQUID ASSETS** (Lines 10 + 20 + 30 + 40 +50 + 60 + 70 + 80)	
100	**TOTAL ASSETS**	
110	**30-DAY NET FUNDING REQUIREMENT**	
120	**25% of 30-Day Net Funding Requirement** (Line 110 x 0.25)	
	LIQUIDITY RATIOS	**%**
130	Liquid Assets Ratio (Line 90 / Line 100) x 100.0	
140	Liquidity Coverage Ratio (Line 90 / Line 110) x 100.0	

CALCULATION OF 30-DAY NET FUNDING REQUIREMENT

Line No.	Description	Amount
	Cash *Out*flows During Next 30 Days	
10	Retail deposits	
20	Unsecured wholesale funding	
30	Secured funding	
40	Undrawn balances of credit and liquidity commitments	
50	Other contingent funding liabilities (such as guarantees, letters of credit, revocable credit and liquidity facilities)	
60	Other additional contractual outflows	
70	Net derivative cash outflows	
80	**TOTAL CASH OUTFLOWS** (Lines 10 + 20 + 30 + 40 + 50 + 60 + 70)	
	Cash *In*flows During Next 30 Days	
90	Maturing secured lending transactions backed by High Quality Liquid Assets	
100	Margin lending backed by all other collateral	
110	All other assets	
120	Credit or liquidity facilities provided to the bank	
130	Operational deposits held at other financial institutions	
140	Inflows from retail counterparties	
150	Inflows from non-financial wholesale counterparties	
160	Inflows from financial institutions and Central Banks	
170	Other contractual inflows	
180	Net derivative cash inflows	
190	**TOTAL CASH INFLOWS** (Lines 90 + 100 + 110 + 120 + 130 + 140 + 150 + 160 + 170 + 180)	
200	**NET 30-DAY FUNDING REQUIREMENT (+/-)** (Line 80 – Line 190)	