 نظام السيولة لدى البنوك

Regulations re Liquidity at Banks
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Regulations re
Liquidity at Banks

Circular No.: 33/2015
Date: 27/05/2015
TO: All Banks
Subject: Regulations re Liquidity at Banks

INTRODUCTION
Following consultation with banks operating in the UAE and after reviewing international best practices in the area of liquidity risk management and regulations, the Central Bank has decided to enact these Regulations for controlling and monitoring of liquidity at banks. All banks must abide by the provisions of these Regulations and the Guidance Manual, which will be issued at a later stage, at all times.

SCOPE
All Banks must comply with the provisions of these Regulations at all times.

OBJECTIVE
The objective of these Regulations is to ensure that liquidity risks are well managed at banks operating in the UAE and are in line with the Basel Committee for Banking Supervision (BCBS) recommendations and international best practice.
Article (1):
Definitions

Terminology and concepts used in the qualitative requirements section: As defined by the Basel Committee for Banking Supervision (BCBS) in the document titled “Principles for Sound Liquidity Management and Supervision” dated September 2008.

Eligible Liquid Assets Ratio (ELAR): Ratio of the stock of eligible liquid assets to total liabilities (excluding liabilities allowed in the regulatory capital base).


Net Stable Funding Ratio (NSFR): The ratio of available amount of stable funding to the required amount of stable funding, as defined by the Basel Committee for Banking Supervision (BCBS) in the document titled “Basel III: the net stable funding ratio”, issued in October 2014.
A Liquidity Risk Management Framework is an integral part of risk management within all banks. The framework should ensure that liquidity risk is well managed to minimize the likelihood of a liquidity stress occurring at a bank and its impact when it occurs.

The Central Bank believes that liquidity risk governance, measurement and management is equally important and complements the quantitative requirements.

When reviewing the liquidity framework, the Central Bank will apply a proportionate approach which will take into account the size of the bank, scope of operations, interconnectedness, and its possible impact on the UAE financial system.

A robust Liquidity Risk Management Framework should incorporate the following requirements:

1. Banks are responsible for managing their liquidity risk in a prudent manner using all available liquidity management tools at their disposal.
2. The bank’s Board of Directors bears ultimate responsibility for liquidity risk management within the bank.
The bank’s Board should clearly articulate liquidity risk tolerance for the bank in line with the bank’s objectives, strategy and overall risk appetite.

3. Board members should familiarize themselves with liquidity risk and how it is managed. At least one board member should have a detailed understanding of liquidity risk management.

4. Senior management is to develop strategies, policies and practices to manage liquidity risk in accordance with the board of directors' approved risk tolerance and ensure that the bank maintains sufficient liquidity.

The bank's liquidity management strategy should be continuously reviewed and compliance should be reported to the board of directors on a regular basis.

5. A bank must incorporate liquidity costs, benefits and risks into the product pricing and approval process for all significant business activities.

6. A bank must have sound processes and systems for identifying, measuring, monitoring and controlling liquidity risk in a timely and accurate manner.
7. A bank must establish a forward-looking funding strategy that provides effective diversification in the sources and tenor of funding.

8. A bank must establish a liquidity risk management framework including limits, warning indicators, communication and escalation procedures. The framework should be shared with the Central Bank upon request.

9. A bank must conduct its own internal liquidity stress tests on a regular basis for a variety of institution specific and market wide stress scenarios (individually and in combination). The scenarios should be based on the individual bank specific circumstances and business model.

A bank should use its internal stress testing outcomes to adjust its liquidity risk management strategies, policies and position and develop effective contingency funding plans.

The scenarios and results of the stress tests should be shared with the Board of Directors on a regular basis and the Central Bank upon request.
10. A bank must have a formal contingency funding plan (CFP) that clearly sets out the strategies for addressing liquidity shortfalls in emergency situations. The CFP should be shared with the Central Bank upon request.

11. A bank must maintain an adequate cushion of unencumbered, high quality liquid assets to be held as insurance against a range of liquidity stress scenarios.

12. A bank is required to develop a transfer-pricing framework to reflect the actual cost of funding. The sophistication of the framework should be commensurate with the bank’s liquidity risk tolerance and complexity.

Article (3):
Quantitative Requirements

A minimum level of liquid assets should be held at banks to ensure their ability to sustain a short term liquidity stress (both bank specific and market wide).

Banks should also structure their funding profile to limit the impact of long term market disruptions and avoid cliff effects (A large amount of liabilities maturing at the same time).
To achieve these two objectives, the Central Bank requires banks to comply with the following ratios, at all times:

1. The Eligible Liquid Assets Ratio (ELAR); or

2. The Liquidity Coverage Ratio (LCR) - following approval from the Central Bank.

The transition to the LCR ratio will take effect from 1 January 2016. Banks must demonstrate that both the qualitative and quantitative measures have been adequately addressed before adoption of the LCR ratio.

All banks approved to move to the LCR are expected to implement the LCR by the final Basel III implementation date of 1 January 2019.

3. Banks approved to move onto the LCR will also be required to comply with the Net Stable Funding Ratio (NSFR) when this ratio comes into effect by 1 January 2018.

The Central Bank will set up a liquidity task force to ensure a smooth implementation of the LCR and NSFR. The team will visit banks and request a "road map" with clear milestones explaining how the bank will meet the LCR and the NSFR by their respective due dates. The team will then assess the plan and provide guidance. The team will also monitor the progress of the bank against its internally set milestones.

ومن أجل تحقيق هذين الهدفين، يطلب المصرف المركزي من البنوك التقيد بالنسب التالية في جميع الأوقات:

1. نسبة الأصول السائلة المؤهلة (ELAR) أو نسبة تغطية السيولة (LCR) بعد موافقة المصرف المركزي.

بتاريخ 1 يناير 2016، سيتم تفعيل نسبة تغطية السيولة (LCR). وعلى البنوك أن تثبت أن كلاً من التدابير النوعية والكمية تم التعامل معها على نحو كافٍ قبل اعتماد نسبة لـ (LCR).

ويمكن أن تطبق كافة البنوك المعتمدة للانتقال إلى نسبة تغطية السيولة أن تطبق هذه النسبة بحلول التاريخ النهائي لتطبيق بازل 3 المقرر في 1 يناير 2019.

كما يجب على البنوك المعتمدة للانتقال إلى نسبة تغطية السيولة الإلتزام بنسبة صافي مصادر التمويل المستقرة (NSFR) عند تطبيقها بتاريخ 1 يناير 2018.

سيقوم المصرف المركزي بتشكيل فريق عمل متخصص للتاكيد من حسن تطبيق نسبة تغطية السيولة ونسبة صافي مصادر التمويل المستقرة. ويوجه سيفير الفريق بزيارة البنوك وطلب "خريطة طريق" ذات معنى واضح تشرح الآلية التي يقوم البنك من خلالها باستيفاء متطلبات تطبيق النسبة المذكورة بحلول موعد تطبيقها. سيقوم فريق العمل كذلك بتقييم الخطة وأبدي الإرشادات، وكما سيتابع تطور البنك مقابل معدل الخطة الموضوعة.
Article (4)
Eligible Liquid Assets Ratio (ELAR)

Banks are required to hold an amount equivalent to the specified percentage set by the Central Bank of their total liabilities in eligible liquid assets, consisting of the following items:

- Account balances at the Central Bank.
- Physical cash at the bank.
- Central Bank Certificates of Deposit (CDs).
- UAE Federal Government bonds and Sukuk.
- Reserve requirements.
- UAE local governments and public sector entities publicly traded debt securities, provided they are assigned a 0% risk weighting under Basel II standardized approach (limited to 20% of eligible liquid assets).
- Foreign, Sovereign debt instruments or instruments issued by their respective central banks, which receive 0% Risk Weight under Basel II Standardized approach (limited to 15% of eligible liquid assets).

المادة (4):

نسبة الأصول السائلة المؤهلة (ELAR)

يجب على البنوك أن تحتفظ بما يعادل النسبة المحددة من قبل المصرف المركزي من مجموع خصوميها في شكل أصول سائلة مؤهلة، تتألف في العناصر التالية:

- أرصدة الحسابات لدى المصرف المركزي.
- النقد لدى البنك.
- شهادات إيداع المصرف المركزي.
- سندات وصكوك الحكومة الاتحادية لدولة الإمارات.
- الاحتياطيات النقدية الإلزامية.
- أدوات الدين المتداولة والصادرة بواسطة الحكومات المحلية والمؤسسات العامة في دولة الإمارات، شريطة أن تحصل على وزن مخاطر 0% حسب متطلبات منهجية بازل 2 الأساسية (على أن لا تتعدى 20% من الأصول السائلة المؤهلة).
- أدوات الدين السيادية الأجنبية، أو المصدرة بواسطة مصرفها المركزي، أو المضمونة بواسطة بورصاتها، والتي تحصل على وزن مخاطر 0% حسب متطلبات منهجية بازل 2 الأساسية (على أن لا تتعدى 15% من الأصول السائلة المؤهلة).
This ratio will become effective on 1 July 2015. The initial compliance level for this ratio is set at 10 percent. The Central Bank will periodically review this ratio to ensure consistency between banks in the application of liquidity requirements in the UAE.

Article (5):
Liquidity Coverage Ratio (LCR)
(Effective transition from 1 January 2016 for approved banks)

The LCR is taken from Basel III requirements. It represents a 30 day stress scenario with combined assumptions covering both bank specific and market wide stresses that the bank should be able to survive using a stock of high quality liquid assets.

The LCR requires that banks should always be able to cover the net cash outflow with high quality liquid assets.

Required LCR < High Quality Liquid Assets
Net Cash outflow over the next 30 days

The Basel III accord requires that the minimum LCR is 100%, starting on 1 January 2015 with 60% minimum coverage and increasing by 10% each year to reach 100% by 1 January 2019.
High quality liquid assets are separated into two categories – Level 1 and Level 2. The composition of Level 1 and Level 2 high quality liquid assets and ‘run off rates’ for cash outflows will be based on the definitions and conditions contained in the document “Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools” - issued in January 2013.

The full details of the level 1 and level 2 high quality liquid assets and cash outflows that will apply for the LCR will be contained the Guidance Manual, which is required to be published under Article (10) of these Regulations, taking account of international and local regulatory developments and local market practices.

Article (6):
Net Stable Funding Ratio (NSFR)
(Effective 1 January 2018 for approved banks)

This is a structural ratio that aims to ensure that long term assets on the banks’ balance sheets are funded using a sufficient amount of stable liabilities. It also requires an amount of stable funding to cover a portion of the contingent liabilities. The NSFR mirrors the Basel III standard.
The NSFR identifies the key uses of funds and the different types of funding sources used by banks. It assigns Available Stable Funding (ASF) factors to the sources of funds and Required Stable Funding (RSF) (usage) factors to asset classes and the off balance sheet contingent exposures.

The assigned ASF factor depends on the term of funding and the perceived stability of the funding source. The assigned RSF factor will depend on the liquidity of the asset being funded under a market wide stress. Both factors will follow the Basel III NSFR standard.

Under Article (10) below, the Banking Supervision Department within the Central Bank is required, to issue a Guidance Manual that specifies the stability factors to be assigned to funding sources and the required stable funding (Usage) factors of various asset classes.

The Loans to Stable Resources Ratio specified in Circular No. 394 dated 12/07/1986 shall continue to apply, except for those banks approved to move to the NSFR.

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Article (7):
Reporting Requirements

The frequency and scope of reporting requirements under the ELAR and LCR will be set out in the Guidance Manual.

From time to time, banks will be required to complete a liquidity report to enable the Central Bank to monitor effectively the liquidity positions at banks and to take appropriate and timely action at early signs of a liquidity stress.

The report should be based on contractual data with no behavioral assumptions made.

The Central Bank will apply homogeneous assumptions to the data to perform its liquidity analysis on both micro and macro prudential levels.

Banks are required to use the liquidity reporting templates mentioned in the Guidance Manual, to be issued afterward.

Article (8):
Commencement of these Regulations

The Eligible Liquid Assets Ratio (ELAR) will take effect from 1 July 2015.

The Qualitative Requirements of these Regulations also take effect from 1 July 2015.
The transition phase for the Liquidity Coverage Ratio (LCR) will commence on 1 January 2016 for those banks approved to move to this ratio.

The transition phase for the Net Stable Funding Ratio (NSFR) will also commence on 1 January 2016 for those banks approved to move to this ratio. Approved banks will be required to comply with the NSFR from 1 January 2018.

**Article (9): Cancellation of Previous Regulations**

Circular No. 30/2012 dated 12/7/2012, regarding Liquidity Regulations at Banks is withdrawn from the date these Regulations become effective.

**Article (10): Guidance Manual**

The Central Bank will issue a Guidance Manual on compliance with the Eligible Liquid Assets Ratio (ELAR), Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).

The Guidance Manual will also include definitions and assumptions for the LCR and NSFR calculation which will follow the standards set out in Basel III.
The Guidance Manual will also include liquidity reporting templates and a more detailed explanation of what is expected from banks under the qualitative rules.

The manual will be updated with any changes to Basel III liquidity standards that might take place between the date of these Regulations and the respective implementation date.

Article (11):
Interpretation

Reference shall be made to the Regulatory Development Division of the Central Bank for interpretation of these Regulations, and this interpretation shall be final.

Article (12):
Notification and Publication

These Regulations shall be communicated to all concerned parties for implementation as per the phases specified in Article (8) of these Regulations and shall be published in the Official Gazette in both Arabic and English.

Yours faithfully,"

Khalifa Mohammed Al Kindi
Chairman of the Board - Central Bank of the UAE

English translation:

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