

Advisory Letter 2007-2

November 2007

Correspondent Activities

PURPOSE

The purpose of this advisory letter is to provide guidelines for banks regarding correspondent activities. CBAK expects that banks will develop or revise their policies, practices and systems in order to substantively conform to these guidelines.

In the course of performing its supervisory activities the Central Banking Authority of Kosovo (CBAK) has noted that banks in Kosovo are exposed in varying degrees, primarily through their correspondent activities, to foreign banks. Many of these relationships have been established over time and may well be prudent, but in light of the increasing problems in international financial markets, particularly among some of the larger institutions in these markets, certain exposures now may represent undue risk.

GUIDELINES

CBAK advises you to review your existing interbank exposures both on and off-balance sheet in light of current events. You are urged to ensure that exposures are only to institutions whose obligations are rated no lower than “investment grade” by recognized rating agencies. Given the rapidity of the decline in institutional ratings recently, banks are urged to perform their own “due diligence” of their correspondents to ensure their risk assessment is current. Relationships with non-rated institutions should be subjected to increased scrutiny. CBAK will be reviewing interbank exposures more critically during its examinations, and will be seeking adequate documentation for banks’ decisions regarding the choice and level of counterpart exposures. Your attention is directed in particular to the requirements of Banking Rule II on Credit Limits and Concentrations.

Yours truly,

Michel Svetchine
Managing Director

