BANKA QENDRORE E REPUBLIKËS SË KOSOVËS
CENTRALNA BANKA REPUBLIKE KOSOVA
CENTRAL BANK OF THE REPUBLIC OF KOSOVO

Pursuant to Article 35, paragraph 1.1 of the Law No. 03/L-209 on Central Bank of the Republic of Kosovo (Official Gazette of the Republic of Kosovo, No.77 / 16 August 2010), and Article 114 of the Law No. 04/L-093 on Banks, Microfinance Institutions and Non-Bank Financial Institutions (Official Gazette of the Republic of Kosovo, No.11 / 11 May 2012), the Board of the Central Bank of Republic of Kosovo at the meeting held on August 29, 2013 approved the following:

REGULATION
ON THE LIQUIDITY RISK MANAGEMENT FOR MICROFINANCE INSTITUTIONS

Chapter I
General Provision

Article 1
Purpose and Scope

1. The purpose of this Regulation is to set out the minimum requirements and standards to effectively manage the liquidity risk, by the Microfinance Institutions (hereafter: MFI's) subjects of this Regulation:

2. This Regulation applies to all MFI's and branches of foreign MFI's that are registered by the CBK to operate in the Republic of Kosovo.

Article 2
Definitions

1. All terms used in this Regulation have the same meaning with the following definitions for the purposes of this Regulation:

a. *Branch of a foreign MFI or branch of other foreign Financial Institution* (hereafter: *branch of foreign MFI*) means a legal person that is organized to operate microfinance activities within the Republic of Kosovo but its parent MFI or *parent Financial Institution* has its head office and holds a license to engage in the activities of microfinance in a jurisdiction other than the Republic of Kosovo;

b. *Liquidity shortfall* means each situation, where the MFI:

i. does not own sufficient liquid assets or encounters difficulties to realize them in a market, with the purpose to meet obligations as they come due and to meet any unexpected demands for funds by its creditors; or
ii. is unable to fund increases in its assets.

c. *Liquidity risk* means the possibility of incurring a financial loss owing to the liquidity shortfall;

d. *Net cash flow* means the difference between cash inflows and outflows for a definite period of time, thus reflecting an increase or decrease of cash amount;

e. *Contractual residual maturity* shall imply the time period up to the conclusion of maturity term of contractual asset and liabilitites;

f. *Concentration on funding sources* menas the situation when a sole decision-making or a sole external factor may lead to a subsequent and significant withdrawal of funds, thus making the MFI to significantly change its founding strategy;

g. *Gap* means the difference between the MFI's assets and liabilities, by maturity spans.

Chapter II
Liquidity Risk Management System

Articles 3
Management System

1. Microfinance Institutions shall establish a liquidity risk management system, with the purpose of well-management of their liquidity risk. MFI shall ensure that the liquidity risk management system, in terms of quality and quantity is in line with the MFI's size, the business typology and the exposure rate against liquidity risk.

2. The liquidity risk management system shall minimally include:

a. the strategy and policies on liquidity risk management;
b. the organization structure established for the liquidity risk;
c. information management system.

Article 4
Strategies and Policies

1. Microfinance Institutions should develop the strategy and policies to manage liquidity risk.

2. The strategy on liquidity risk management shall minimally consists on:

a. the strategy objectives;
b. the principles on liquidity risk management;
c. the general methodology the MFI shall implement to manage liquidity risk in short and long term period;
d. the policies for liquidity risk management.

3. The strategy on liquidity risk management shall be compiled as a separate document or part of the MFI strategic plan. This latter shall be reviewed on a regular basis, at least annually.

4. Policies on liquidity risk management shall be reviewed on a regular basis, at least annually and shall minimally include:

a. the identification of liquidity risk arising from new products and operations;
b. the measurement of liquidity risk, particularly of:

i. the current liquidity position, including the assessment of liquid assets and collaterals position;
ii. projection of cash inflows and outflows;
iii. match of funds maturity term and funding sources;
iv. concentration of funding sources according to maturities, type structure.

Article 5
Organization Structure on Liquidity Risk Management

1. Appropriate organizational structure of liquidity risk management shall imply clearly defined competencies and responsibilities of the MFI's bodies and definition of the tasks and responsibilities of the respective organizational parts in the MFI, authorized for monitoring the MFI' liquidity and managing the liquidity risk.

2. The board of director of MFI, with respect to the liquidity risk management is responsibility:

a. approve strategy of liquidity risk management;
b. approve liquidity risk management policy and monitoring its implementation;
c. review the appropriateness of the adopted policy and procedures at least on annual basis,
d. review the liquidity risk reports;
e. approve the liquidity risk exposure limits;
f. monitor the efficiency of internal control, as an integral part of the liquidity risk management system.

3. The Risk Management Committee shall:

a. monitor the liquidity risk management policy and give proposals for its revision;
b. assess the liquidity risk management system;

c. analyze the reports on the MFI’s liquidity risk exposure and monitor the management of this risk;
d. determine and regularly revise the internal liquidity indicators.

Article 6
Information Management System

1. The MFI shall establish an information system to ensure timely and ongoing measurement, monitoring, control and reporting in the decision-making process, when managing the liquidity risk.

2. The information system shall at least:

   a. measure and monitor the MFI’s liquidity and liquidity risk on a monthly basis and in specific points in time;
   b. monitor the compliance with the established liquidity risk exposure limits;
   c. provide data so as to determine liquidity indicators and prepare reporting forms for the needs of the MFI’s;
   d. analyze and monitor the source of financing of the MFI’s.

Chapter III
Principles, Indicators and Measures for the Liquidity Risk Management

Article 7
Main Elements for the Identification, Assessment and Management of the Liquidity Risk

1. The MFI’s shall identify access and manage liquidity risk based on the following elements:

   a. the principles of liquidity risk assessment;
   b. the planning and monitoring of inflows and outflows;
   c. the establishment and maintenance of an adequate maturity structure;
   d. the monitoring of funding sources and their concentration.

Article 8
Principles of Liquidity Risk Management

1. The MFI shall identify access and manage the liquidity risk minimally based on the following principles:

   a. the principle to provide stable sources of funds;
   b. the principle on the minimization of gaps between maturities at the assessment moment and those stipulated in the contract;

c. the principle on diversification of sources of funds according to the type, currency, instruments, maturity, markets, by taking account of their liquidity;
d. the principle on an equilibrated/controlled expansion of the activity and the maintaining of a sufficient liquid assets' value;
e. the principle on human resource availability for the effective management of liquidity risk.

Article 9
Planning and Monitoring of Inflows and Outflows

1. The MFI shall forecast and monitor the inflows and outflows of funds at defined time periods, which should be by minimum a one year time period. This forecast takes account of all type of inflows and outflows. The MFI shall compare this forecast with the current values of inflows and outflows, at regular intervals.

Article 10
Establishment and Maintaining of an Adequate Maturity Structure

1. The MFI shall monitor the maturity structure of assets and liabilities with the purpose of identification of possible maturity gaps.

2. The MFI, with the purpose to measure and monitor gaps, shall classify the inflows and outflows from assets (rights) and liabilities (claims) according to maturity intervals.

3. The MFI shall use as cashing date of assets the latest possible date of cashing, and as settlement date the first possible date of settlement according to the following frequencies:

a. up to 1 month;
b. 1 month to 3 months;
c. 3 months to 6 months;
d. 6 months to 12 months.

4. The MFI shall monitor on ongoing basis the gaps by the expected residual maturity, by using for this purpose the forecasts on accepted inflows and outflows.

5. The MFI, in light of forecasting the forthcoming cash inflows, shall ensure that the approved assumptions be reasonable, adequate, documented and reviewed at regular periods.

6. The MFI with the purpose to set out the residual maturity of rights and liabilities shall:

a. possess a database of inflows and outflows on which these assumptions are based;
b. review at regular basis the assumptions employed to reflect the possible changes under internal and external conditions; and
c. provide that assumptions take account of the seasonal and cyclical character of the inflows and outflows.

7. The CBK may require the implementation of different assumptions or of correcting factors in the forecasting and monitoring of flows by expected maturity, if deeming these actions may provide a better mirroring of the MFI's risk profile.

8. The MFI shall analyze liquidity gaps mainly based on the following criteria:

a. classification of assets and liabilities by maturity;
b. assessment of source of financing stability based on historic data;
c. establishment of limits on liquidity gaps;
d. gap calculation on monthly basis;
e. liquidity gaps forecast in the future;
f. any other criteria deemed as reasonable.

Article 11
Monitoring the Source of Funds and Their Concentration

1. The MFI shall monitor on a regular basis the source of funds to maintain a diversified base of these sources and to identify the possible concentrations. The concentrations are analyzed by the source of funds, type, market, the geographical concentration and by maturity.

2. The monitoring of source of funds and their concentration shall include:

a. maintaining stable relationships with creditors,
b. monitoring the diversification of the source of funds;
c. determining and monitoring the movements in other source of funds.

Chapter IV
Final Provisions

Article 12
Enforcement, Remedial Measures and Civil Penalties

Any violation to the provisions of this Regulation shall be subject to the remedial measures and penalties provided for in Articles 105 and 106 of the Law no.04/L-093.

Article 13
Entry in to Force

This Regulation shall enter into force 15 days after approved by the Board of the CBK.

The Chairman of the Board of Central Bank of the Republic of Kosovo

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Mejdi Bektashi