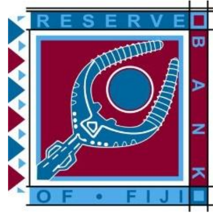

Reserve Bank of Fiji
Banking Supervision Policy Statement No: 9B

LIQUIDITY RISK MANAGEMENT REQUIREMENTS FOR CREDIT INSTITUTIONS

NOTICE TO LICENSED CREDIT INSTITUTIONS

Reserve Bank of Fiji
June 2023

PART 1: PRELIMINARY

1.0 Introduction

1.1 This Policy is issued pursuant to Section 14(3) of the Banking Act, 1995, as part of the Reserve Bank of Fiji's (Reserve Bank) standards governing the conduct of banking business in Fiji and applies to all licensed credit institutions in Fiji. This policy supersedes the *Banking Supervision Policy Statement No.9B* issued in 2005.

1.2 The Policy requires credit institutions to adopt prudent practices in managing its liquidity risk and to maintain an adequate level of liquid assets as specified in this Policy, to meet their obligations as they fall due.

2.0 Background

2.1 Liquidity risk involves the inability of credit institutions to fund increases in assets, manage unplanned changes in funding sources and to meet obligations when required, without incurring additional costs or inducing a cash flow crisis. Primarily, an effective and strong liquidity risk management framework will ensure that a credit institution has sufficient liquid assets to meet liabilities that fall due in the short term as well as meet any unexpected demands for funds by its depositors or creditors. The effectiveness of a credit institution's liquidity risk management framework will determine the extent to which the institution may be subject to cash flow crisis and additional costs.

2.2 The Reserve Bank has set out requirements in this Policy to ensure that each credit institution has in place sound liquidity management to be able to fully meet its contractual obligations.

3.0 Objectives of the Policy

3.1 The objectives of the Policy are to ensure that credit institutions:

a) have an effective risk management framework to identify, measure, monitor and control liquidity risk, commensurate with the nature, size, complexity and risk profile of the credit institution; and
b) maintain a sufficient stock of liquid assets that can be readily monetised without incurring significant loss to allow credit institutions to withstand liquidity stress.

3.2 Furthermore in acknowledgement of the local banking environment, the policy requirements have been designed to reaffirm the need for credit institutions licensed to conduct business in Fiji, to be fully aware of the ongoing developments to policy decisions and market developments unique to the Fijian financial system that could have an impact on the effectiveness of their liquidity management framework, and the robustness of their liquidity positions.

PART 2: REQUIREMENTS OF THE POLICY

4.0 Qualitative Requirements and Guidelines

4.1 Liquidity Risk Management Framework

4.1.1 Each credit institution's board of directors (Board) or its proxy[1] is ultimately responsible for the sound and prudent management of the institution's liquidity risk. Each credit institution must establish and maintain an effective liquidity risk management framework that is well integrated into the enterprise wide risk management framework; for identifying, measuring, monitoring and controlling liquidity risk; commensurate with the level and complexity of liquidity risk to which the credit institution is exposed.

4.1.2 The liquidity risk management framework must include, at a minimum:

a) liquidity risk tolerance as established by the board;

b) liquidity risk management strategy, policies and procedures including:
   i. the goals and objectives underlying the strategy;
   ii. the composition and maturity of assets and liabilities;
   iii. the level of diversity and stability of funding sources targeted by the credit institution;
   iv. the approach to manage liquidity in different currencies, across borders, and across business lines and legal entities, where applicable, taking into consideration the home and host regulatory requirements in the jurisdictions which the credit institution operates;
   v. the approach to intraday liquidity management; and
   vi. the assumptions on the liquidity and marketability of assets.

c) liquidity risk management responsibilities – with clearly defined lines of authority, responsibilities and reporting structure;

d) liquidity risk management systems – use of systems and tools for identifying, measuring, monitoring, controlling and reporting liquidity risk, including:
   i. the setting of various liquidity limits and ratios (eg, the ULAR, maturity mismatch limits, loan to deposit ratio, liquid assets to total deposit ratio, liquid assets to total asset ratio, ect.);
   ii. the framework for conducting cash-flow projections and liquidity stress-testing, including the techniques, scenarios and assumptions used;
   iii. the management reporting system for liquidity risk;

e) Contingency funding plan – which should describe the approaches and strategies for dealing with various types of liquidity stress.

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[1] For branch credit institutions, the responsibilities of the Board in this Policy are to be fulfilled by its Proxy (a director or senior executive or a committee) outside the Fiji operations, with delegated authority from the Board who is responsible for overseeing the Fiji branch operations.

4.1.3 In setting the liquidity risk tolerance level, each credit institution must ensure that the approved tolerance level allows the credit institution to effectively manage its liquidity position in such a way that it is able to withstand a prolonged period of stress.

4.1.4 The liquidity risk tolerance level should be articulated in such a way that all levels of management clearly understand the trade-off between risks and profits.

4.1.5 A credit institution's liquidity risk management framework must clearly set out the organisational structure as it relates to liquidity risk for the credit institution, and defines the responsibilities and roles of management involved in managing liquidity risk.

4.1.6 A credit institution's liquidity risk management framework must be formulated to ensure that the credit institution maintains sufficient liquidity, including a cushion of unencumbered liquid assets, to withstand a range of stress events.

4.1.7 A credit institution's liquidity risk management framework must be well integrated into the credit institution's overall risk management process.

4.2 Role and Responsibilities of the Board and Senior Management

4.2.1 The board and senior management of a credit institution have their own distinct responsibilities in the governance and management of liquidity risk; whereby:

a) the board should be responsible for determining the types and magnitude of liquidity risk that the credit institution can tolerate, and ensuring that there is an appropriate organisation structure for managing liquidity risk; and

b) senior management should be responsible for setting and implementing the liquidity strategy, policies, processes and procedures; and ensuring that the liquidity risk tolerance set by the Board is adhered to.

4.2.2 To ensure effective governance and management of liquidity risk, the board and senior management should have an adequate understanding of the close links between funding liquidity risk and market liquidity risk, as well as how other risks (such as credit, market, operational and reputation risks) interact with liquidity risk and affect the credit institution's overall liquidity risk strategy. The board and senior management must also ensure that the interaction of these risks is considered and taken into account by relevant board-level committees and risk management functions within the credit institution.

4.2.3 Therefore, a credit institution's Board must ensure, at a minimum:

a) to establish the credit institution's liquidity risk tolerance level and ensure that this is clearly articulated and communicated to all levels of management;

b) that the credit institution’s liquidity risk management framework is documented, and reviewed at least annually;

c) to put in place a sound liquidity risk management structure, with proper delineation of powers and responsibilities; and should review the appropriateness of the liquidity risk management structure periodically to address any business developments and changes in market circumstances;

d) the competency of senior management and appropriate personnel in identifying, measuring, monitoring and controlling liquidity risk in terms of expertise resources and systems, and in taking appropriate and prompt remedial actions to address concerns when necessary;

e) the review and approval at least annually, the liquidity risk strategies, policies and systems;

f) the regular review of reports and stress-testing results on the credit institution’s liquidity positions and ensuring the continued awareness of the credit institution’s performance and overall liquidity risk profile.

4.2.4 Responsibilities of senior management include, but are not limited to:

a) developing and implementing the credit institution’s liquidity risk management strategy, policies and procedures; properly documented in the form of a policy statement, in accordance with the tolerance levels established by the board. The policy statement must be approved by the board, and subject to annual review, to ensure that it remains relevant under changing circumstances;

b) appropriately incorporate liquidity costs, benefits and risks in the internal pricing, performance measurement and new product approval processes, thereby, aligning risk-taking incentives of individual business lines with the liquidity tolerance level established by the board;

c) communicating the liquidity risk management strategy, key policies and procedures and liquidity risk management structure to all relevant business units and personnel throughout the credit institution that conduct activities with an impact on the credit institution’s liquidity position;

d) ensuring that there are close communication links between treasury, liquidity risk managers and other business and risk managers having access to critical information that affects liquidity;

e) ensuring that adequate internal controls are executed by independent personnel with the necessary skills and competence to safeguard the integrity of the credit institution’s liquidity risk management process;

f) monitoring closely the current trends and potential market developments that may require timely changes or updates to the liquidity risk management strategy, systems and internal controls to address any significant challenges;

g) defining the specific process for handling exceptions to policies and limits, including the procedures for escalation, reporting and consideration of follow-up actions (eg whether exceptional approval could be granted at an appropriate level of authority, what remedial

actions should be taken and, where necessary, who should be held accountable);

h) ensuring the effectiveness of stress tests and contingency funding plans as well as the appropriateness of the liquidity cushion maintained;

i) through regular and ad hoc submission of risk management reports and risk analyses, informing the board of any new and emerging liquidity concerns in a timely manner;

j) ensuring that any weaknesses or problem identified in internal reviews and audits should be addressed in a timely and effectively manner; and

k) ensuring to identify and quantify climate-related financial risk and incorporate those assessed as material over relevant time horizons into the bank's liquidity adequacy assessment, processes, and stress testing programmes where appropriate.

4.3 Independent Reviews and Audits

4.3.1 Credit institutions should conduct periodic reviews of their liquidity risk management processes to ensure their integrity, accuracy and reasonableness. The reviews should be conducted by independent parties such as internal and/ or external auditors, with relevant skills and expertise.

4.3.2 Such reviews should, among other things, cover the following areas:

a) the adequacy of internal systems and procedures for identifying, measuring, monitoring and mitigating liquidity risk;

b) the appropriateness of various internal limits for monitoring and controlling liquidity risk;

c) the suitability of the underlying scenarios and assumptions for conducting cash-flow analyses;

d) the integrity and usefulness of management information reports on liquidity risk; and

e) the adherence to established liquidity policies and procedures

4.4 Liquidity Risk Identification, Measurement, Monitoring and Control

(a) Measurement Tools

4.4.1 Credit institutions must employ a range of customised measurement tools, or metrics for the measurement and analysis of their liquidity risk. These metrics should enable management to understand the day-to-day liquidity positions and structural liquidity mismatches, as well as its resilience level under stressed conditions. In particular, these metrics should perform the function of:

a) ensuring compliance with statutory liquidity requirements (ie ULAR);

b) projecting the credit institution's future cash flows and identifying potential funding gaps and mismatches under both normal and stressed conditions over different time horizons;

c) evaluating potential liquidity risks inherent in the credit institution's balance sheet structure and business activities, including those that may arise from any embedded options and other contingent exposures or events; and,

d) assessing the credit institution's capability to generate funding, as well as its vulnerability to, or concentration on, any major source of funding.

4.4.2 The above should take into account all assets, liabilities and off-balance sheet positions, across business lines, legal entities and overseas operations (if applicable).

4.4.3 Credit institutions should use metrics and tools that are appropriate for their business mix, complexity and risk profile. Some key information to consider include:

a) information on the level of concentration of funding from major counterparties (include retail and wholesale fund providers);

b) information on the size, composition and characteristics of unencumbered assets included in a credit institution's liquidity cushion for assessing the credit institution's potential capacity to obtain liquidity, through sale or secured borrowing, at short notice from private market or the Reserve Bank in times of stress;

c) information on committed facilities granted or received by a credit institution, where the drawdown on such facility may have implications for the credit institution's liquidity position;

d) maturity mismatch analyses, based on contractual maturities as well as behavioural assumptions of cash inflows and outflows. Such metrics provide insight into the extent to which a credit institution engages in maturity transformation and identify potential funding needs that may need to be bridged;

e) stable or core deposit ratios or any similar ratio that reflects the stability of the credit institution's funding;

f) loan-to-deposit ratio or any similar ratio that reflects the extent to which a major category of asset is funded by a major category of funding; and

g) metrics tracking intragroup lending and borrowing.

(b) Risk Control Limits

4.4.4 Credit institutions must set in-house limits for the liquidity metrics it employs in monitoring and controlling its liquidity risk exposures and use these limits for managing day-to-day liquidity within and across business lines and entities. The limits set should be relevant to the credit institution's business activities and consistent with its liquidity risk tolerance.

4.4.5 Credit institutions should ensure compliance with the established limits, and define the procedures for escalation and reporting of exceptions or breaches, which can be early indicators of excessive risk or inadequate liquidity risk

management. The in-house limits and the corresponding escalation and reporting procedures should be reviewed regularly.

(c) Early Warning Indicators

4.4.6 To complement measurement tools, credit institutions must design a set of indicators to identify the emergence of increased risk or vulnerabilities in its liquidity risk position or potential funding needs; to support management reviews and where necessary, mitigating measures that can be undertaken promptly.

4.4.7 Early warning indicators can be qualitative or quantitative in nature and may include, but are not limited to:

a) rapid asset growth, especially when funded with potential volatile liabilities;
b) growing concentrations in assets or liabilities;
c) increases in currency mismatches;
d) increasing overall funding costs[2];
e) a decrease of weighted average maturity of liabilities;
f) repeated incidents of positions approaching or breaching internal or regulatory limits;
g) negative trends or heightened risk, such as rising delinquencies or losses associated with a particular business, product or activity;
h) significant deterioration in the credit institution's earnings, asset quality, and overall financial condition;
i) negative publicity;
j) a credit rating downgrade (if applicable);
k) stock price declines (if applicable);
l) counterparties beginning to request additional collateral for credit exposures or to resist entering into new transactions;
m) elimination or reduction in available credit lines from correspondent banks;
n) increasing retail deposit outflows; and
o) difficulty in accessing longer-term funding.

(d) Monitoring System

4.4.8 Credit institutions must have a reliable management information system (MIS) that provides the board, senior management and other appropriate personnel with timely and forward-looking information on its liquidity position.

4.4.9 The MIS should be fit for the purpose of supporting the credit institution's day-to-day liquidity risk management and continuous monitoring of compliance with established policies, procedures and limits.

[22] For example, interbank funding market interest rates are increasing because of market-wide liquidity stress, or a credit institution's borrowing premium is rising due to adverse institution-specific reasons.

4.4.10 Credit institutions must ensure that the MIS reports contain sufficient information to assist the board and senior management in identifying emerging concerns on liquidity as well as in managing liquidity stress events.

4.4.11 The MIS should encompass information in respect of the credit institution's liquidity buffers, major sources of funding and all significant sources of liquidity risk, including contingent risks and the related triggers and those arising from new activities.

4.4.12 The MIS reports should be designed to adequately support the functioning of a credit institution's liquidity risk management tools for measuring liquidity needs and controlling different aspects of liquidity risk. In particular, the reporting should compare current liquidity exposures to established limits (both for internal liquidity risk management and statutory compliance purposes) to identity any limit breaches. Breaches in liquidity risk limits should be reported to the appropriate level of management and the Board.

4.5 Cash Flow Approach of Managing Liquidity Risk

4.5.1 Cash flow projections involve the estimation of a credit institution's cash inflows against its outflows and the liquidity value of its assets to identify the potential for future net funding shortfalls.

4.5.2 Credit institutions are expected to adopt a cash-flow approach to manage liquidity risk, under which they should have in place a robust framework for measuring and forecasting prospective cash flows for their assets, liabilities and off-balance sheet commitments and derivatives over a variety of time horizon. The framework should be used for:

a) monitoring on a daily basis their net funding gaps under normal business conditions; and
b) conducting regular cash-flow analyses based on a range of stress scenarios.

4.5.3 Cash-flow projections should be forward-looking and based on reasonable assumptions and techniques, covering liquidity risk stemming from:

a) on-balance sheet assets and liabilities;
b) off-balance sheet positions and derivative transactions; and,
c) core business lines and activities.

4.5.4 Cash-flow projections should address a variety of factors over different time horizons, including:

a) vulnerabilities to changes in liquidity needs and funding capacity on an intraday basis;
b) day-to-day liquidity needs funding capacity over short and medium-term horizons up to one year;
c) longer-term liquidity needs over one year; and
d) vulnerabilities to events, activities and strategies that can put a significant strain on a credit institution's capacity for generating liquidity.

4.5.5 Credit institutions must ensure a positive cash-flow position is maintained or otherwise sufficient cash can be generated from its assets or funding sources to cover its funding gaps promptly.

4.5.6 Net funding gaps can be assessed through the construction of a maturity profile (supplemented where relevant with additional analysis of the funding capacity of specific on-balance or off-balance items), refer to *Annex 1 - Reporting Form and Report Completion Instructions,* which credit institutions can use to construct its maturity profile. Credit institutions are required to submit this maturity profile Return to the Reserve Bank on a monthly basis. In addition to this, credit institutions should develop, as appropriate, internal methodologies to project their maturity profiles taking into account any special characteristics of its operations, if not already captured by the Return.

4.5.7 Credit institutions must set internal limits to control the size of the cumulative net mismatch positions (ie, where cumulative cash inflows are exceeded by cumulative cash outflows). Such limits should be in line with the established liquidity risk tolerance, and should take into account the potential impact of adverse market conditions on a credit institution's funding capacity.

4.5.8 The maturity mismatch limits should be properly documented in the liquidity risk management policy statement, and should be reviewed regularly.

4.5.9 In terms of cash-flow projection assumptions and techniques, credit institutions must make realistic assumptions (with a reasonable degree of prudence) to reflect the characteristics of the businesses and products as well as economic and market conditions.

4.5.10 Techniques employed by credit institutions for designing cash flow-assumptions should be commensurate with the nature and complexity of its business activities. These may range from historical experience and static simulations based on current holdings to sophisticated modelling, taking into account ongoing market developments.

4.5.11 Credit institutions may take into account the following factors in setting assumptions for cash-flow projections:

a) expected future growth or contraction of the balance sheet;
b) the proportion of maturing assets and liabilities that credit institutions reasonably expect to roll over or renew;
c) the quality and proportion of liquid assets or other marketable securities that can be used as collateral to obtain secured funding;
d) the behaviour of assets and liabilities with no clearly specified maturity dates, such as repayment of overdrafts and demand deposits; and,
e) access to wholesale markets, standby facilities and intragroup funding.

4.5.12 Credit institutions should also assess whether climate-related financial risks could cause net cash outflows or depletion of liquidity buffers, assuming both business-as-usual and stressed conditions. Each credit institution should

include climate-related financial risks assessed as material over relevant time horizons that may impair its liquidity positions in its internal liquidity adequacy assessment process.

4.6 Stress Testing and Scenario Analysis

4.6.1 Credit institutions should conduct stress tests on a regular basis for a variety of short-term and protracted institution-specific and market-wide stress scenarios (individually and combination) to identify sources of potential liquidity strain and to ensure that current exposures remain in accordance with the credit institution's established liquidity risk tolerance. Credit institutions should use stress test outcomes to adjust their liquidity risk management strategies, policies and positions and to develop effective contingency plans.

4.6.2 Stress tests should enable a credit institution to assess its ability to generate sufficient liquidity from both sides of the balance sheet to meet funding needs under adverse conditions. Potential sources of demand for liquidity arising from off-balance sheet commitments and other contingent liabilities should be also addressed. The tests should consider the implications of the stress scenarios across different time horizons, including on an intraday basis.

4.6.3 When conducting stress tests on liquidity positions, credit institutions should also consider the insights and results of stress tests conducted for other risks, including the possible interaction with these risks.

4.6.4 The extent and frequency of stress testing should be commensurate with the size of the credit institution and its liquidity risk exposures, as well as with the relative importance of the credit institution within the financial system. Credit institutions should build in the capability to increase the frequency of tests in special circumstances, such as in volatile market conditions or at the request of the Reserve Bank.

4.6.5 In terms of scenarios and assumptions, it is important that credit institutions construct severe but plausible stress scenarios and examine the resultant cash-flow needs. While credit institutions should aim to cover different stress events and levels of adversity, credit institutions should, at a minimum, include the following types of scenarios in stress testing exercise:

a) an institution-specific stress scenario;
b) a general market stress scenario; and
c) a combination of both.

<u>Institution-specific stress scenario</u>

4.6.6 An institution-specific stress scenario should cover situations that could arise from a credit institution experiencing either real or perceived problems (eg. asset quality problems, solvency concerns, credit rating downgrade, rumours on the credit institution which affect public confidence in the credit institution and its firm-wide or group-wide operations. It should represent the credit institution's view of the behaviour of its cash flows in a severe stress scenario.

General market stress scenarios

4.6.7 A general market stress scenario is one where liquidity at a large number of financial institutions is affected. Characteristics of this scenario may include:

a) a market-wide liquidity squeeze, with severe contraction in the availability of secured and unsecured funding sources, and a simultaneous drying up of market liquidity in some previously highly liquid markets;
b) counterparty defaults;
c) substantial discounts needed to sell assets and wide differences in funding access among banks and credit institutions due to the occurrence of a severe tiering of their perceived credit quality; and
d) severe operational or settlement disruptions affecting one or more payment or settlement systems.

4.6.8 Credit institutions should be aware that cash-flow patterns of certain assets and liabilities may change in the case of a general market stress scenario as compared with an institution-specific stress scenario. Therefore, credit institutions should assign appropriate discount factors to such assets to reflect the price risk associated with different stress scenarios.

Combined stress scenarios

4.6.9 Credit institutions should incorporate a scenario into its stress test framework that has the key characteristics of both an institute-specific stress scenario and a general market stress scenario combined (combined stress scenario), with appropriate modulation of the underlying assumptions as necessary, to reflect a set of adverse circumstances that could possibly happen.

4.6.10 In designing stress scenarios, a credit institution should take into account specific risks associated with its business activities, products or funding sources and take a reasonable conservative approach when setting stress testing assumptions. There are a number of possible areas that the assumptions should cover. The list below is for illustrative purpose, and credit institutions should use assumptions which are relevant to its business:

a) asset market illiquidity and erosion in the value of liquid assets;
b) the run-off of retail funding;
c) the (un)availablity of secured and unsecured wholesale funding sources;
d) the correlation between funding markets and effectiveness of diversification across available sources of funding;
e) the availability of contingent lines extended to the credit institution;
f) contingent claims and more specifically, potential draws on committed lines extended to third parties or the credit institution’s related entities (such as its subsidiaries, overseas branches, associated entities in its consolidated group and head office);
g) availability of funding in different tenors;
h) liquidity absorbed by off-balance sheet position;
i) the operational ability of the credit institution to monetise assets;
j) the impact of credit rating triggers;

k) the ability to transfer liquidity across entities, sectors and borders taking into account legal, regulatory, operational and time zone restrictions and constraints; and,

l) estimates of future balance sheet growth.

4.6.11 During a period of liquidity stress (particular in the initial stage), the ability of a credit institution to honour its immediate commitments is crucial for its survival. Therefore, a credit institution should have sufficient funds to cover its liquidity needs and to enable it to continue its business for a certain minimum stress period under each stress scenarios, without resorting to liquidity assistance from the Reserve Bank. Credit institutions must establish its internal benchmark for its survival period under stress for each stress scenarios.

4.6.12 Credit institutions must ensure to link the stress-testing results to its overall liquidity risk management process, and to ensure proper documentation of the stress scenarios and related assumptions.

4.6.13 Credit institutions must evaluate the stress-testing results and consider any possible need for remedial or mitigating actions. Remedial or mitigating actions may include actions to limit the credit institution's liquidity risk exposures, obtain more long-term funding, restructure the composition of the credit institution's assets, increase the size of the credit institution's liquidity cushion or to adopt any other measures to adjust the credit institution's liquidity profile to fit its risk tolerance.

4.6.14 Credit institutions must report the stress-testing results and the identified vulnerabilities to the Board (or its relevant delegated board committees), with recommendations for any resulting actions. Credit institutions must inform the Reserve Bank of the stress-testing results and the anticipated actions if these are material to the credit institution.

4.7 Funding Diversification

4.7.1 To ensure a reliable supply of funds, both in normal times and during stressed situations, credit institutions should maintain a range of diversified and stable funding sources (including liquid assets held) to meet their liquidity needs for various time horizons. Therefore, credit institutions must establish an effective funding strategy to achieve sufficient diversification both of the funding sources and in the composition of the liquid assets. Credit institutions should consider the correlations between sources of funds and market conditions when developing their funding strategies.

4.7.2 The funding strategy must be reviewed and approved by the board, at least annually, and supported by robust assumptions in line with the liquidity risk management strategies and business objectives of the credit institution.

4.7.3 Credit institutions must maintain an ongoing presence in their chosen funding markets and strong relationships with significant funding providers.

4.7.4 Each credit institution must regularly gauge its capacity to raise fund quickly. It must identify the key factors that impact its ability to raise funds and monitor those factors closely to ensure that estimates of fund-raising capacity remain valid.

4.7.5 Credit institutions must put in place concentration limits on liquid assets and funding sources as appropriate, and have systems for monitoring compliance with these limits.

4.7.6 Senior management should be aware of the composition, characteristics and level of diversification of the credit institution's liquid assets and funding sources, and regularly review the funding strategy to address any significant changes in the market environment.

4.7.7 Credit institutions must maintain an appropriate mix of liquid assets (including the type and quality of assets and level of such holding) as a source of liquidity for day-to-day operational needs as well as for meeting emergency funding purposes.

4.8 Intragroup Liquidity Risk Management

4.8.1 Where a credit institution is part of a financial institution group (local or foreign), it should be able to monitor and control liquidity risks arising from intragroup transactions with other legal entities within the group, taking into account any legal, regulatory, operational or other constraints on the transferability of liquidity to and from those entities.

4.8.2 A credit institution must specify as part of its liquidity risk management strategy the treatment of intragroup liquidity and assumptions on intragroup dependencies for the purpose of cash-flow projections.

4.8.3 Credit institutions should treat intragroup transactions (ie intragroup placements and borrowings transacted at arm's length) in the same way as other third party transactions for the purposes of cash-flow projections under normal business conditions.

4.8.4 Credit institutions must analyse how the liquidity positions of the group entities may affect or through contagion when those entities encounter liquidity strain; and must establish internal limits on intragroup liquidity risk to mitigate the risk of contagion from group entities.

4.9 Intra-day Liquidity Risk Management

4.9.1 Credit institutions must have effective policies, procedures, systems and controls to manage their intraday liquidity risk with all funding sources. Such systems and controls should, among other things, enable the credit institution to:

a) ***Measure*** expected daily gross cash inflows and outflows, anticipate the intraday timing of these cash flows where possible, and forecast

the range of potential net funding shortfalls at different time points during the day;

b) ***Monitor*** intra-day liquidity positions against expected activities and available resources and prioritise payments if necessary. Such monitoring should be frequent enough to enable the credit institution to assess the need for obtaining additional intraday liquidity or restricting liquidity outflows in order to meet critical payments; to allocate intra-day liquidity efficiently among its own needs and those of its customers, and to promptly address unexpected payment flows and adjust overnight funding positions; and,

c) ***Manage*** intra-day liquidity position to ensure that the credit institution has sufficient intraday funding to meet intraday day liquidity needs.

4.10 Collateral Management

4.10.1 The ready availability of assets that credit institutions can use as collateral to obtain funding by means of secured borrowing mitigates liquidity risk. Therefore, credit institutions should allocate sufficient resources to the efficient management of collateral in their liquidity risk management process.

4.10.2 Credit institutions should have the ability to calculate all their collateral positions, including assets currently pledged relative to the amount of security required; and the unencumbered assets available to be used as collateral for secured borrowing.

4.10.3 The credit institution's level of available collateral should be monitored by legal entity, jurisdiction and currency exposure. Credit institutions should be able to track precisely the legal entity and the physical location with each of the assets held and monitor how such assets may be mobilised in a timely manner in case of need.

4.10.4 Credit institutions must assess the eligibility of each of their major asset class for pledging as collateral and the acceptability of assets to major counterparties; and should diversify their sources of collateral to avoid excessive concentration on any particular funding provider.

4.11 Contingency Funding Plan

4.11.1 Credit institutions must have a formal contingency funding plan (CFP) that sets out clearly strategies for addressing stressed situations. The CFP must outline clear policies to manage a range of stress environments, establish clear lines of responsibilities and include clear invocation and escalation procedures.

4.11.2 To achieve this, the role and responsibilities and internal procedures for liquidity stress management should be clearly defined, and should cover:

a) the authority to invoke the CFP and the establishment of a formal 'liquidity crisis management team' to facilitate internal coordination and communication across different business lines and locations and decision-making by senior management in a stressed situation;

b) clear escalation and prioritisation procedures detailing what actions to take, who are responsible, and when and how each of these actions can be and should be activated;

c) names and contact details of members of the team responsible for implementing the CFP and the locations of team members; and,

d) the designation of alternates for the key roles.

4.11.3 A credit institution's CFP must be commensurate with the complexity of its size and risk profile, scope of operations and role in the financial system in which it operates. The design of the CFP, including action plans and procedures, should be closely integrated with the credit institution's ongoing management of liquidity risk. The CFP should address liquidity issues over a range of different time horizons, including intra-day.

4.11.4 The CFP should provide senior management with a diversified set of viable, readily deployable potential contingency funding measures for preserving liquidity and making up liquidity shortfalls in emergency situations.

4.11.5 As part of the CFP, credit institutions should develop a communication plan to deliver on a timely basis, clear and consistent communication to internal parties, and external parties such as the Reserve Bank, customers, creditors and other counterparties in times of stress to support general confidence in the credit institution. An appropriate strategy should also be formulated for managing media relationships, making public announcements and dealing with enquiries during stressed situations to help reduce uncertainty or speculation about the credit institution in the financial system.

4.11.6 The CFP must be subject to regular testing to ensure its effectiveness and operational feasibility, particularly in respect of the availability of the contingency sources of funding listed in the CFP.

4.11.7 Senior management should review all aspects of the CFP following each testing exercise and ensure that follow-up actions are delivered. Senior management should also review and update the CFP at least annually, or more often as warranted by changes in business or market circumstances, to ensure that the CFP remains robust over time.

4.11.8 The CFP should be consistent with the credit institution's business continuity plans and should be operational under situations where business continuity arrangements have been invoked. Therefore, credit institutions should ensure effective coordination between teams managing issues surrounding liquidity crises and business continuity. The liquidity crisis team members and alternates should have ready access to the CFP on-site and off-site.

4.11.9 The CFP should be maintained in a corporate central repository as well as at locations that would facilitate quick implementation by responsible parties under emergency situations.

5.0 Quantitative Requirement – Unimpaired Liquid Asset Requirement

5.1 Each credit institution must maintain a minimum holdings of 10% of unimpaired liquid assets, as per the requirements set out in Section 43 of the Reserve Bank of Fiji Act.

6.0 Public Disclosure

6.1 Public disclosure improves transparency, reduces uncertainty in the financial system and strengthens market discipline. Therefore, credit institutions should disclose sufficient information regarding their liquidity risk management to enable relevant stakeholders to make an informed judgement on the ability of the credit institution to meet its liquidity needs. Such disclosure includes information on organisational structure and framework for the management of liquidity risk. In particular, disclosure should explain the role and responsibilities of the relevant committees, and the different functional and business units with regard to liquidity risk management and its intro-group lending strategies.

6.2 A credit institution should also provide quantitative information regarding its liquidity position that enables market participants to form a view of its liquidity risk. Sufficient qualitative discussion around its metrics to be provided to enable market participants to understand them.

6.3 The list below provides some examples of qualitative disclosures as guidance for credit institutions:

- the aspects of liquidity risk to which the bank is exposed and that it monitors;
- the diversification of the credit institution's funding sources;
- other techniques used mitigate liquidity risk;
- the concepts utilised in measuring its liquidity position and liquidity risk;
- an explanation of how asset market liquidity risk is reflected in the credit institution's framework for managing funding;
- a description of the stress testing scenarios modelled;
- an outline of the credit institution's contingency funding plans and an indication of how the plan relates to stress testing;
- the credit institution's policy on maintaining liquidity reserves; and,
- the frequency and type of internal liquidity reporting.

7.0 Reporting to the Reserve Bank of Fiji

7.1 Credit institutions are required to compute and submit the following prudential reporting returns to the Reserve Bank by the 10th working day after each calendar month:

a) Form C-2: Unimpaired Liquid Asset Holdings; and
b) Form ML-1: Contractual Maturity Profile.

PART 3: OVERSIGHT AND IMPLEMENTATION ARRANGEMENTS

8.0 Oversight by the Reserve Bank of Fiji

8.1 Each credit institution must provide to the Reserve Bank its initial Liquidity Risk Management Policy within 90 days after the implementation of this Policy. In the event of major changes made to the requirements of the credit institution's Liquidity Risk Management Policy, a copy of the revised policy must be submitted to the Reserve Bank within 30 days after changes have been approved by the credit institution's board.

8.2 The Reserve Bank will assess the compliance of each credit institution with the requirements of this Policy in the normal course of its supervision.

8.3 A credit institution that fails to comply with the requirements of this Policy will be subject to sanctions under section 15 of the Banking Act 1995.

8.4 The Reserve Bank may adjust or exclude a specific requirement in this Policy by providing a written notice.

9.0 Implementation Arrangements

9.1 This Policy applies to all credit institutions licensed under the Banking Act 1995; and becomes effective from 01 October 2023. Full compliance is required within 12 months from the effective date, and will be reviewed as deemed necessary.

Reserve Bank of Fiji
June 2023

Appendices:

- Schedule
- Annex 1 - Contractual Maturity Profile Reporting Form and Report Completion Instructions

SCHEDULE

Interpretation –

(1) Any term or expression used in this Policy that is not defined in this Policy"

a) which is defined in the Banking Act 1995, unless the context otherwise requires, have the meaning to it by the said Act; and,
b) which is not defined in the Act and which is defined in any of the Reserve Bank of Fiji Policy Statements shall, unless the context otherwise requires, have the meaning given to it by those policy statements.

(2) In this Notice, unless the context otherwise requires:

'Act means the Banking Act 1995.

'Board' means the board of directors of the licensed credit institution.

'Credit institution' means the credit institution with the meaning given to it in the Banking Act 1995.

'Unimpaired Liquid Assets' means the eligible stock of unimpaired liquid assets as defined in Section 43(3) of the Reserve Bank of Fiji Act.

'Unimpaired' means free of legal, regulatory, contractual or other restrictions on the ability of the credit institutions to liquidate, sell or transfer, or assign the asset.