

Decree N 70/04 of the Governor of the National Bank of Georgia

May 15, 2017

Tbilisi

On approving the

Regulation on Liquidity Coverage Ratio

In accordance with the requirements of Subparagraph “z” of Paragraph 1 of Article 15 and Paragraph 3 of Article 48 of the Organic Law of Georgia on the National Bank of Georgia, Article 19, 21 and 29 of the Law of Georgia on Activities of Commercial Banks, I declare:

Article 1

Approve the Regulation on Liquidity Coverage Ratio, attached

Article 2

This Decree will come into force from September 1, 2017

Chapter 1. General Provisions

Article 1. General Provisions

1. Regulation on liquidity coverage ratio (Regulation) sets a minimum standard for liquidity coverage ratio, which should be applied to all Georgian commercial banks and branches of foreign banks (bank).
2. If the Regulation does not provide regulatory standards for specific issues or definition of notions, the bank should use the Basel Committee on banking Supervision or other institutions' international standards, further agreed by the National Bank of Georgia (National Bank).

Article 2. Definitions of Notions and Terms Used in the Regulation

For the purposes of this Regulation, the notions listed below shall have the following definitions:

- a) Liquidity – the ability of a bank to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses.
- b) High-quality Liquid Assets (HQLA) - assets, that can be converted easily and immediately in financial markets into cash at little or no loss of value.
- c) Unencumbered Assets – assets that are free of legal, regulatory, contractual or other restrictions on the ability of the bank to liquidate, sell, transfer, or assign the asset.
- d) Haircut – Percentage decrease in asset's nominal value when represented as a liquid asset due to volatility of market prices and its expected depreciation.
- e) Total Net Cash Outflow – total expected cash outflows minus total expected cash inflows in the stress scenario for the subsequent 30 calendar days.

Chapter 2. Requirements of Liquidity Coverage Ratio

Article 3. Liquidity Coverage Ratio

1. Liquidity Coverage Ratio (LCR) is calculated as the ratio of HQLA to total net cash outflow.
2. Banks must hold a stock of liquid assets to cover net cash outflows under the financial stress scenario. This is done by ensuring that banks have an adequate stock of liquid assets that can be used to meet their liquidity needs for a 30 calendar day liquidity stress scenario.
3. Absent a situation of financial stress, LCR should be at least equal to 100%, because the stock of unencumbered HQLA is intended to serve as a defense against the potential onset of liquidity stress. In addition, LCR should be at least equal to 100% and 75% in foreign currency and national currency, respectively.
4. During a period of stress, however, banks may use their stock of HQLA, thereby falling their LCR below 100%.

Article 4. Stock of HQLA

1. HQLA consist of Level 1 and Level 2 assets.
2. Assets to be included in each category of this article are those that the bank is holding on the first day of the stress period, irrespective of their residual maturity. Level 1 assets can comprise an unlimited share of the pool and are not subject to a haircut under the LCR. While level 2 assets can be included in the stock of HQLA, subject to the requirement that they comprise no more than 40% of the overall stock after haircuts have been applied.

Article 5. Total Net Cash Outflow

1. Total expected cash outflows consists of various categories or types of liabilities and off-balance sheet commitments and are calculated by multiplying the outstanding balances by rates at which they are expected to outflow under the financial stress.
2. Total expected cash inflows are calculated by multiplying the outstanding balances of various categories of contractual receivables by the rates at which they are expected to inflow under the financial stress.
3. While considering its available cash inflows, the bank should only include contractual inflows only from outstanding exposures that are fully performing and for which the bank has no reason to expect a default within the 30-day time horizon.
4. In order to prevent banks from relying solely on anticipated inflows to meet their liquidity requirement, and also to ensure a minimum level of HQLA holdings, the amount of inflows that can offset outflows should be capped at 75% of total expected cash outflows as calculated in the standard. This requires that a bank must maintain a minimum amount of stock of HQLA equal to at least 25% of the total cash outflows.
5. While calculating LCR, banks should not double its elements. If an asset belongs to the stock of HQLA (numerator), then, associated cash inflows should not be considered as

cash inflows (denominator). In cases, when an element can be included in several categories of outflow, banks should consider the maximum contractual outflow for these products.

Article 6. Measurement of LCR

1. LCR is measured and used every day. Daily LCR should be reported to the National Bank in no more than following 2 working days. If the bank expects its LCR to be less than 100%, it must immediately inform the National bank.
2. LCR should be measured and reported in national currency.
3. National bank determines the composition of liquid assets and imposed limitations on them, amount of haircuts, rates of inflows and outflows and limits under the financial stress.
4. National Bank can individually determine rates defined in paragraph 3 for the commercial banks, which tend to have a high concentration of affiliated entities, non-resident deposits, current accounts and/or other liabilities.
5. Standard information defined in paragraph 3 and reporting forms of this regulation will be posted on the official website of the National Bank.