البنك المركزي السعودي
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تعميم

السادة / المحترمون

السلام عليكم ورحمة الله وبركاته،

الموضوع: قواعد إدارة مخاطر السيولة لدى شركات التمويل.

استناداً إلى الصلاحيات الممنوحة للبنك المركزي السعودي بموجب نظام مراقبة شركات التمويل الصادر بالمرسوم الملكي رقم (م/٥١) وتاريخ ١٤٣٣/٨/١٣هـ.

تجدون بطيّه نسخة من قواعد إدارة مخاطر السيولة لدى شركات التمويل، حيث يجب الالتزام بهذه القواعد بموعد أقصاه ٠١ يناير ٢٠٢٣م. علماً بأن على الشركات تزويد البنك المركزي بتقارير شهرية - بدءً من نهاية شهر مارس ٢٠٢٢م - توضح آلية العمل على الالتزام بهذه القواعد وذلك بالإرسال على البريد الالكتروني (Compliancefcc@sama.gov.sa).

للإحاطة والعمل بموجبه،

وتقبلوا تحياتي،

فهد بن إبراهيم الشثري
وكيل المحافظ للرقابة

نطاق التوزيع
- شركات التمويل العاملة في المملكة.
- شركة إعادة التمويل العقاري العاملة في المملكة.

Rules on Liquidity Risk Management

February 2022

البنك المركزي السعودي
SAMA
Saudi Central Bank

Table of Contents

1. General Requirements

1.1 Introduction

The Saudi Central Bank (SAMA) issued these rules in exercise of the powers vested upon it under Finance Companies Control Law promulgated by the Royal Decree No. (M/51) on 13/08/1433H and in pursuance of the Implementing Regulation of Finance Companies Control Law promulgated by the resolution of the Governor No (2/M U T) dated 14/04/1434H.

These rules, issued pursuant to Article 24 of the Implementing Regulations of the Finance Companies Control law, aim to set minimum requirements for prescribed licensed finance companies on sound liquidity risk management practices.

SAMA expects finance companies to establish and maintain a robust framework for liquidity risk management, having following key elements:

- Board and senior management oversight;
- The establishment of policies and risk tolerance;
- The use of liquidity risk management tools such as comprehensive cash flow forecasting, limits and liquidity scenario stress testing;
- The development of contingency funding plans; and
- The maintenance of a sufficient cushion of high quality liquid assets to meet contingent liquidity needs.

1.2 Objective of the Rules

The main objective of these Rules is to strengthen the liquidity risk management process in finance companies and enable them to establish robust liquidity risk management framework for identification, measurement, monitoring and controlling liquidity risk exposures under normal and stressed conditions.

Effective liquidity risk management is important to ensure finance company's ability to meet cash flow obligations including contingent obligations (either contractual or non-contractual) and maintaining sound funding and liquidity profiles.

1.3 Scope of Implementation

These Rules shall be applicable on all finance companies and refinance companies licensed pursuant to Finance Companies Control Law.

1.4 Definitions

The following terms and phrases, where used in these Rules, should have the corresponding meanings unless the context requires otherwise:

SAMA:	The Saudi Central Bank
Rules:	Rules Governing Liquidity Risk Management
Liquidity:	The capacity of a company to generate sufficient cash or its equivalent in a timely manner, without incurring unacceptable losses to meet its commitments as they fall due and to fund new business opportunities.
Liquidity risk:	The risk that a company will not be able to meet efficiently both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial condition of the company due to insufficient liquid assets, an inability to liquidate assets, or to obtain adequate funding. Liquidity risk comprises both funding liquidity risk and market liquidity risk. a. Funding liquidity risk is the risk that the finance company will not be able to meet efficiently both expected and unexpected current and future cash flow. b. Market liquidity risk is the risk that a company cannot easily offset or eliminate a position without significantly affecting the market price because of inadequate market depth or market disruption.

Liquidity Risk Tolerance:	The maximum level of risk that a finance company is willing to accept, keeping in view not only normal times but also possible stress situations
Net cash outflows:	The cumulative expected cash outflows minus cumulative expected cash inflows arising in the time period under consideration.
High Quality Liquid Assets (HQLA):	Assets that can be easily and immediately converted into cash at little or no loss of value. The liquidity of an asset depends on the underlying stress scenario, the volume to be monetized and the timeframe considered.
Unencumbered Assets:	Assets not pledged either explicitly or implicitly in any way to secure, collateralize or credit enhance any transaction and are not held as a hedge for any other exposure.
Contractual Maturity Mismatch:	The gap between the contractual inflows and outflows of liquidity for defined time bands. These maturity gaps indicate how much liquidity a company would potentially need to raise in each of these time bands if all flows occurred at the earliest possible date.
Stress Test:	The assessment of the vulnerability of a company to internal and external shocks. Typically, it applies 'what if' scenarios and attempts to estimate the expected losses from shocks including capturing the impact of 'large, but plausible events. Stress testing methods include scenario tests based on historical events and information on hypothetical but plausible future events. Stress tests also include sensitivity analysis.
Contingency Funding Plan (CFP):	A contingency funding plan (CFP) addresses a company's strategy for handling liquidity crises. It describes procedures for managing and making up cash flow shortfalls in stress situations.

2. Liquidity Risk Governance

The Board of Directors is ultimately responsible for the liquidity risk assumed by the finance company and should ensure that the company has the necessary liquidity risk management framework and is capable of dealing with normal and stressed scenarios. The strategy and significant policies related to the management of liquidity risk should be approved by the Board of Directors. The Board is responsible for:

a. Establishing liquidity risk tolerance, which should define the level of liquidity risk that the company is willing to assume in line with its business strategy;
b. Instituting an appropriate organization structure with clearly defined roles and responsibilities for management of liquidity risk exposure.
c. Reviewing and approving the liquidity risk strategy and liquidity risk management policies including contingency funding plan and liquidity stress testing framework at least on an annual basis;
d. Continuously monitoring the company's performance and overall liquidity risk profile through reviewing various reports. The Board should be informed regularly of the liquidity situation of the company and immediately if there are any material changes in the company's current or prospective liquidity position; and
e. Ensuring that senior management takes necessary steps to identify, measure, monitor, control and report on liquidity risk. The Board should also ensure that senior management transforms board-approved strategies and policies into detailed and well-documented guidance, procedures and operating instructions that are properly aligned from risk and reward perspectives.

The governance structure of the company should specify the roles and responsibilities of senior management, as well as various functional and business units, including that of the risk management department, with appropriate segregation between operational and monitoring functions. Function responsible for monitoring of liquidity risk management should be independent of risk taking units to avoid any conflict of interest and ensure that the monitoring responsibilities are discharged effectively. Senior management of the company has responsibility for executing the liquidity risk management strategy and policies approved by the Board in an integrated manner and ensuring that liquidity is effectively managed by establishing appropriate processes and controls to limit and monitor material sources of liquidity risk.

Senior management should have a thorough understanding of how other risks, including credit, market and operational risk impact on the company's overall liquidity strategy and position. Senior management is responsible for ensuring implementation of adequate internal controls and audit mechanism to safeguard integrity of liquidity risk management process in the company.

Finance companies are recommended to establish an asset and liability committee (ALCO), comprised of senior management including CEO, personnel from the risk management function, treasury function, financial control function and other key business areas that affect the company's liquidity risk profile, to oversee liquidity risk management. The Board should define the mandate of this committee in terms of planning, directing and managing the liquidity risk.

The committee members should ensure that the framework established for liquidity risk management is able to adequately identify and measure the risk exposure and provide timely, accurate and relevant reports to senior management, the Board and SAMA about the company's liquidity risk exposure.

Cash flow mismatch, asset liability maturity gaps, key assumptions used in the preparation of cash flow forecasts, early warning signals, funding concentration, available funding including the status of contingent funding sources and availability of collaterals, among other things, can be reported to senior management and other stakeholders including SAMA through quarterly risk reports or other reports specified in this regard.

3. Liquidity Risk Strategies, Policies and Procedures

Senior management should develop well documented, sound and prudent strategy, policies and practices to manage liquidity risk in accordance with the risk tolerance and to ensure that the company maintains sufficient liquidity.

The risk tolerance level should be adequately documented, expressed in qualitative and quantitative terms, consistent with the size, sophistication, business objectives, relevant funding markets and overall risk appetite of the company. The risk tolerance should reflect the company's assessment of the sources of liquidity risk it faces and should ensure that the company prudently manages its liquidity in normal times and is also able to sustain an extended period of stress. The liquidity risk tolerance should be reviewed, at minimum, on an annual basis. The quantitative measures may include but are not limited to liquid asset holdings, maturity mismatches, concentration of funding and contingent liquidity obligations, and other limits on liquidity indicators used for controlling different aspects of liquidity risk.

The liquidity risk management policies of the company should include below in detail, among other things:

a. Sources of liquidity risks;
b. Liquidity risk appetite and tolerance established by the Board;
c. Liquidity risk management strategy, including the goals and objectives underlying the strategy;
d. Asset, liability and off-balance sheet composition;
e. Diversification of funding sources;
f. Liquidity risk management responsibilities, with clearly defined lines of authority, responsibilities and reporting structure;
g. Liquidity risk management systems and tools for measuring, monitoring, controlling and reporting liquidity risk, including the setting of various liquidity limits and ratios, the rationale for establishing limits and ratios and the process for escalating exceptions;
h. The policy for conducting cash-flow projections over an appropriate set of time horizons;
i. Liquidity stress testing requirements including the roles and responsibilities, frequency, techniques, scenarios and related key assumptions to be used;
j. The size and composition of liquid assets that are readily available in a stressed environment;
k. Contingency funding plans; and
l. Collateral management including pledging and assignment.

Finance companies should establish appropriate procedures to implement their liquidity policies. The procedure document should explicitly narrate the necessary operational steps and processes to execute the relevant liquidity risk controls. The procedures should be periodically reviewed and updated to take into account new activities, changes in risk management approaches and systems.

4. Liquidity Risk Identification, Measurement and Management

Finance companies should have a sound process for identifying, measuring, monitoring and managing liquidity risk. This should include a robust framework for systematically projecting cash flows arising from assets, liabilities and off-balance sheet items over appropriate time horizons.

4.1 Identification of Liquidity Risk

A finance company should identify and document all liquidity risk it is exposed to, in the short and long term, arising from company-specific or market-wide events. In the process of identification, the company should identify and recognize each significant on- and off-balance sheet position that can have an impact on its liquidity in normal and stressed conditions. The company should consider the types of events that can expose it to liquidity risk including the impact of other financial risks such as credit, market and operational risks.

Liquidity risk can also arise due to failure or weaknesses in business decisions and company policies, including shortcomings in business strategy. Indicators of liquidity risk, inter alia, may include a high concentration in particular asset or liabilities, asset- liability maturity mismatches, deterioration of the company's financial conditions evident from decreased earnings, deterioration in asset quality and credit rating, increased funding costs and collateral requirements, rapid growth in assets funded with less stable sources of funding, repeated instances of approaching or breaching tolerance limits and deterioration in market indicators (e.g., share price) that are correlated with the financial condition of the company.

A finance company should identify incidents that can negatively influence its perception in the marketplace about creditworthiness and fulfillment of its obligations and hence leading to liquidity risk.

4.2 Measurement of Liquidity Risk

Finance companies should have documented and well tested methodologies for measuring liquidity risk which are updated on regular basis to reflect changing market conditions. For measuring liquidity risk, a finance company may use a range of measurement techniques, time horizons and levels of granularity.

A finance company should be able to measure and forecast its future cash flows arising from all of its positions, whether on- or off-balance sheet, over a range of time horizons in order to assess its exposure to changes in cash flows and liquidity needs over time, considering the composition of its balance sheet. These time horizons range from weekly and monthly for short-term liquidity assessments, up to one year for medium- term, and over one year for longer-term assessments.

Finance companies should use an appropriate method to calculate the net funding requirement. Companies may use cash-flow mismatch or maturity gap for calculating the net funding requirement, which is based on an estimation of the amount and timing of future cash flows with respect to contractual or expected maturity. The calculation of net funding requirements involves the construction of a maturity ladder to analyze prospective cash flows based on assumptions of the future behavior of assets, liabilities and off-balance sheet items and then the calculation of a cumulative net excess or deficit in funding at a series of points in time. The negative maturity gaps or deficits indicate the level of liquidity a company would possibly need to raise in each of the time bands if all outflows occurred at the earliest possible date.

In order to ensure the reliability of the forecasting process, finance companies should implement appropriate internal controls on data aggregation and processing including validation and plausibility checks. Finance companies should also ensure that the assumptions it makes are practical, realistic and properly documented. The validations and back-testing results should be properly documented and communicated to senior management.

Finance companies should set limits for controlling liquidity risk exposure and ensure that they do not have a level of outflows which cannot be funded in the market, taking account of their risk tolerance and historical record. Depending upon their size, nature of operations and business model, finance companies may set internal limits on funding concentrations, discrete or cumulative cash flow mismatches or gaps over time horizons and stress scenarios, cash flow coverage, liquidity buffers, cost of funding, liquid assets ratio, counterparty exposures and undrawn commitments, etc.

Finance companies using originate-to-distribute business models, relying on securitization markets as a source of continual funding, should also consider setting limits on the size of their loan inventory pipeline, since securitization markets may become unreliable during stressed periods.

4.3 Management of Liquidity Risk

Finance companies should establish a funding strategy for effective diversification in the sources and tenor of funding. Companies should establish strong relationship with fund providers and presence in different funding markets to ensure continued access to diversified and reliable funding sources. The company should frequently assess its ability to raise funds quickly from each funding source and should identify the key factors affecting this ability and monitor them closely to ensure that the assessment of fundraising capacity remains valid.

A finance company should maintain a cushion of unencumbered high quality liquid assets as a readily available source of funding to meet unexpected net cash outflows and survive a liquidity stress event. Availability of sufficient stock of high quality liquid assets allows the company necessary time to access alternative sources of funding until other longer term measures can be implemented. Assets are considered to be high quality liquid if they can be easily and immediately converted into cash at little or no loss of value. The liquidity generating capacity of these assets is assumed to remain intact in periods of market stress, in addition to ease and certainty of valuation and low volatility in prices.

In determining the appropriate level of liquid assets relative to the company's liquidity risk profile, finance companies should consider, among other things, the stability of funding sources, cost and diversity of funding (companies with higher funding costs compared to similar peers and/or those that rely on a limited number of funding sources may need to hold a larger stock of liquid assets), short-term funding requirements (companies with a funding mix geared towards shorter term maturity of liabilities should hold a larger stock of liquid assets) and contingent funding needs.

Assets normally pledged to secure specific obligations should be excluded from the stock of liquid assets that are available to meet unexpected cash shortfalls.

Finance companies should ascertain their collateral needs for secured funding to manage their liquidity over various time horizons in both normal and stressed times. A finance company should actively manage its collateral positions, differentiating between encumbered and unencumbered assets. Unencumbered assets have the potential to be used as collateral to raise additional secured funding in secondary markets and as such may potentially be additional sources of liquidity for the company.

SAMA may also impose specific limits for controlling liquidity risk exposure of finance companies as and when deemed necessary.

5. Stress Testing and Scenario Analysis

Finance companies are required to develop a comprehensive liquidity stress testing program that considers multiple scenarios of varying degrees of stress and time horizons.

A finance company should conduct stress tests on a regular basis for a variety of short-term and long-term company-specific and general market plausible stress scenarios individually and in combination. A periodic stress test will help a company in identification of sources of potential liquidity stress and ensuring that current liquidity risk exposures remain within the established liquidity risk tolerance. Finance companies should also include sensitivity analyses in their stress testing along with scenario analysis. While scenario analyses simultaneously examine the effect of several risk factors on liquidity, sensitivity analyses test the dependence on a selected risk factor.

The assumptions underlying the behavior of the cash flows of assets, liabilities and off-balance sheet items should be clearly detailed under all stress scenarios and approved by ALCO.

The results of stress testing exercises should be compared against the stated risk tolerance of the company and used as the basis for limit setting, preparing effective contingency funding plan and adjusting liquidity risk management strategies and policies.

Stress testing results should be reviewed by senior management and along with resulting actions, be reported to and discussed with the Board of Directors.

6. Contingency Funding Plan

Finance companies should have Contingency Funding Plan (CFP) in place that addresses the strategy for handling liquidity crises and include procedures for making up cash flow shortfalls in stressed conditions. The plan should clearly spell out the available funding sources and the magnitude of funds that can be generated from such sources, including the expected time needed to exploit the additional funding.

A CFP should contain policies and procedures for management of diverse range of liquidity stress scenarios, identify the authority responsible for activating the plan, define roles and responsibilities of personnel involved in implementation, set escalation procedure and requirement to periodically test and update the plan to ensure its robustness.

An effective CFP should include:

a. A description of what constitutes a "liquidity crises event" for the company in quantitative and qualitative terms;
b. A set of quantitative and qualitative early warning indicators (EWI) to identify an approaching liquidity crisis event. The responsibility and frequency of monitoring each of the EWIs should be clearly documented. Frequent reviews of EWIs should be conducted to ensure they remain relevant;
c. A list of options for dealing with stress events at different time horizons;
d. Clear designation of the roles and responsibilities of various personnel involved in the management of CFP and for the stress event in question;
e. A plan for modifying on-balance sheet asset and liability composition and maturities (e.g., held to mature assets to be liquidated, negotiating extension in the maturity of liabilities etc.,) considering the time to execute for any such plan;
f. A list of alternate sources of funding in the order of their priority including identification of any backup facilities. An assessment of required time to access each source, the conditions and limitations to their use and the circumstances where the company might use such funding sources should also be documented in a CFP. Management should understand the various legal, financial, and logistical constraints, such as notice periods, collateral

requirements, or other covenants that could affect the company's ability to use backup facilities;

g. A process to track and monitor eligible collaterals for securing backup facilities;
h. Specific procedures and reporting requirements to ensure timely and uninterrupted information flows to senior management including parameters for escalating any issue to senior management and the Board; and
i. Plans and procedures for internal communication and interactions between various functions, as well as external communication with supervisory authorities and other stakeholders.

Finance companies should test and update the CFP, at minimum, on an annual basis to ensure its effectiveness and operational feasibility in the dynamic market conditions. The development and ongoing testing and update of CFPs should be integrated within the company's liquidity stress testing plan and CFPs should be adjusted, where required, in light of the stress test results.

7. Internal Controls

Finance companies should have adequate internal controls to ensure the integrity of their liquidity risk management process. These should be an integral part of the company's overall system of internal controls aimed at promoting effective and efficient operations, reliable financial and regulatory reporting, and compliance with relevant laws, regulations and company policies.

A system of internal control for effective liquidity risk management will typically include:

a. A robust control environment;
b. A comprehensive process for identification and assessment of liquidity risk;
c. Control activities such as policies and procedures and segregation of duties;
d. An effective management information systems; and
e. Continuous review of compliance with established policies and procedures.

Control activities should be adequately documented in the company's policies and procedures and implemented, including the process for limit review, handling limit exceptions, authorization to set and change limits, escalation procedures and requirement for sign-off by senior management, to provide reasonable assurance that the company's liquidity risk management objectives are achieved.

An effective system of internal controls over liquidity risk includes attributes of a sound liquidity risk management process i.e., liquidity risk identification, measurement, monitoring and reporting. It is expected that finance companies will have systems in place to enable senior management to ensure compliance with company's liquidity risk management policies, manage liquidity risk exposure and analyze risk tolerance through the use of limits and early warning indicators. Finance companies should ensure that all aspects of the internal control system are effective.

The internal audit function should also periodically review the liquidity management process in order to identify any weaknesses or deficiencies. Deficiencies highlighted by the internal auditor should be addressed by management in a timely and effective manner.

8. Implementation

These Rules shall come into force with effect from 1 January 2023.

Finance companies should adjust their liquidity risk management processes and regulatory reporting systems to satisfy the requirements specified in these Rules.