



**REPUBLIC OF ALBANIA
BANK OF ALBANIA
SUPERVISORY COUNCIL**

DECISION

No. 48, dated.14.07.2010

The adoption of the regulation

“On the open foreign exchange positions risk management”

In accordance with Article 12 letter "a" and Article 43 letter "c" of the law no.8269, dated 23.12.1997 "On the Bank of Albania" as amended, and Article 57 paragraph 2, 3, 4 and 5 and Article 58 paragraph 1, "d" of the law no. 9662, dated 18.12.2006 "On Banks in the Republic of Albania", having regard to the proposal from the Supervision Department, Supervisory Council of the Bank of Albania:

Decided:

1. To approve the Regulation "On the open foreign exchange positions risk management" and the forms from 1 to 7, through this decision.
2. The Supervision Department and the Department of Statistics shall be responsible for the implementation of this decision.
3. The Department of Foreign Relations, European Integration and Communication shall be responsible for the publication of this Regulation in the Official Bulletin of the Bank of Albania and in the Official Journal of the Republic of Albania.
4. The Regulation "On the open foreign exchange positions" adopted by Decision no. 59, dated 05.05.1999 of the Supervisory Council, as amended and the methodological instruction "On foreign exchanges risks", dated 26.06.1999, shall be repealed accordingly.

This Regulation shall enter into force 15 days after its publication in the Official Journal of the Republic of Albania.

SECRETARY

Ylli Memisha

CHAIRMAN

Ardian Fullani

Regulation

“On the open foreign exchange positions risk management”

(approved by the decision of the Supervisory Council of the Bank of Albania No. 48, dated 14.07.2010.)

Chapter I

General provisions

Article 1 Purpose

This Regulation aims to set out the rules and criteria for the calculation, monitoring, reporting and the supervision of the banks' open foreign exchange positions, in order to manage the foreign exchange risk.

Article 2 Subjects

This regulation shall apply on banks licensed by the Bank of Albania to exercise banking and financial activity in the Republic of Albania.

Article 3 Legal ground

This regulation is issued in accordance with Article 12 letter "a", and Article 43 letter "c" of the law no. 8269, dated 23.12.1997 "On the Bank of Albania", as amended and Article 57 paragraph 2, 3, 4 and 5 and Article 58 paragraph 1, letter "d" of the law no. 9662, dated 18.12.2006 "On banks in the Republic of Albania".

Article 4 Definitions

1. The terms used throughout this Regulation shall have the same meanings with the terms given by the law no. 9662, dated 18.12.2006 "On banks in the Republic of Albania".
2. In addition to paragraph 1 of this Article, for the purposes of implementing this Regulation, the following terms shall have these meanings:

- a. "Foreign exchange risk" – shall mean the risk of loss from an adverse movement in foreign exchange rate between different currencies and/or a change in the ALL exchange rate against foreign currencies;
- b. "Foreign currency denominated assets (rights) and liabilities (obligations)" – shall mean all assets and liabilities recorded in a foreign currency,
- c. "Foreign exchange structural position " – shall mean the position created from:
 - i. elements (on and off-balance sheet items) which differ from the nature of main banking and financial activity (businesses) of the bank and/or are stable/long-term items such as: "interests in participation"; investments in "subsidiaries", "tangible and intangible fixed assets", capital granting to banks' branches opened abroad, etc,
 - ii. banks' transactions which maintain the capital adequacy level whenever the capital adequacy ratio is impacted by the fluctuations of the foreign exchange rate.

Chapter II

Foreign exchange rate risk management

Article 5

The setting forth of open foreign exchange positions

1. The net open foreign exchange position in a currency and/or gold is the sum of:
 - a. Net *spot* position, determined as the difference between foreign currency assets and liabilities in a particular currency and/or in gold, also including accrued interests, and spot transactions which deals with the purchasing and selling of foreign currencies, but which are not yet recorded in the accounting books;
 - b. Net *forward* position, which represents all amounts to be received less all amounts to be paid according to:
 - i. forward foreign exchange transactions (and/or gold),
 - ii. *futures* of foreign currencies (and/or of gold),

and shall include:

- iii. the principal under swaps of foreign currencies, excluded from spot positions, and
 - iv. guarantees and similar commitments denominated in foreign currencies which are certain to be called upon and are likely to be irrecoverable.
 - c. Net position of foreign currency options (including gold), defined as a difference between the total face value of total purchased Call options and sold Put options and the face value of the total purchased Put options and sold Call options.
2. When calculating the open foreign exchange position, the structural foreign exchange position shall be excluded accordingly to the approval of the Bank of Albania.
3. The net open foreign exchange position is calculated for every single foreign currency (including gold) on the bank's balance-sheet and is converted into ALL at the official rate published by the Bank of Albania at the calculation day.
4. The net open foreign exchange position might be long or short.
5. A net open long position arises when the bank's assets denominated in one particular currency exceed the liabilities denominated in the same currency, implying that the difference between foreign currency denominated assets and foreign currency denominated liabilities is positive (+ sign).
6. A net open short position arises when the bank's assets denominated in one particular currency are lower than the liabilities denominated in the same currency, implying that the difference between foreign currency denominated assets and foreign currency denominated liabilities is negative (- sign).
7. The sum of all net open long positions translated in ALL, represents the overall net open long position.
8. The sum of all the net open short positions, translated in ALL, represents the overall net open short position.
9. The larger value between the overall net open long positions and the overall net open short position represents the total net open foreign exchange position of the bank, or the overall exposure of the bank against the foreign exchange risk.

Article 6
Limits on open foreign exchange positions

1. The total net open foreign exchange position of the bank at the end of every business day should not exceed 30 (thirty) percent of its regulatory capital.
2. The net open foreign exchange position of the bank in every foreign currency including gold at the end of every business day should not exceed 20 (twenty) percent of its regulatory capital.

Article 7
Open foreign exchange positions risk management

1. The bank shall establish foreign exchange risk management system, while carrying out its activity, to identify, measure, monitor and control the risk the bank is exposed against.
2. The bank should develop the needed procedures and policies for the foreign exchange risk management.
3. The foreign exchange risk management policy should minimally include:
 - a. the targets and principles of the bank for the conduction of foreign exchange activities;
 - b. clear and correct limits regarding the exposure of the bank against foreign exchange risk, in line with the allowed limits stipulated in Article 6 of this Regulation;
 - c. clear assignments of responsibilities and their delegation related to the foreign exchange activities, also the organisational units and persons for the foreign exchange risk management;
 - d. possible exclusions from the internal determined limits/restrictions and the responsibilities to take the decisions about these exclusions.
4. Policies for the foreign exchange rate risk management should be in line with the nature, purpose, type and complicity of the foreign exchange activities, carried out from the bank and/or planned to be conducted from the bank.
5. The Steering Council of the bank shall approve the policy set forth in paragraph 3 of this Article and shall review the latter at least once a year for possible changes including improvements.
6. The Bank should assess and monitor the foreign exchange risk on day-to-day basis.

7. The Committee/unit for risks management should minimally:
 - a. implement the foreign exchange risk management policy;
 - b. provide suggestions for the improvement of the foreign exchange risk management policy;
 - c. assess the bank system for the foreign exchange risk management policy;
 - d. set the internal limits on the ratios between net open foreign exchange positions for each type of currency (long and short) and the regulatory capital, and review these ratios on frequent basis;
 - e. carry out analysis for the exposure of bank against the foreign exchange risk and monitor the activity for the management of this risk;
 - f. analyse the impact of foreign exchange risk management on the bank's transactions results through different scenarios or stress-tests results;
 - g. monitor the macro-economic conditions and other conditions (internal and external), which effect the exchange rate and do expose the bank against the risk of the foreign currency activity, with the purpose to timely identify these risks and take the measures on their management.

8. The Directorate of the bank should minimally:
 - a. develop and implement the procedures for the identification, measuring, monitoring and control of foreign exchange risk of the bank in line with foreign exchange risk management policy;
 - b. establish and implement adequate systems for the measuring of the bank' exposure against foreign exchange risk;
 - c. establish and implement adequate systems for the monitoring and measuring of profits and loss arising from the foreign currency activities;
 - d. set forth the conditions and terms for the monitoring and assessment on regular basis of the policy and the respective implementation;
 - e. develop procedures to assess the impact of new products on the exposure against foreign exchange risk;
 - f. monitor the economic and other conditions under which bank is operating, with the purpose to encounter the eventual changes in the foreign currency activities, foreign exchange rate and the exposure risk of currency/currencies;
 - g. develop and suggest the type, content and methods as regard to the reporting to the Steering Council and to the Committee for the risk management related to foreign currency activities, for the efficient management of foreign exchange risk the bank is exposed against.

9. In cases when the bank is subject of consolidated supervision, the foreign exchange risk management policy shall include the foreign exchange risk management at the banking-group level.
10. The procedures for the implementation of the foreign exchange risk management policy shall minimally include:
 - a. the reporting to the Directorate and Steering Council as regards to:
 - i. the open foreign exchange positions by currency,
 - ii. the overall foreign exchange position,
 - iii. profit and loss realised from the conduction of the foreign currency activity.
 - b. the control systems in:
 - i. the units assigned to carry out and manage the foreign currency activities,
 - ii. the monitoring of compatibility and the observation of the limits set out for the exposure against foreign exchange risk,
 - iii. The registration of transactions related to the bank's foreign currency activity.
 - c. The methodology of carrying out *stress test* against foreign exchange risk, in line with at-home bank procedures.

Chapter III

Supervision and reporting

Article 8

Monitoring and supervisory requirements

1. Bank shall immediately inform Bank of Albania in any case of exceeding the allowed limits of open foreign exchange position/positions, set out in Article 6 of this Regulation. In this report the bank informs the Bank of Albania on the time and the needed measures for the re-establishment of the open foreign exchange positions within the allowed limits.
2. The overall administrative and accounting procedures framework, including the information system as regards to the identification, recording and monitoring of the open foreign exchange positions are subject of ongoing supervision and assessment from the Bank of Albania.

Article 9
Reporting to the Bank of Albania

1. Banks shall fill in and submit to the Bank of Albania, at the closure of every month, the respective forms of this regulation, part of the Unified Reporting System.
2. The forms 1,2,3,4 and 7 reflect the calculations of net open foreign exchange position of the bank in accordance with the requirements of Article 6 set forth in this Regulation, while forms 5 and 6 meet the supervisory requirements of the Bank of Albania for the purpose of monitoring the net open foreign position considering all off-balance sheet items.
3. The banking group shall report on consolidated basis the open foreign exchange positions, on quarterly basis. This reporting takes place in line with the forms set out in paragraph 2 of this Article.
4. The Supervision Department whenever deeming reasonable, has the right to request to the bank to carry out changes in the content and frequency of the reporting.

Article 10
Supervisory measures

The Bank of Albania, in cases of non-compliance with the obligations pursuant to this regulation, shall undertake the supervisory measures stipulated in the law no. 9662, dated 18.12.2006 "On banks in the Republic of Albania".

Chapter IV

Final provisions

Article 11
Transitory provision

The banks shall carry out the reviewing and approval of the internal regulations and procedures for the assessing and monitoring of the open foreign exchange positions in compliance with the requirements stipulated in this Regulation, no later than 3 (three) months after the entry into force of this Regulation.

CHAIRMAN OF SUPERVISORY COUNCIL

ARDIAN FULLANI