

ADMINISTRATIVE PROCEDURES FOR THE CONTROL AND SUPERVISION OF LIQUIDITY RISK

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Abstract:

The economic crisis has affected all types of banking products and services, business models, and evaluation methods known. Increasingly in the banking industry uses the term "prudential banking rules" to emphasize the need for rules to ensure that the legal framework for banking activity and responsible relationships between inheritances banks and customers. The need for a prudential attitude imposed on banks by reglementări arise, primarily from banks ' role in the economy.

Key words: banking performance, risk in the banking business, liquidity risk, banking supervision

JEL Clasification: F65, G24

1.Introduction

To highlight the role and importance of liquidity we presented some of its concepts, as well as the monetary stance as an expression of liquidity.

To have the control over the liquidity of Banca Națională a României regulating banking liquidity in our country through the norm NBR 1/2001 with subsequent amendments and additions, which is defined in the method of calculating the indicator of liquidity as the ratio between actual liquidity and liquidity required. In order for banks to be in difficulty to procure the necessary resources to meet its own commitments at some point, you have to deal with liquidity risk. The art of transforming resources with little maturity in placements with great maturity and to deal with the crisis of liquidity, in a short time and at low prices, is specific to Bank management. This requires the Bank's management to resolve three issues of liquidity risk (Figure no. 1):



Figure no. 1 „Aspects of liquidity risk”

Obtaining liquidity for the Bank involves, on the one hand, in general, a greater effort to improve all the performance indicators and return on all sides and increase its image. On the other hand, banks must make a particular effort to improve the determination as accurate resource needs through reasonable forecast calculations, able to reflect the scale and regularity, to determine the evolution of the modularizată of the requirements of the money market.

2. Liquidity risk-causes and forms of manifestation

The origin of liquidity risk is several causes which are both at the level of each bank.

Internal causes are generated by:

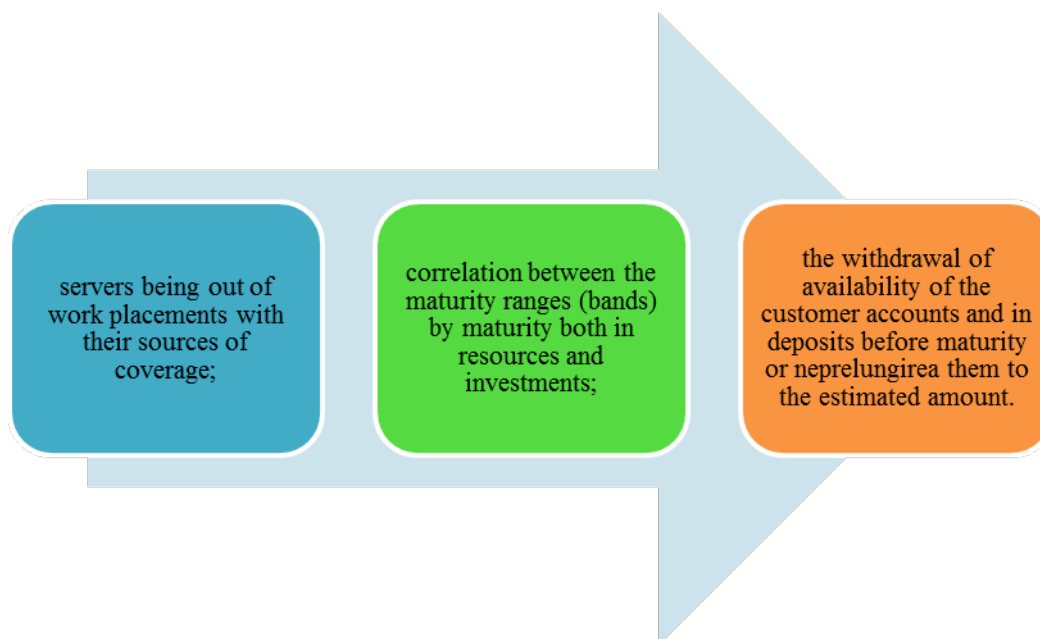


Figure no. 2 "Internal causes what causes the appearance of liquidity risk"

External causes, which may affect liquidity are related in particular to:

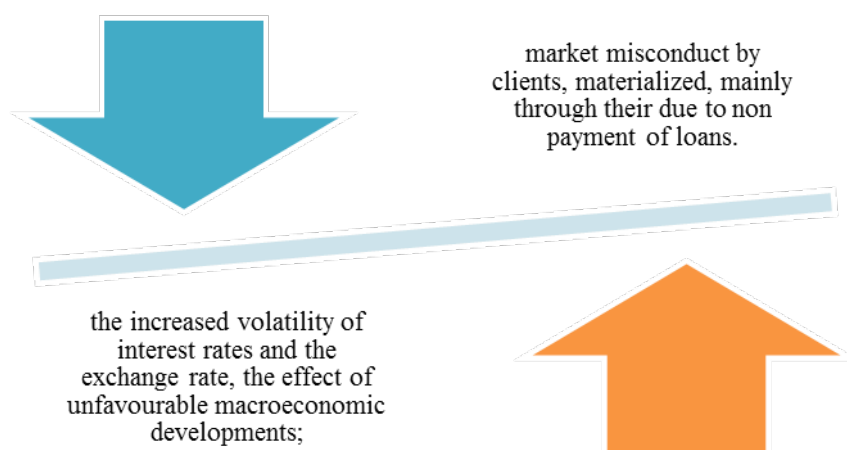


Figure no. 3 "External causes what causes the appearance of liquidity risk"

Depending on the causes which generates, liquidity risk is manifesta under the following forms:

- ✚ as liquidity imbalance;
- ✚ the risk of funding;

- ✦ as market liquidity risk;
- ✦ as the operational liquidity risk;
- ✦ liquidity risk the quotas.

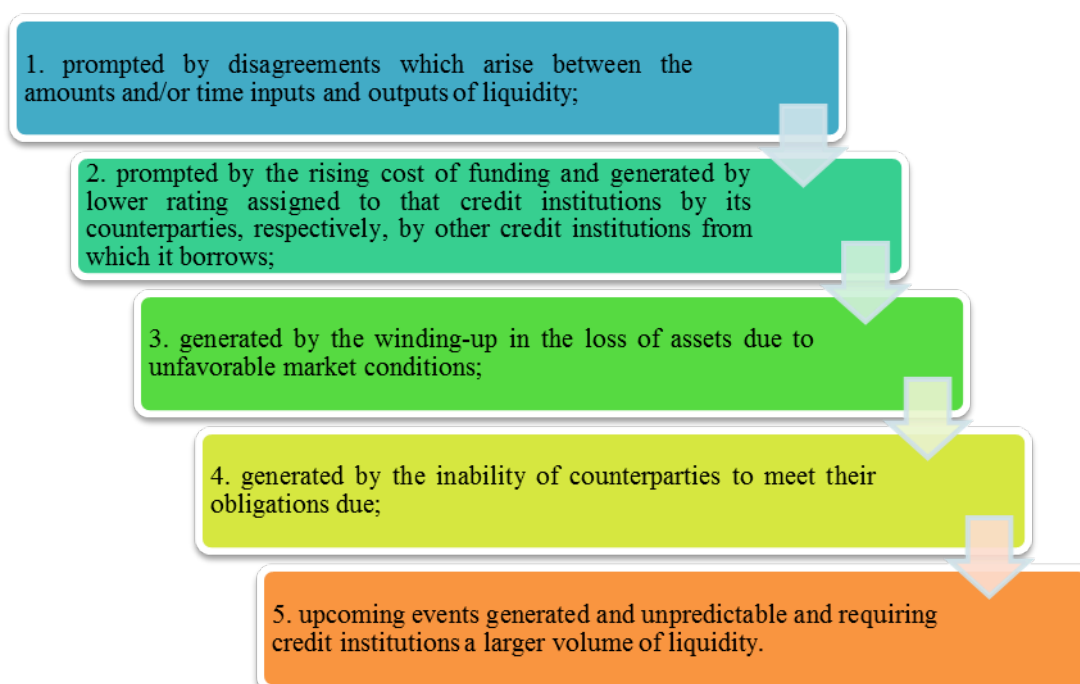


Figure no. 4 " Forms of liquidity risk"

3. Procedures of internal control for the supervision of liquidity risk

In accordance with the policies and procedures of control, attention should be acordată approval processes, employment limitations, their review and other mechanisms designed to ensure the achievement of the objective of liquidity management. Banks need to ensure that all elements of internal control are applied specifically, including cece are not part of the direct process of risk management. Checks and assessments on a regular basis is another important element that should be included in the system of internal control. Thus, it shall ensure the application of the staffing policies and procedures have been approved, can thus achieve the goals of the organization. Such verifications and reports should identify any potential problem that might affect the effectiveness of controls.

Banks must hold an appropriate internal control system, capable to ensure the integrity of the process of liquidity risk management. It must carry out effective operations, financial reports, regulatory and compliance with existing regulations. An effective system of internal control of liquidity risk includes:

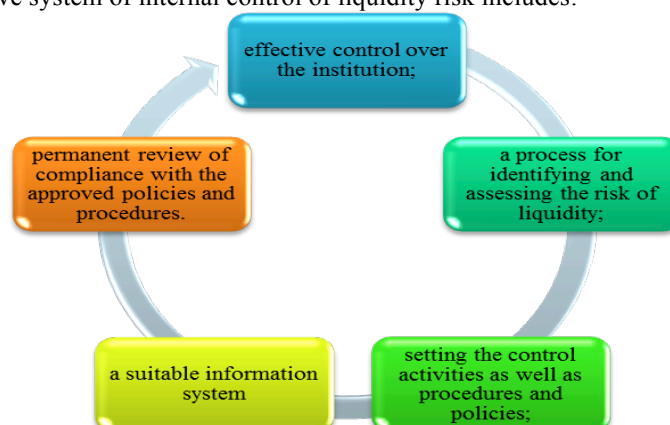


Figure no. 5 „The system of internal control of liquidity risk"

Analysis of banks' liquidity cannot be based solely on calculation of some indicators of global liquidity, which may not take into account the residual maturity of the investments and resources under the current economic environment.

4. Conclusions

The economic crisis has affected all types of banking products and services, business models, and evaluation methods known. Increasingly in the banking industry uses the term "prudential banking rules" to emphasize the need for rules to ensure that the legal framework for banking activity and responsible relationships between inheritances banks and customers. The need for a prudential attitude imposed on banks by reglementări arise, primarily from banks, the role of the banking sector in the economy.

According to the report on financial stability in 2014, issued by the National Bank of României, domestic banking sector will undergo a comprehensive evaluation process was thorough, as a result of the decision by the Romanian authorities to join the Banking Union, european project based on three *pillars*:

- unique surveillance mechanism
- unique resolution mechanism and
- common scheme of deposit-guarantee schemes.

Entering into an agreement for close cooperation with the European Central Bank with regard to prudential supervision of credit institutions entails conducting a thorough evaluation exercise of the far-reaching credit institutions, which exercise comprises *three stages*:

- ✚ the risk assessment stage;
- ✚ a quality assessment of bank assets, and
- ✚ an exercise stress test based on macro-economic scenarios.

In the case of credit institutions in Romania, the exercise is expected to take place in 2015.

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