REPUBLIC OF ALBANIA
FINANCIAL SUPERVISORY AUTHORITY
The BOARD

DECISION

No. 45, DATED 30.06.2015

ON

APPROVING THE REGULATION "ON LIQUDITY MANAGEMENT FOR INVESTMENT FUND"

Pursuant to the article 14, paragraph 2, of the Law no. 9572, dated 03.07.2006 "On the Financial Supervisory Authority", as amended, article 14, paragraph 1, letters c) and ç); article 14, paragraph 2; and article 87, paragraph 6, of the Law no. 10198, dated 10.12.2009 "On the Collective Investment Undertaking", following the proposal of the Financial Supervision Department, the Financial Supervisory Authority herewith,

DECIDED:

1. To approve the regulation "On the Financial Supervisory Authority", as attached.
2. To put in charge the Financial Supervision Department and the Licensing and Intermediaries Monitoring Directorate for the enforcement of the underlying decision.

This Decision shall enter into force immediately.

FINANCIAL SUPERVISORY AUTHORITY
The BOARD

REGULATION

ON LIQUIDITY MANAGEMENT FOR INVESTMENT FUND

Approved by Decision of the Board no. 45, date 30.06.2015

Article 1
Subject matter

This Regulation lays down rules for the management company of collective investment undertakings with regard to liquidity management of investment fund.

Article 2
Legal basis

This Regulation is issued with legal authority based on article 14, items 1/c, 1/ç and 2, and article 87, item 6, of the Law no. 10 198, dated 10.12.2009 "On Collective Investment Undertakings".

Article 3
Scope

This Regulation shall apply to all open-ended investment funds licensed by Financial Supervisory Authority to conduct business in the territory of the Republic of Albania.

Article 4
Definitions

For the purposes of this Regulation the following definitions apply:

1. “Authority” is the Financial Supervisory Authority;
2. “Fund” is the investment fund as per provisions of the Law no. 10 198, dated 10.12.2009 "On Collective Investment Undertakings";
3. “Law” is the Law no. 10 198, dated 10.12.2009 "On Collective Investment Undertakings";
4. “Liquidity Risk” for a fund is the risk that a position in the fund’s portfolio cannot be sold, liquidated or closed at limited cost in an adequately short time frame and that the ability of the fund to meet its redemption obligations as set out in its prospectus is thereby compromised;
5. “Market Risk” is a risk to a fund resulting from fluctuation in the market value of positions in the fund’s portfolio attributable to changes in market variables, such as interest rates, foreign exchange rates, equity and commodity prices or an issuer’s credit rating;
6. “Tool or special arrangement” means a procedure or arrangement that arises as a direct consequence of the illiquid nature of the assets of a fund which impacts the specific redemption rights of investors in the units of the fund and which is a bespoke or separate arrangement from the general redemption rights of investors. The use of tools and special arrangements to manage liquidity is dependent on concrete circumstances and is permitted to vary according to the nature, scale and investment strategy of the fund. The suspension of redemptions of fund units is not to be considered as a special arrangement as this applies to all of the fund’s assets and all of the fund’s investors;
7. “High Quality Liquid Assets” (HQLA) are those assets which have a demonstrable history of being liquid in markets during normal times and times of severe stress. The following is a non-exhaustive list of HQLA:

a) Cash available on demand, i.e cash subject to no withdrawal penalty. Should the withdrawal penalty apply, the amount of cash shall be discounted by the amount of penalty to be paid;
b) Assets eligible for discounting from/at the Central Bank, or to be used as collateral for standby credit facilities offered by banks in Albania or the central bank, which are subject to no additional restrictions in times of general market stress. The market value of such assets shall be discounted by the discount rate, if it is known in advance or can reasonably be applied. The standby facilities from the banks shall be considered if a written agreement exists;
c) Transferable securities representing claims on or claims guaranteed by:
    i. central governments, central banks, and non-central government public sector entities (PSE), of EU Member Countries, with a sovereign S&P credit rating long term at least BBB, or the equivalent credit ratings by other international rating agencies widely accepted;
    ii. central governments, central banks, and non-central government public sector

entities (PSE) of other states, with a sovereign S&P credit rating long term of AAA to AA-, or the equivalent credit rating by other international rating agencies widely accepted;

iii. financial institutions in the form of covered bonds as long as the following criteria are met:

- The issue size is at least EUR 500 million, or the equivalent amount in issuing currency ;
- They have an S&P rating long-term of AAA to AA-, or the equivalent credit rating by other international rating agencies widely accepted;
- The market value is subject to a haircut of 7%.

iv. BIS, IMF, European Commission or multilateral development banks as long as all of the following criteria are met:

- They are assigned a 0% risk-weight for purposes of assessing credit risk;

- Deep repo-markets exist for these securities;

- The securities are not issued by banks, other than multilateral development banks, or other financial institutions.

d) Corporate issuers where the debt securities meet all of the following criteria:
   i. They have an S&P rating long-term of AAA to AA-, or the equivalent credit rating by other international rating agencies widely accepted;
   ii. The securities issue size is at least EUR 250 million, or the equivalent amount in issuing currency;
   iii. The maximum time to maturity of the securities is 10 years;
   iv. The market value is subject to a haircut of 15%.

e) Corporate issuers where the debt securities meet all of the following criteria:

i. They have an S&P rating long-term at least BBB-, or the equivalent credit rating by other international rating agencies widely accepted;

ii. The securities issue size is at least EUR 250 million, or the equivalent amount in issuing currency;

iii. The maximum time to maturity of the securities is 10 years;iv. The market value is subject to a haircut of 50%.

f) Corporate issuers in the form of shares, provided that they meet all of the following requirements:
   i. They form part of a major stock index in an EU Member State, or in another State;
   ii. They have a proven record as a realiable source of liquidity at all times, including stress market conditions. This requirement shall be deemed met where the level of decline in the share's stock price during a 30

day calendar, during the last 10 years or during a relevant, market stress period did not exceed 40%;

iii. The market value is subject to a haircut of 50%.

Other instruments which FSA may deem eligible are those which have a proven record as a reliable source of liquidity in the securities and money market (repo and sales) in normal and stressed market conditions, as measured by a maximum decline of price or increase in haircut over any 30 day period during the last 10 years or during a relevant period of significant liquidity stress not exceeding 10%.

8. "Financial distress" is a condition where a company cannot meet or has difficulty paying off its financial obligations to its creditors. The chance of financial distress increases when a firm has high fixed costs, illiquid assets, or revenues that are sensitive to economic downturns.
9. "Stress testing" is simulation technique used on asset and liability portfolios to determine their reactions to different financial situations. Stress tests are also used to gauge how certain stressors will affect a company or industry. Stress tests are usually simulation models that test hypothetical scenarios.
10. "Underlying security", is a security on which a derivative derives its value. An underlying security is the financial instrument such as stock, commodity, currency, index, futures.
11. "Discount rate", is a the interest rate, including the haircut.

Article 5
Liquidity management

A management company shall be able to demonstrate to the satisfaction of FSA that it employs an appropriate liquidity management system and effective procedures and which properly take into account the investment strategy, the liquidity profile and the redemption policy of each fund that it manages.

Article 6
Monitoring and management of liquidity risk

1. Management companies shall, for each investment fund that they manage adopt procedures which enable them to monitor the liquidity risk and regularly conduct stress tests, under normal and exceptional liquidity conditions, which include extreme but reliable scenarios of liquidity drop.

2. The liquidity management system and procedures referred to Article 5 shall at least ensure that:

(1) the management company maintains a level of liquidity in the investment fund appropriate to its underlying obligations, based on an assessment of the relative liquidity of the investment fund's assets in the market, taking account of the time required for liquidation and the price or value at which those assets can be liquidated, and their sensitivity to other market risks or factors;

(2) the management company monitors the liquidity profile of the investment fund's portfolio of assets, having regard to the marginal contribution of individual assets which may have a material impact on liquidity, and the material liabilities and commitments, contingent or otherwise, which the investment fund may have in relation to its underlying obligations. For these purposes the management company shall take into account the profile of the investor base of the investment fund, including the type of investors, the relative size of investments and the redemption terms to which these investments are subject;

(3) the management company, where the investment fund invests in other collective investment undertakings, monitors the approach adopted by the managers of those other collective investment undertakings to the management of liquidity, including through conducting periodic reviews to monitor changes to the redemption provisions of the underlying collective investment undertakings in which the investment fund invests;

(4) the management company implements and maintains appropriate liquidity measurement arrangements and procedures to assess the quantitative and qualitative risks of positions and of intended investments which have a material impact on the liquidity profile of the portfolio of the investment fund's assets to enable their effects on the overall liquidity profile to be appropriately measured. The procedures employed shall ensure that the management company has the appropriate knowledge and understanding of the liquidity of the assets in which the investment fund has invested or intends to invest including, where applicable, the trading volume and sensitivity of prices and, as the case may be, or spreads of individual assets in normal and exceptional liquidity conditions;

(5) the management company maintains a minimum pool of liquid assets for each fund it manages (or other approved arrangements) as set out in articles 10, 11 and 12.

3. Management companies shall document their liquidity management policies and procedures, as referred to in paragraphs 1 and 2, review them on at least an annual basis and update them for any changes or new arrangements.

4. Management companies shall include appropriate escalation measures in their liquidity management system and procedures as referred in paragraphs 1 and 2, to address anticipated or actual liquidity shortages or other distressed situations of the investment fund.

Article 7

Liquidity management limits

1. Management companies shall, where appropriate, considering the nature, scale and complexity of each investment fund they manage, implement and maintain adequate limits for the liquidity or illiquidity of the investment fund consistent with its underlying obligations and redemption policy and in accordance with the requirements laid down in Article 10.

2. Management companies shall monitor compliance with those limits and where limits are exceeded or likely to be exceeded, they shall determine the required (or necessary) course of action, and shall submit it immediately to the Authority. In determining appropriate action the management companies shall consider the adequacy of the liquidity management policies and procedures, the appropriateness of the liquidity profile of the investment fund's assets and the effect of atypical levels of redemption requests.

Article 8

Stress testing

1. For each investment fund there shall be in place sound stress testing processes that allow identification of possible events or future changes in economic conditions that could have unfavorable effects on the investment fund. The manager of an investment fund shall regularly conduct stress testing and develop action plans for different possible scenarios.

2. The stress tests shall be based on objective criteria, consider the effects of severe plausible scenarios, and:

(1) be conducted on the basis of reliable and up-to-date information in quantitative terms or, where this is not appropriate, in qualitative terms;

(2) where appropriate, simulate a shortage of liquidity of the assets in the investment fund and atypical redemption requests;

(3) cover changes in the level of credit risk of the assets held in the portfolio of the

investment fund, including credit events and rating events;

(4) cover hypothetical movements of interest rates;

(5) cover market risks and any resulting impact, including on margin calls, collateral requirements or credit lines revoking;

(6) account for valuation sensitivities under stressed conditions; and

(7) be conducted at a frequency which is appropriate to the nature of the investment fund, taking in to account the investment strategy, liquidity profile, type of investor and redemption policy of the investment fund

3. Where stress tests suggest significantly higher than expected liquidity risk, to strengthen its liquidity capacity the management company should act in the best interest of all fund investors taking into consideration the liquidity profile of the fund's assets, the level of redemption requests and where appropriate the adequacy of the liquidity management policies and procedures.

4. Where the stress test reveals any vulnerability of the investment fund, the manager of the investment fund shall take action to strengthen the robustness of the investment fund, including actions that reinforce the liquidity or the quality of the assets of the investment fund.

5. An extensive report with the results of the stress testing shall be submitted for examination to the board of the management company. The board shall amend the proposed action plan if necessary and approve the final action plan. The report outlining the results of the stress testing and the action plan shall be drawn in written format and shall be maintained for a period of at least five years.

Article 9

Alignment of investment strategy, liquidity profile and redemption

1. Management companies shall ensure that, for each investment fund that they manage, the investment strategy, the liquidity profile and the redemption policy are consistent. The investment strategy, liquidity profile and redemption policy of each investment fund managed by a management company shall be considered to be aligned when investors have the ability to redeem their investments in a manner consistent with the fair treatment of all investment fund investors and in accordance with the investment fund's redemption policy and its obligations.

2. In assessing the alignment of the investment strategy, liquidity profile and redemption policy the management companies shall also have regard to the impact that redemptions may have on the underlying prices or spreads of the individual assets of the investment fund.

Article 10

Requirements to maintain a Pool of Liquid Assets

A fund shall hold at all times an amount of HQLA sufficient to provide a reasonable assurance that the fund will be able to satisfy that:

a. The fund is able to meet the redemption requests at any time, in accordance with the terms of its prospectus;

b. The fund is able to meet other liabilities, which the fund is legally required to meet;

c. The fund is able to meet other liabilities which failure to meet consistent with its contractual obligations (eg margin calls) would damage the interests of investors in the fund.

2. The amount of HQLA set out in paragraph 1 shall at least, at any time, equal the estimated total net cash outflows over a period of 30 days of stressed market conditions.

3. In setting the total net cash outflows total cash inflows will be subject to a cap of 75% of total expected cash outflows;

4. Liquidity coverage ratio, which is the ration of pool of HQLA, as specified in paragraph 1, and estimated total net cash outflows over a period of 30 days of stressed market conditions, as specified in paragraph 2, shall not be less than 1.

5. The management company shall determine the estimated total net cash outflows and shall calcaluta based on such methodology the pool of HQLA, as specified in paragraph 2, subject to obtaining the priror approval of the methodology from FSA.

6. In cases where market condition indicate inactivity in the market for the assets, the fund, in addition to the pool of liquid asset to be maintained as per requirements provided in this Article, shall maintain at any time at least 5% of fund's assets in cash and/or financial instruments with residual maturity of no longer than 7 days, where the redemption of such instruments on maturity date is almost certain, and another 5% of its assets as financial instruments with residual maturity up to one month.

7. In the case of a fund, which invests in an active market, as per the list of markets mentioned in the attached Annex of such regulation, has partly invested in non-active markets, this fund shall apply the provision laid down in paragraph 1 of this article on pro-rata basis with the weight of assets invested a non-active market, and the provision laid down in paragraph 6 of this article

shall not be applied, if the value of assets of the fund for which there is an active market amount at least 150% of the estimated total net cash outflows over a period of 30 days of stressed market conditions. Should such value be less than 150%, the provisions laid down in paragraphs 1 and 6 shall be applied with no restriction.

Article 11

Minimum factors to be considered when setting the required pool of HQLA

1. The management company shall set the estimated total net cash outflows over a period of 30 days of stressed market conditions for an individual fund, will have regard to the following factors:

- The minimum percentage “run off” of at least 10% for units of individual investors and/or at least 40% units of institutional investors.
- The frequency of redemptions permitted as set out in the law and/or the prospectus.
- Permissible tools and special arrangements for managing day-to-day divergences of inflows and outflows as set out in the prospectus and agreed with FSA.
- Whether the fund has access to sufficient, assured, alternative or supplementary sources of liquidity, embedded in agreements or other binding legal arrangements, s agreed with FSA and as set out in the prospectus.

2. FSA shall grant the approval taking into consideration at least the types, adequacy, realiability, and availability of the tools, arrangements and alternative or supplementary sources of liquidity, as specified in items c and d of paragraph 1, as well as costs and additional risks that associate the liquidity in foreign currency.

3. FSA shall grant the approval on case by case basis for the types of alternative or supplementary sources of liquidity that are deemed adequate for the management of the liquidity of fund and shall inform the respective management company.

4. FSA may set or approve a different level for HQLA, as specified in article 10, based on the quality of the alternative or supplementary sources of liquidity and the currency in which the liquidity is provided. In cases where sources of liquidity are of high quality, that are almost guaranteed and provided in domestic currency, FSA may set or approve a lower level for HQLA. In cases where sources of liquidity are of low quality, are not totally guaranteed and are provided

in domestic and/or foreign currency, FSA may set or approve a higher level for HQLA, or a may apply a haircut to the liquidity provided by such sources.

Article 12

Compliance with liquidity requirements

1. By derogation from the requirement to hold a pool of HQLA, under distress times the fund is obliged to meet the payments requests, which may cause the coverage liquidity ratio to fall below 1.

2. Where at any time the liquidity coverage ratio of an investment fund has fallen or can be reasonably be expected to fall below 1%, the management company shall:

   a. immediately notify FSA;

   b. submit without undue delay to FSA a plan for the timely restoration of compliance with the liquidity requirements, as specified in article 10;

   c. report to FSA daily by the end of each business day unless the FSA authorises a lower reporting frequency and a longer reporting delay.

3. FSA shall monitor the implementation of the restoration plan, as specified in item b of paragraph 2, and shall require a more speedy restoration if appropriate.

Article 13

Reporting to FSA

1. For each investment fund managed, the management company of the investment fund shall report to the FSA annually, within the first quarter, or at FSA request or whenever changes have ocurred, the information as follows:

   a. the report describing the assumptions and the results of stress testing, as well as the action plan approved by the Board of the company;

   b. the methodology for the estimation of total net outflows and the pool of HQLA, as specified in article 10.

2. For each investment fund managed, the management company of the investment fund shall report to the FSA quarterly the information as follows:

(1) the type and characteristics of the investment fund;

(2) portfolio indicators such as the total value of assets, NAV, maturity breakdown, liquidity and yield;

(3) the size and the evolution of the pool of HQLA, and other indicators as specified in article 10;

(4) information on the assets held in the portfolio of the investment fund:

(a) the characteristics of each asset, such as name, country, issuer category, risk or maturity, and internal ratings assigned;

(b) the type of asset, including details of the counterpart in case of derivatives or reverse repurchase agreements;

(6) information on the liabilities of the investment fund that includes the following points:

(a) the country where the investor is established;

(b) the investor category;
(c) contributions and redemption activity.

3. For each investment fund managed, the management company of the investment fund shall report to the FSA every two weeks the information on net redemptions.

4. If it deems it necessary, FSA may solicit additional information or higher reporting frequency for the reports as specified in paragraphs 1, 2 & 3 of this article.

Article 14

FSA approval

1. The Board of FSA shall have the power to approve the requirements specified in this Regulation, under the term “to be approved by FSA”.

2. The Board of FSA shall review annually the requirements for liquidity management specified in this Regulation.

Article 15

Transitional provision

The existing funds shall comply fully with the provision of this Regulation within one year period from entering into force, and shall submit to the FSA the transition plan, and the documentation for such plan, within one month from entering into force.

Article 16

Entry into force

This Regulation shall enter into force immediately.

ANNEX

Lists of active stock exchanges and indexes

For the purpose of this Regulation, securities traded in the following stock exchanges and indexes shall be considered as securities traded in active market.

1. Stock exchanges and OTCs

Australian Securities Exchange

BME Spanish Exchanges

Frankfurt Stock Exchange

Hong Kong Stock Exchange

Italian Stock Exchange

Korea Exchange

London Stock Exchange

NASDAQ

New York Stock Exchange/Euronext

New Zealand Exchange

OMX Nordic Exchanges

SWX Swiss Exchange

Shanghai Stock Exchange

Shenzhen Stock Exchange

Tokyo Stock Exchange

Toronto Stock Exchange

2. Indexes

AEX-Index

Amex

CAC 40 Index

CAC Next 20

Deutsche Boerse AG German Stock Index DAX

Dow Jones & Company

EURO STOXX 50 Price EUR

FT30 Index

FTSE 100 Index

FTSE MIB Index

FTSE MID 250 Index

Goldman Sachs

Hong Kong Hang Seng Index

IBEX 35 Index

JPX400

LuxX Index - Luxembourg Stock Exchange

MICEX

MSCI

Nikkei 225

OBX Index
OMX Stockholm 30 Index

RTSI

Russell Indexes

SBF 250
Standard & Poor's

S&P/ASX 200

Swiss Market Index

Topix