

Republic of Panama Superintendency of Banks

RULE N°. 10-2020
(dated 22 September 2020)

“Whereby Article 31 of Rule 2-2018 that establishes provisions on liquidity and short-term liquidity coverage ratio is amended”

THE BOARD OF DIRECTORS
in use of its legal powers and,

WHEREAS:

Due to the issuance of Decree Law 2 dated 22 February 2008, the Executive Branch re-edited Decree Law 9 dated 26 February 1998 and all its amendments as a consolidated text, and this text was approved by means of Executive Decree 52 dated 30 April 2008, hereinafter referred to as the Banking Law;

Pursuant to the provisions of Article 5 (1) and (2) of the Banking Law, safeguarding the soundness and efficiency of the banking system and strengthening and fostering favorable conditions for the development of the Republic of Panama as an international financial center are objectives of the Superintendency of Banks;

Pursuant to Article 11 (3) and (5) of the Banking Law, approving general criteria for the classification of assets at risk and rules for the provision of reserves against risk and establishing the administrative interpretation and scope of the legal provisions and regulations on banking matters are technical duties of the Board of Directors;

According to Article 6 of the Banking Law, ensuring that the banks maintain sufficient liquidity and solvency ratios to discharge their obligations is a function of the Superintendency of Banks;

In accordance with the provisions of Article 72 of the Banking Law, the Superintendency may take into account and assess other risks for determining the capital adequacy ratio;

Article 73 of the Banking Law provides that general license banks and international license banks that are subject to the home supervision of the Superintendency of Banks, must at all times, maintain a minimum amount of liquid assets equivalent to a percentage of the total gross deposits in Panama or abroad, which will be periodically fixed by the Superintendency of Banks;

According to the provisions of Article 75 (10) of the Banking Law, the Superintendency may determine other liquid assets as part of the liquid assets that make up the banks' liquidity;

The Basel Committee has strengthened its liquidity framework by introducing minimum financial liquidity standards by developing the Liquidity Coverage Ratio (LCR), in order to guarantee that banks have sufficient high-quality liquid assets funds to overcome a significant stress scenario over a full month and designed as a critical component of the supervisory approach to liquidity risk;

By means of Rule 2-2018 dated 23 January 2018, amended by Rule 4-2018, the provisions on liquidity risk management and the liquidity coverage ratio were established;

Banco Nacional de Panamá placed USD 1 billion in international bond markets, with an over-demand of USD 4.8 billion; the bonds will be matured in 10 years at a 2.5% rate. The aforementioned issuance was made in the framework of the COVID-19 pandemic and is also considered the lowest rate obtained by a financial entity in the country;

The main purpose of the issuance is to diversify the bank's sources of resources and to improve the maturity profile of liabilities by obtaining long-term funds, which by definition provide greater stability to financial statements;

During its working sessions, the Board of Directors determined it necessary and advisable to amend Article 31 of Rule 2-2018 in order to include into the Level 2A assets of the high-quality liquid asset, fund the bonds issued by Banco Nacional de Panamá.

RESOLVES:

ARTICLE 1. Item (4) is added to the characteristics of the Level 2A assets contained in Article 31 of Rule 2-2018 as follows:

“ARTICLE 31. HIGH-QUALITY LIQUID ASSET FUND. The high-quality liquid asset fund will be comprised of three levels: Level 1, Level 2A and Level 2B. The characteristics of the assets of each level are defined below.

Characteristics of the Level 1 assets:

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Characteristics of the Level 2A assets:

1. Marketable securities representing claims on or guaranteed by sovereigns, central banks, public sector entities, or the entities mentioned in paragraph 3 of Level 1 herein, when satisfying all of the following conditions:
 - a. Assigned an international credit rating of between A+ and A-;
 - b. Traded in active repo or cash markets; operations having a low level of concentration;
 - c. Have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions. Not an obligation of a financial institution or any entity belonging to a banking group;
2. Corporate debt securities (including commercial papers):
 - a Not issued by a financial institution or any entity belonging to a banking group;
 - b Assigned an international credit rating of at least AA-
 - c Traded in active repo or cash markets; operations having a low level of concentration;
 - d Have a proven record as a reliable source of liquidity in the markets (repo or cash) even during stressed market conditions.
3. Demand deposits, as well as term deposits with an expiration within 30 calendar days, held by Banco Nacional de Panamá, as long as they are unencumbered and not part of settlement operations;
4. Bonds issued by Banco Nacional de Panamá as long as they maintain an international risk rating not lower than BBB-

Characteristics of the Level 2B assets:

...”

ARTICLE 2. ENACTMENT. This Rule shall become effective upon its promulgation.

Given in the city of Panama on the twenty-second (22nd) day of September, two thousand twenty (2020).

FOR COMMUNICATION, PUBLICATION AND ENFORCEMENT.

THE CHAIRMAN,

THE SECRETARY,

Luis La Rocca

Nicolás Ardito Barletta