TECHNICAL ASSISTANCE REPORT

UKRAINE

Review of the Counterparty Eligibility for Monetary Policy Operations and the Emergency Liquidity Assistance Framework

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Glossary

CALSD	Credit Analysis and Liquidity Support Department
CET1	Common Equity Tier 1
CD	Certificate of Deposit
DGF	Deposit Guarantee Fund
ELA	Emergency Liquidity Assistance
FX	Foreign Exchange
FSD	Financial stability Department
IBSD	Integrated Banking Supervision Department
IMF	International Monetary Fund
KPR	Key Policy Rate
LCR	Liquidity Coverage Ratio
LEG	Legal Department
LOLR	Lender of Last Resort
MoF	Ministry of Finance
MoU	Memorandum of Understanding
MPOs	Monetary Policy Operations
NBFI	Non-Bank Financial Institution
NBU	National Bank of Ukraine
NPLs	Non-Performing Loans
NSFR	Net Stable Funding Ratio
OMOD	Open Market Operation Department
RMD	Risk Management Department
T&C	Terms & Conditions
TA	Technical Assistance
UAH	Ukrainian Hryvnia (national currency)

Preface

At the request of the National Bank of Ukraine (NBU), a Monetary and Capital Markets (MCM) Department hybrid mission was conducted from November 4–8, 2024 (virtual) and December 2–6, 2024 (in-person, in Vienna), to assist the authorities in aligning the criteria for counterparty eligibility for monetary policy operations and their coordination with lender-of-last-resort operations (ELA) with international best practices.

The mission met with Mr. Yuriy Heleteiy, Deputy Governor of the NBU, Mr. Ihor Pronin, Director of the Credit Analysis and Liquidity Support Department, Mrs. Pervin Dadashova, Director of the Financial Stability Department, Mr. Serhii Demydenko, Director of the Risk Management Department, Mr. Oleksandr Arseniuk, Acting Director of the Open Market Operations Department, Mr. Andrii Kotiuzhynskyi, Director of the Integrated Banking Supervision Department, Mr. Oleksandr Pushkar, Deputy Director of the Credit Analysis and Liquidity Support Department and Mr. Mykola Selekhman, Deputy Director of the Open Market Operations Department, as well as other senior staff of the relevant departments.

The mission wishes to express its gratitude to the NBU for their hospitality, the efficient organization of the mission, and the excellent collaboration.

This report presents the mission’s assessment and main conclusions.

Executive Summary

In response to a request from the National Bank of Ukraine (NBU), the mission assisted the NBU in the review of the counterparty eligibility criteria for monetary policy lending operations and the NBU's Emergency Liquidity Assistance (ELA) framework. The 2019 and 2023 Safeguards Assessment reports identified the need for NBU to align counterparty eligibility criteria for refinancing operations with leading practices, such as by including in the eligibility criteria the compliance and monitor of counterparty's financial soundness. Furthermore, the 2023 Safeguards Assessment also identified the ELA framework as an area that needs improvement.

First, the mission assessed and reviewed the NBU's counterparty eligibility criteria for monetary policy lending operations and emphasized the importance of amending such criteria by introducing financial soundness requirements. Additionally, the mission recommended the implementation of automatic access limitation measures in cases of non-compliance with solvency requirements by counterparties. Such measures should be as automatic as possible, within a framework of rules. Furthermore, the mission stressed that setting up an institutionalized dialogue between banking supervision and market operations is essential for effective communication and operational efficiency so that counterparties can be pro-actively limited/suspended.

Second, the mission conducted a review of the NBU's ELA Regulation, which is comprehensive and broadly aligned with best practices, although a few relevant gaps to recommended practices were identified. Specifically, the mission recommended expanding the collateral eligible for ELA operations to include assets that are eligible for monetary policy operations. Additionally, the mission highlighted that the NBU should work with the Ministry of Finance towards an MoU on information exchanges and explore the use of government guarantees in certain particularly risky ELA cases. Furthermore, the interest rate for ELA loans should be changed to a fixed spread over the overnight loans rate and the maturity of ELA loans should be clearly set at a maximum of two weeks, renewable.

Third, the mission provided specific advice on NBU's ELA framework operationalization and conducted an ELA simulation using real data that allowed the NBU team to test their procedures, analysis and identify needs for improvement. The mission advised on several measures aimed at improving the operational capacity of the NBU to provide ELA, namely, through further streamlining and testing the processes for the mobilization of credit claims as ELA collateral and explore their prepositioning. Lastly, the mission provided advice on ELA governance, internal organization and communication.

Recommendations

Table 1. Key Recommendations

Recommendations	Priority	Timeframe 1/
Counterparty eligibility for Monetary Policy Operations		
Amend eligibility criteria for counterparties to participate in MPOs to include financial soundness criteria, rooted in solvency. ¶34, ¶35	High	Near-term
Introduce a new counterparty measure of limitation. ¶36	High	Near-term
Ensure measures regarding counterparties access to monetary policy operations are as automatic as possible, within a framework of rules. ¶37	High	Near-term
Set-up an institutionalized dialogue between banking supervision and markets operations, so counterparties can be pro-actively limited/suspended. ¶38	High	Near-term
Prepare an implementation strategy and roadmap regarding the new eligibility criteria and measures. ¶39	High	Medium-term
Emergency Liquidity Assistance and its Collateral Framework		
Set the interest rate on ELA as a fixed spread over the overnight loans rate. ¶59	High	Near-term
Set the maturity of any ELA loan at up to two weeks. ¶61	High	Near-term
Add collateral accepted for monetary policy operations to the eligible collateral for ELA. ¶66	High	Near-term
Further streamline the processes for the mobilization of credit claims as ELA collateral and test the mobilization of credit claims with banks, in real conditions. ¶68, ¶69, ¶71, ¶72, ¶73,	High	Medium-term
Explore the prepositioning of credit claims for ELA collateral. ¶68, ¶69	High	Medium-term
Work with the Ministry of Finance towards an MoU on information exchanges and explore the use of government guarantees in certain ELA situations. ¶75	High	Near-term
Create an ELA Team, composed of 2-3 staff from each involved Department to ensure speed and a restricted circulation of information. ¶91	High	Near-term
Regularly conduct ELA simulations. ¶93	High	Medium-term
Prepare a communication strategy on ELA. ¶96	High	Medium-term

1/ Near term: < 12 months; Medium term: 12 to 24 months.

I. Introduction

1. **The National Bank of Ukraine (NBU) intends to enhance its readiness to respond to crisis in the banking system, while strengthening the mechanisms at its disposal to adequately protect its balance sheet.** Within this overarching objective, two important aspects are the review of the counterparty eligibility criteria for monetary policy operations, such as by including financial soundness requirements, and the strengthening and operationalization of the NBU's ELA framework.

2. **A Safeguards Assessment Report conducted in 2019 highlighted the need for the NBU to review the counterparty eligibility criteria for standard monetary policy lending operations, such as by including compliance and monitor of counterparty's financial soundness.** Currently, NBU's counterparty eligibility requirements for standard monetary policy lending operations do not include compliance with regulatory requirements, such as capital adequacy, which exposes the NBU to additional risks and is not consistent with leading practices. This vulnerability was again highlighted in the 2023 Safeguards Assessment Report.

3. **Following several experiences with Lender of Last Resort (LOLR) type of loans, some of which resulted in important losses for the NBU (see Box 1), the NBU established an Emergency Liquidity Assistance (ELA) framework[1] in 2016**. Although the ELA framework is comprehensive and mostly follows best practices, it contains important gaps that should be adjusted, and lacks operational readiness in some relevant respects (See Section III). The NBU's ELA framework was also identified in the 2023 Safeguards Assessment Report as an area that needs improvement.

The Financial System and the Monetary Policy Operational Framework

4. **The Ukrainian banking system has 62 banks, who are primarily deposit-funded, with over half of total assets accounted for by government-owned banks.** Total banking assets for Ukraine amount to 3.2 TN UAH. Seven banks are government-owned, accounting for just over half of the total amount of bank's assets. Fourteen banks are foreign owned, accounting for about 30 percent of assets and 42 banks are privately owned. Banks are 93 percent funded by deposits. All foreign banks are owned by euro area banks.[2]

5. **The 2022 Russian invasion caused severe liquidity and solvency issues for banks, which have now mostly been resolved.** The invasion resulted in lost assets and the nationalization of some banks. Some banks became insolvent and were resolved. The NBU responded to the initial need for liquidity by accepting Ukrainian government debt at par value, boosting the liquidity of banks. It also offered longer term refinancing operations. These have mostly been paid back though some of the loans are still outstanding.

6. **All counterparties have to fulfill a reserve requirement, up to 35 percent of FX-denominated deposits.** NBU reserve requirements for domestic currency are 25 percent for consumer deposits (except deposits with minimum initial maturity of 93 and more calendar days, which require 0 percent reserve ratio) and 15 percent for corporate deposits. For FX-denominated liabilities, the

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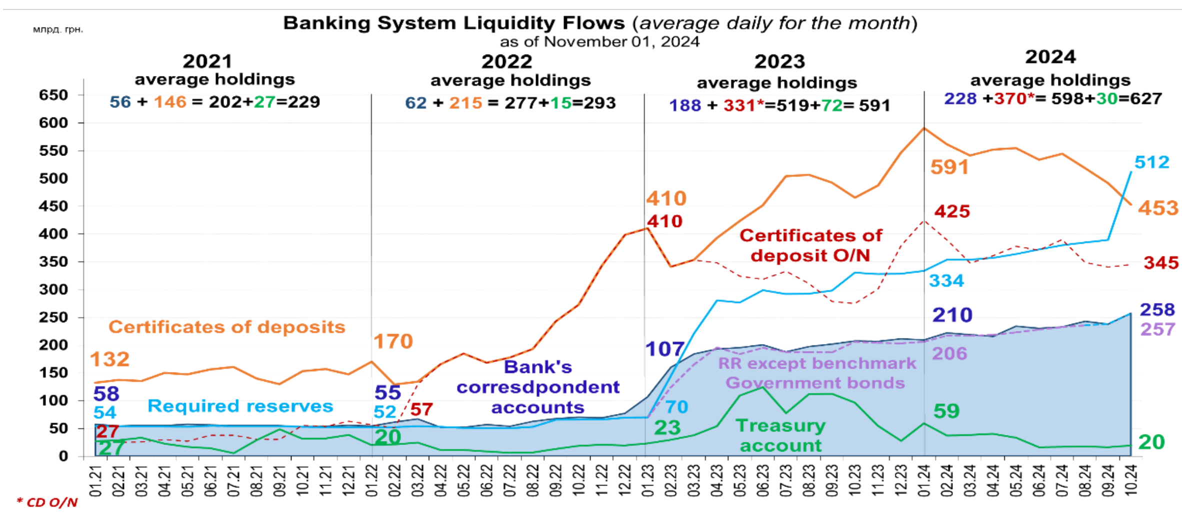
[1] Comprised of an ELA Regulation, ELA internal Procedures and technical documentation on the exchange of information between the NBU and banks requesting ELA.

[2] See also NBU **Supervisory Data**.

requirements increase to 25 percent and 35 percent respectively (15 percent for consumer deposits with minimum initial maturity of 93 and more calendar days). It's noteworthy that 60 percent of total reserve requirements can be fulfilled with Ukrainian government bonds at par value. The NBU uses reserve requirements to steer liquidity conditions, and only banks have access to Monetary Policy Operations (MPOs).[3] The NBU as recently as October 2024 increased reserve requirements by 5 percentage points.

7. **The liquidity situation in Ukraine is one of excess liquidity.** The NBU used to operate with balanced liquidity conditions (Figure 1), but since the invasion has moved to a regime of excess liquidity. This has been formalized in a decision in October 2023 to operate in a floor system/regime. Tenders are operated on a demand-basis, with no restriction on the amount of liquidity that can be provided, if sufficient collateral is available.

Figure 1. The Financial System in Ukraine is Characterized by Excess Liquidity



Source: NBU.

8. **The NBU steers interest rates through a floor-system, using its deposit rate as the *de jure* key policy rate (KPR).** The intermediate (operational) goal of the NBU's interest rate policy is to maintain hryvnia short-term interbank rates at levels close to the key policy rate without letting them go below it. The NBU's main operation used to a be a liquidity-absorbing two-week certificate of deposit (CD, Figure 2 and 3). Since the full-scale military invasion in 2022, however, the key policy rate has changed to the overnight CD-rate, which currently stands at 13 percent. The NBU uses a mix of longer-term and shorter-term refinancing operations as well as liquidity-absorbing CD's. It also forecasts its excess liquidity to decrease and normalize near mid-2026 (Figure 4).

9. **The NBU uses a narrow collateral framework, mostly consisting of government debt securities.** Ukrainian government bonds, including domestic municipal bonds, are the main form of collateral used by banks. These have to be unencumbered, will be valued at fair value and the

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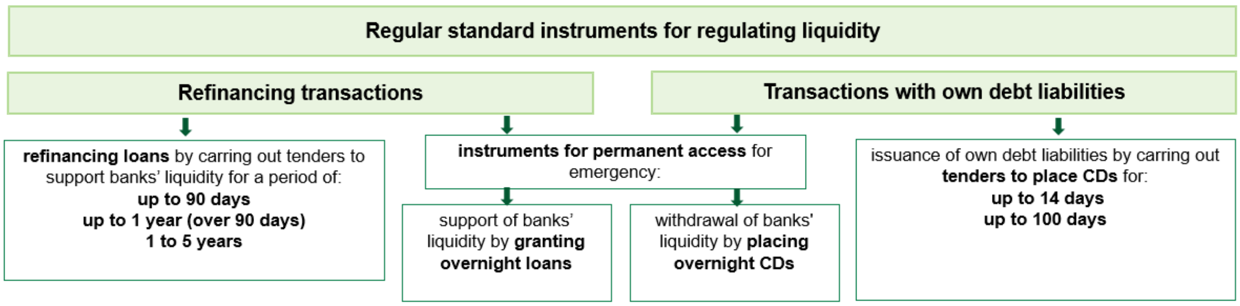
[3] See NBU's Reserve Requirement for more information.

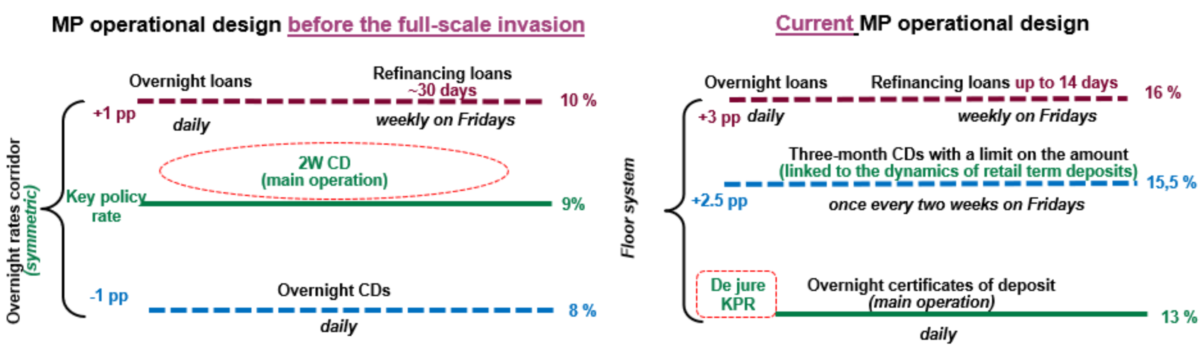
haircut depends on the remaining duration and coupon rate. Other assets the NBU accepts for its MPOs are bonds of international financial institutions, NBU's CD's and foreign currency.

Figure 2. The NBU Uses Both Long- and Short-Term Refinancing Operations and Certificate of Deposits to Manage Monetary Conditions



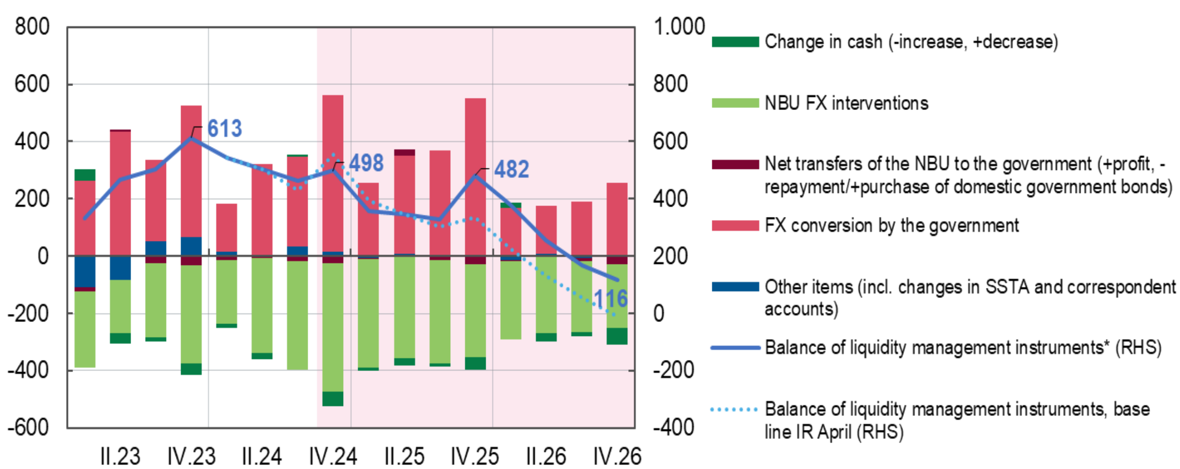
Source: NBU.

Figure 3. The NBU Moved from a Corridor System Pre-Invasion to a Floor System under Martial Law



Source: NBU.

Figure 4. Excess Liquidity Is Expected to Disappear Around Mid-2026



Source: NBU.

10. **Interbank money markets are currently not active, with secured activity being the most dominant.** The current levels of excess liquidity are depressing the interbank credit market, as there are no participants with a lack of liquidity. According to the NBU, the number and volume of transactions on the interbank credit market is currently very small. In prewar years there was more activity, predominantly in the secured interbank market. There seems to be still some interbank lending or depositing in certain banking groups going on, though.

11. **The absence of market-based options means the NBU plays a key role in liquidity provision in cases of liquidity shocks, making its financial risk management more salient.** When banks are hit by liquidity shocks and their own buffers do not suffice, they will have to resort to NBU's MPOs in the absence of market-based liquidity options. The narrow collateral framework is a good risk mitigant against the financial risk the NBU is taking when providing MPOs to (stressed) banks. However, risks also stem from the counterparty's idiosyncrasies such as its risk management, business model, etc. The NBU currently does not sufficiently protect itself against this counterparty risk, contrary of best practices. In Section II we elaborate on these best practices and provide recommendations on how the NBU should implement them.

12. **In the financial system, ELA represents the ultimate line of defense against a liquidity shock.** A complete liquidity defense framework will typically be reliant on money markets to redistribute excess reserves (assuming an effective monetary operational framework) as a first resort. In situations where temporary liquidity shortfalls emerge or there are limits on the markets' redistribution of reserves, the use of central banks' standard operations and facilities should alleviate the liquidity tension. In the event conditions evolve from an idiosyncratic need to system-wide liquidity shock, or the idiosyncratic shock deepens, ELA would represent the last line of defense**.**

    ELA belongs to the NBU's liquidity-providing operations that can be called upon at any moment, under strong conditionalities. The goals of ELA and liquidity-providing monetary operations are different—financial stability for the former, and price stability for the latter. Furthermore, the conditionalities entailed in ELA protect the central bank's balance sheet, particularly when the counterparty's solvency is doubtful. Other safeguards include typically shorter tenors and closer scrutiny of a counterparty's finances during ELA. The NBU has an ELA regulation that is partly in line with best practices. This mission hence focuses on improving and strengthening the current framework and making it operationally viable. In Section III, we provide concrete building blocks and recommendations on this.

II. Counterparty Eligibility for Monetary Policy Operations

A. Current Situation

13. **The NBU provides monetary policy operations to counterparties that fulfill the necessary eligibility requirements (Figure 5).** The conditions are of an operational, no-arbitrage and prudential nature. Fulfilling a reserve requirement is also part of the conditions (see also Introduction). The eligibility requirements differ for different kinds of MPOs (e.g., longer vs. shorter term refinancing operations). Some of the requirements are conditions of a monetary policy nature to ensure a smooth and even monetary transmission and no arbitrage between operations by counterparties.

14. **The MPO's and their eligibility criteria are firmly rooted in the Ukrainian law and the NBU's regulations.** The conditions stem from the Law of Ukraine on the National Bank of Ukraine (NBU Law), have been further specified in Regulation 615 from the NBU and have been amended by martial law (Resolution 22 and 23). The first resolution excludes foreign-owned entities from Russia and Belarus, while the second resolution gave banks a temporary waiver for solvency and liquidity requirements, in so far as breaches stem from the invasion by Russia.

15. **There are no direct requirements on solvency or broader financial soundness in the NBU's eligibility criteria for counterparties.** The NBU excludes counterparties from its MPOs when they are declared insolvent. There is however no pro-active information sharing between the banking supervisory department and the market operations department regarding the non-compliance of capital requirements or other relevant financial soundness information (for ELA this is different, see below). For the rest, there is only a requirement for a counterparty to have a banking license.

16. **There is some interaction with the prudential framework through the designation of "Problem bank".** The designation is a supervisory decision based on solvency concerns, liquidity concerns or broader conditions relating to ownership and violations of transparency laws. About 45 percent of the Problem bank designation refers to solvency or liquidity concerns, whereas 55 percent relate to other concerns. The survival rate of Problem banks is low: 75 percent were liquidated after receiving the designation (for the period 2015-2024). If a bank is designated, by the prudential function of the NBU, as "Problem Bank", MPO operational systems automatically disallow the participation of Problem banks in longer term MPOs (access to shorter term MPOs is maintained), but the Open Markets Department (OMOD) is not informed if a bank is declared problem bank.

17. **The continuation of liquidity provisioning to Problem Banks, even if only at shorter term loans, may expose the NBU to potential losses.** The designation of Problem Bank is mostly related to financial soundness criteria (see previous paragraph). Continued liquidity provisioning to such banks may expose the NBU to losses going forward, as these counterparties have a higher chance of failing and defaulting on their loans to the central bank.

Figure 5. The NBU Uses a Mix of Operational, Prudential and No-Arbitrage Eligibility Criteria

Requirements for banks' participation in transactions	Refinancing transactions				Transactions to place CDs		
	overnight loans	refinancing loans for a period of: up to 90 days	up to 1 year (over 90 days)	1 to 5 years	overnight	up to 100 days	limited for up to 100 days
bank holds a banking license	√	√	√	√	√	√	√
the banks' ownership structure is not recognized by the NBU as non-transparent	√	√	√	√			
the bank has no overdue debt to the NBU on loans and repo transactions	√	√	√	√	√	√	√
the bank concluded a general loan agreement and/or an agreement to participate in transactions with CDs	√	√	√	√	√	√	√
the bank is not declared a problem bank				√			
the bank has consented to adjust the interest rate if the NBU's key policy rate is changed (for a floating interest rate)			√	√			
the bank opened a securities account with the NBU's depository institution (for accounting of securities and CDs provided by the bank as a collateral)	√	√	√	√			
within the formed pool of assets (property) provided as collateral for loans	√	√	√	√			
within the maximum amount of purchased CDs established by the NBU for each bank (calculated based on the total volume of individuals' deposits in the domestic currency without the right of early termination with an initial maturity of 93 calendar days or more)							√
absence of debt on refinancing loans for a period of 1 to 5 years							√

Source: NBU.

B. Financial Soundness

18. **A counterparty framework with strong financial soundness criteria, rooted in solvency, is a first line of defense in the risk management of the central bank.** A central bank should never provide credit to an insolvent counterparty. This would lead to a very large financial risk for the central bank, which can impact on its capital position and ultimately its capacity and credibility to set monetary policy. Letting insolvent counterparties access MPOs may also be in violation of the law in most jurisdictions.

19. **A prudent counterparty framework therefore assesses the solvency of a counterparty in a real-time manner and contains proactive (automatic) measures to anticipate potential issues.** It should at least be applied to liquidity-providing operations. The financial soundness criterion is then complemented with supervisory and operational criteria. A collateral framework forms an additional second line of defense, resulting in a 'dual recourse' risk management framework.

20. **A counterparty framework should treat counterparties across the jurisdiction of the monetary authority equally and generally not impose requirements above legal and prudential minima.** This underlying principle ensures that the central bank conducts operations with a broad range of counterparties, ensuring a homogenous transmission of monetary policy. It also further diversifies counterparty credit risks. In order to not implicitly discriminate between counterparties and their business models, solvency and financial soundness should be based on the minimum solvency criteria in the prudential framework. This could for instance be minimum Pillar 1 requirements in the global Basel-III framework (at least 4.5 percent CET1; six percent Tier 1; eight percent Total Capital; three percent Leverage-ratios). The central bank should be transparent about what it sees as financial soundness, and other criteria of the counterparty framework.

21. **Liquidity ratios are part of financial soundness but should not be grounds to apply limitation or suspension measures to a counterparty from MPOs.** Liquidity ratios for counterparties should be monitored, where breaching of minima can lead to enhanced monitoring (e.g., LCR; NSFR <100 percent for Basel-III). Breaching the criteria should however not lead to automatic limitation, suspension or exclusion of the counterparty in terms of access of MPOs. One of the roles of the central bank is to provide liquidity transformation through its lending operations. Counterparties will internalize the availability of MPOs as long as they fulfill solvency criteria and choose a liquidity strategy accordingly.

22. **Financial Soundness can be monitored by the Markets department of a central bank, based on regular prudential data and market monitoring.** One way is to look at the prudential data on solvency on a quarterly basis. As an example, the Eurosystem conducts quarterly checks to ensure the financial soundness of its counterparties. It collects a wide range of data from supervision to determine whether a counterparty meets the necessary level of own funds requirements. This however will always be backward looking as supervisory reporting, especially when automated, will lag developments.

23. **The Markets department is also well-placed to source up-to-date information on solvency developments of counterparties through market intelligence.** It can for instance flag daily significant developments on recourse to lending operations, collateral, credit ratings, market indicators and covered bonds holdings. News can also be monitored, e.g., Banking Supervision news, ad-hoc searches, daily press releases, newsletter, real time information, newspapers,

information provided by other central banks etc. Market intelligence can also be shared with the prudential supervisor, though data on the use of MPOs should not be shared automatically.

24. **An information exchange with the banking supervisor allows for timely information on financial soundness, on which action can be taken proactively.** Sharing of backward-looking information on solvency in an automated way from banking supervision to the Markets department can provide a backstop but is insufficient on its own. Because of the lags in such data reporting, any action with respect to the counterparty will be late. Therefore, establishing an information exchange between the supervision and markets departments is needed to proactively signal financial soundness issues, ideally based in 'live' data.

25. **Supervision should inform Markets pro-actively on any doubts arising on financial soundness.** Concretely, these could be adverse developments in Pillar 1 own fund requirements (or their restoration), liquidity requirements and the imposition of supervisory actions (e.g., management removal/appointment of temporary administrator; formation of a formal crisis management team; withdrawal of the banking license).

C. Discretionary and Automatic Measures

26. **In line with the principle of non-discrimination of counterparties, any measures for limiting access to MPOs should be as rule-based and automatic as possible.** Entrance or on-boarding criteria on financial soundness should be equal for all counterparties, with no ex-ante discretion. When a counterparty is in going concern, it may be hit by adverse shocks impacting its solvency, in which case a measure with regards its MPO access may be prudent.

27. **Discretionary measures should ideally be automatic and in any case be as rule-based as possible.** At the same time, they should provide some flexibility to give the counterparty the opportunity to reinstate its solvency. The counterparty framework of the Eurosystem provides an example of a rule-based framework that at the same time allows some flexibility and discretion. The best practices in the following paragraphs are based on the Eurosystem as an example.[4]

28. **The three measures that can be taken for a counterparty are: (i) limiting its MPO participation at the current amount (limitation); (ii) suspending it from MPOs and claiming back outstanding MPOs (suspension); and (iii) excluding it from MPOs fully (exclusion).**

    i) **Limitation** is a common early measure meaning that the exposure to a counterparty cannot be increased further. Under limitation, participation of the counterparty in outstanding monetary operations can be rolled over but not increased. Additional collateral restrictions may be applied as well. Such measures are of a temporary nature, with a set timeline, which can result in a removal of these restrictions, or can be escalated to a full suspension of the counterparty.

    ii) **Suspension** results in the counterparty being prohibited from any further participation in MPOs and repaying the outstanding amount in full. The impact for counterparties is significantly larger compared to a limitation since alternative sources of funding need to be found. Access to the payment systems and gross settlement may still be available. Ultimately, the principle of financial soundness should drive a decision to suspend, with suspensions being triggered if

[4] See also "The financial risk management of the Eurosystem's monetary policy operations".

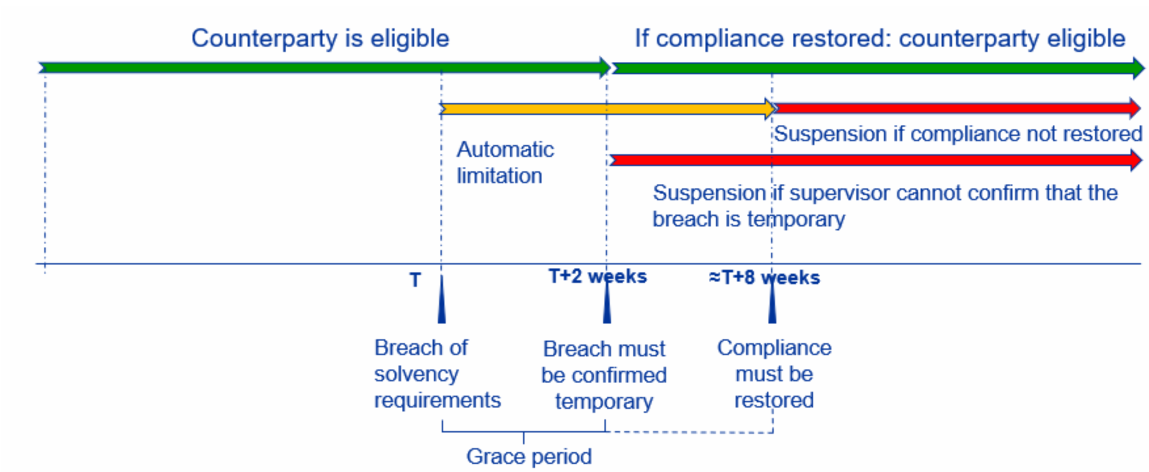
financial soundness can no longer be guaranteed, nor is expected to be recovered within a reasonable timeframe.

iii) **Exclusion** means the immediate termination of the relevant counterparty's access to monetary policy operations. The measure results in the former counterparty having to repay all outstanding operations in full. All legal contracts with the counterparty will be terminated.

29. **Together with a predefined grace period, the measures offer flexibility for both counterparties and the central bank (Figure 6).** As soon as non-compliance (or non-reporting) of financial soundness requirements takes place, a counterparty should be automatically limited. A grace period up to several weeks (up to eight weeks in the Eurosystem),[5] starting at the moment of the identification of the incompliance, gives the counterparty time to restore minimal solvency conditions, e.g., through a recapitalization. This assumes the incompliance is temporary. Note that in the Eurosystem, discretion is possible to not apply automatic limitation if desired (has to be approved by the Governing Council).

30. **The supervisor should indicate quickly (within two weeks) whether the non-compliance is expected to be temporary**. If the non-compliance is not temporary, the counterparty should be suspended immediately. Note that the counterparty should also be suspended immediately at the moment of limitation, if compliance with solvency requirements is not expected to recover. Suspension must also take place if the counterparty does not restore its solvency within the grace period. Figure 6 shows this schematically based on the Eurosystem example. Upon reinstating compliance with solvency conditions, confirmed by the supervisor, a counterparty should be reinstated with full access to MPOs. Only when non-compliance is expected to never recover (e.g., in a case of default), should the counterparty be excluded.

Figure 6. Overview of Counterparty Framework Measures in the Eurosystem



Source: Eurosystem General documentation, article 158, Mission staff.

31. **Discretionary measures, typically based on supervisory information, are possible too, when there is a large amount of certainty on the development of a counterparty's financial soundness.** The counterpart should be automatically limited as soon as it becomes apparent to

[5] If the breach is found in the automated reporting exercise, the grace period is six weeks.

the Markets department that it is not complying with minimum solvency criteria. However, the aforementioned supervisory dialogue should lead to earlier information on adverse financial soundness developments. Counterparties should then be automatically limited or suspended on the grounds of prudence. Following the supervisor's information and assessment ensures near automaticity of the measures taken. Over time, experience with events or scenarios, for instance default events, may be obtained, which can then be reflected in additional rules for automatic limitation or suspension.

32. **When a counterparty is excluded, suspended or limited,[6] the only additional source of central bank liquidity would be ELA (see next section).** ELA falls outside the central bank's regular liquidity provisioning operations, has a different goal, and as such should be seen as a last resort for funding by counterparties.

D. Counterparty Framework at the NBU

33. **The NBU has requirements for counterparties in place, which should be amended to include financial soundness criteria.** The requirements the NBU currently uses contain the most important operational and supervisory aspects, but financial soundness criteria are missing. The framework of rules should hence be amended to include (broad) financial soundness criteria, at least on solvency. For instance, minimum Pillar 1 capital requirements could be used as a basis, consistent with global standards and best practices.

34. **These criteria should be included ex-ante, when a counterparty asks for MPO access, as well as during the life of the counterparty.** Including financial soundness criteria will protect the NBU against inadvertently providing MPOs to insolvent counterparties, or counterparties with doubtful near-term solvency prospects. The adjusted framework should subsequently be transparently and clearly shared with counterparties (e.g., through website and/or updated Terms & conditions for counterparties).

35. **The NBU should add the option of limitation to its measures.** The NBU can currently de facto only suspend counterparties. Limitation provides an extra means to protect the NBU against potential losses. It may also ease decision-making at decision-making bodies since a decision for limitation is less far-reaching or binary than on suspension. The grace period may subsequently support supervision in credibly demanding a timely recapitalization of the counterparty to prevent suspension.

36. **Making application of the measures, especially limitation, as rule-based and automatic as possible prevents creating undesired precedents and ensures predictability for counterparties.** The measures, as well as the aforementioned financial soundness criteria, should be applied at least to all liquidity-providing MPOs, not differentiating between short-term and long-term operations. Communicating the procedures and triggers with counterparties makes them predictable and further ensures institutionalization of the new framework.

37. **An institutionalized dialogue between Integrated Banking Supervision Department (IBSD) and Open Market Operations Department (OMOD) should be established, providing the latter with up-to-date developments on solvency issues in particular.** An institutionalized

[6] Please note that when a counterparty is limited, it can still have access to monetary policy refinancing, up to the limited amount, and the additional liquidity needs would be sourced from ELA. On the case of exclusion or suspension, the counterparty would not have access to monetary policy refinancing and the only available central bank liquidity source would be ELA.

dialogue between IBSD and OMOD will provide the latter with up-to-date information on solvency developments of counterparties. This should complement an automated reporting of counterparties prudential ratios. When supervision (IBSD) signals about doubts on a counterparty's solvency prospects, measures on the grounds of prudence can be taken, for instance a limitation (with grace period). Automatic measures should be applied automatically by OMOD, and the NBU Board should be informed immediately, while discretionary measures should be proposed by OMOD, and a decision taken by NBU Board. In the same vein, it should be explored whether the status of Problem Bank should be shared with Markets (OMOD) and lead to automatic actions (e.g., limitation of the counterparty). Any actions on the basis of the designation of Problem Bank should complement the solvency criteria, though, instead of substituting them.

38. **The NBU can in principle phase in the new counterparty eligibility criteria based on financial soundness and the accompanying measures soon, provided that this does not create negative short-term effects for financial stability.** The financial soundness criteria constitute a crucial safeguard to protect the NBU's balance sheet against financial losses in case a counterparty's solvency deteriorates. The proposed rule-based framework with limitation and suspension is also simple, transparent and easy to understand for counterparties. Hence, the NBU could start phasing in the requirements through e.g., regular updates of its T&C with counterparties. At the same time, any negative short-term effects for financial stability should be prevented. These could stem from the current situation in Ukraine: while adjustments to the supervisory regime in wartime conditions are meant to maintain financial stability, they may interfere with a 'standard' solvency assessment. In addition, ELA should be operationally available as a liquidity backstop for banks that are suspended (see next section).

III. Emergency Liquidity Assistance

39. **The NBU established an ELA framework in 2016, following several experiences with Lender of Last Resort type of loans (see Box 1), some of which resulted in significant losses.** Although the ELA framework is comprehensive and is broadly in line with best practices, it contains gaps that should be corrected to improve the ELA framework and increase the NBU's operational readiness to grant ELA.

40. **No ELA has been provided so far, but since the establishment of the framework in 2016, there have been seven banks that have requested ELA, which has allowed the NBU to put its framework and procedures to the test.** Of the seven requests, three were rejected because the banks had Russian shareholders[7] (these requests occurred after the Russian invasion of Ukraine in 2022), two were rejected because it was assessed that those banks did not have an impact on financial stability, and two did not follow through with the ELA request. For these two last cases, the process of analyzing the ELA demand took around three weeks, including circa two weeks for collateral due diligence and one week to make the final decision. From the seven banks that requested ELA, only one is still in operation.

41. **The recent NBU experiences with the preparation of responses to ELA requests demonstrate that the current ELA framework should be revamped to allow for a significant**

[7] NBU Board Resolution No. 22, dated 24 February 2022, stipulates that the "refinancing operations and placement of certificates of deposit shall not be conducted with banks in whose ownership structure there are owners of a qualifying holding, ultimate key participants who are citizens of a state waging the war of aggression against Ukraine". The NBU can decide to make exceptions to these stipulation taking into account potential risks to the stability of the financial system.

improvement of the response times to ELA requests. The NBU should aim at responding to an ELA request in a maximum of 24 to 48 hours.

42. **The remainder sections of this Chapter identify improvements to strengthen the ELA framework in line with best practices and propose strategies to improve operational readiness.**

Box 1. NBU's Experience with Lender of Last Resort Situations

Stabilization Loans

In the past decades, the Ukrainian banking system has faced several crises, and the NBU has provided emergency liquidity to banks facing liquidity and solvency stress mainly through so-called 'Stabilization Loans'. Several of these loans resulted in significant losses for the NBU.

The 'Stabilization Loans' were originally created to support the banking system in 2004 following the 'Orange Revolution', additional 'Stabilization Loans' were granted during the Global Financial Crises (2007-2008) and considerable additional amounts were provided after the 'Maidan Revolution' in 2014. In 2019, the NBU terminated the 'Stabilization Loans' facility.

Overall, 'Stabilization Loans' were issued to 39 banks, 20 banks were able to repay the loans using liquidity, collateral pledged, funds from financial guarantors, and other resources (other assets of banks). Only six of the 39 banks that received 'stabilization loans' are currently in operation; the remainder were either liquidated or are under liquidation.

Information on 'Stabilization Loans'

Description	# of banks
Issued loans for	39 banks
Repaid loans	20 banks
Outstanding loans	19 banks

'Stabilization Loans' were mainly collateralized by the bank's loan and real estate portfolios because banks did not have enough high-quality assets, namely, Government securities, to cover their liquidity needs. The 'Stabilization Loans' were managed by the Banking Supervision Department of NBU.
The NBU recognizes that some banks failed to repay the 'Stabilization loans' and were declared insolvent, the Deposit Guarantee Fund (DGF) did not agree to transfer the proceeds from collateral disposal and management to the NBU, thus resulting in even higher losses for the NBU, while the DGF used the proceeds to satisfy partially the deposits of failed banks.

Important lessons have been learned by the NBU from the 'Stabilization Loans' experience: the NBU legal ability to appropriate collateral has been reinforced, namely by the introduction of the senior legal creditor status to the NBU, and the coordination mechanisms with the DGF in case of banks insolvency have been mostly clarified. The provision of emergency liquidity to banks has been moved from the Banking Supervision Department to the Credit Analysis and Liquidity Support Department and an ELA framework has been put in place.

Unsecured Loans

In 2016 the NBU provided a short-term loan (seven days) to ensure liquidity to a systemically important failing bank that was in the process of being nationalized. Together with the NBU's Financial Stability Council, which included the representatives of the Ministry of Finance of Ukraine and the Deposit Guarantee Fund, the NBU issued an unsecured loan in line with its mandate of a lender of last resort (applying the "too big to fail" principle). At the time, the NBU assessed with confidence that it would be repaid given the upcoming nationalization.

The loan was subsequently repaid in full after nationalization, but the Ukrainian Government injected capital in the bank through the issuance of Government bonds and the NBU was the main buyer of such bonds. In parallel to establishing the ELA framework, the NBU is also working on a resolution framework for banks.

Source: IMF mission team.

A. Legal Basis

43. A legal foundation for the provision of ELA is in place. The NBU Law, under Article 6 (part 3), provides the NBU with the responsibility of promoting financial stability, including the stability of the banking system and Article 7 (part 1, paragraph 3) states that the NBU acts as lender of last resort for banks.

44. The legal foundation for ELA restricts the provision of ELA to banks. The financial system in the NBU is bank based, and it is not assessed by the NBU that NBFIs currently have a significant impact on financial stability (see Chapter I). Therefore, the limitation of ELA to banks seems adequate.

45. The main characteristics of ELA are not established in the NBU Law. The NBU Law does not detail what are the main conditions or parameters for the provision of LOLR loans to banks. However, Article 42 part 1 paragraph 1 of the Law on the NBU provides that the NBU grants loans to banks to maintain liquidity at a rate not lower than the NBU's refinancing rate and in accordance with the procedure set by the NBU Since 2016, a comprehensive ELA framework is in place, which details the conditions, parameters, and processes for the provision of ELA.

B. ELA Regulation

46. The mission conducted a review of the NBU's ELA Regulation, which is comprehensive and broadly aligned with best practices, although a few gaps to recommended practices remain. In its current form, the NBU's ELA regulation can be considered as broadly appropriate and sound. However, two major gaps from recommended practices subsist: (i) non-acceptance as collateral for ELA of the assets that are eligible for monetary policy operations; and (ii) the conditions under which ELA can only be provided with a government guarantee should be specified.

47. Furthermore, additional adjustments in the NBU's ELA Regulation are important to clarify some concepts and improve its operationalization. The ELA parameters regarding pricing and maturity would benefit from further refinement. Additionally, the NBU should reinforce the role of conditionality for ELA provision and its ability to conduct forward-looking assessments of solvency.

Forward-Looking Solvency and Viability

48. NBU's ELA regulation states that ELA can only be provided to solvent banks and further defines solvency in a forward-looking manner. Article 6 of ELA Regulation defines that when making a decision on ELA the NBU assesses the bank's actual and projected solvency, compliance with capitalization plan (if available) and also takes into an analysis of the banks business model, which can be interpreted as a viability assessment.

49. **A forward-looking definition of solvency allows the NBU to extend ELA to fundamentally solvent financial institutions that may be temporarily below their capital adequacy ratio, thus contributing to the NBU's financial stability function.** Based on that definition, if a bank temporarily does not comply with the prudential capital requirements but has a credible prospect of restoring appropriate capital ratios in the near future (i.e., not more than six months), the bank should be considered fundamentally solvent and could legally have access to ELA if needed.

50. **To improve the operationalization of the forward-looking definition of solvency, as well as of viability, the NBU could further define in its internal procedures the type of data and analysis it would use to conduct the assessments, as well as clarify the responsible Departments.**

    a. The NBU could develop a template for a synthetic assessment of solvency in the context of ELA. That template should include: (i) an overview of the bank's latest capital adequacy ratios; (ii) a summary of developments in those ratios in the past quarters and years; (iii) relevant information related to the expected profitability of the bank, asset quality of the bank, developments in non-performing loans, provisioning policies; (iv) an assessment of the bank's ability to maintain or restore appropriate capital adequacy ratios through various measures such as deleveraging and recapitalization; and (v) forward-looking information on the prospect for a recapitalization of the bank, such as the ability and willingness of the bank's current shareholders to provide fresh capital, and the interest of potential investors (including the State) to recapitalize the bank. The supervisor's assessment on the credibility and the expected timing of an envisioned recapitalization is especially important for the forward-looking assessment of solvency.

    b. Presently, the IBSD states that it only conducts point-in-time analysis of solvency and that a forward-looking assessment will have to be conducted by the FSD. However, even if the FSD oversees the analysis, the active participation of the IBSD is critical given its better knowledge and information regarding the specific bank.

Assessment of Last Resort Situation

51. **NBU's ELA regulation rightly identifies that the provision of ELA should be possible only in cases when all other alternative funding sources have been exhausted.** NBU's ELA regulation states that the provision of ELA is restricted to banks that "have exhausted other sources of liquidity support, including the interbank credit market and through standard instruments for regulating the liquidity of the banking system'.

52. **The design of an ELA framework should ensure that ELA is requested only as last resort.** Several provisions of the NBU ELA Regulation should help ensuring that a credit institution only resorts to ELA as last resort. The interest rate applicable should be high (at least 200 basis points above the rate of the marginal lending facility), there should be strict conditionality attached to the provision of the emergency liquidity, and intrusive supervisory measures can be implemented (as further detailed in this Report).

53. **The provision of ELA should not be a substitute to intragroup funding, and ELA should preferably be provided at the parent bank's level.** In case of liquidity stress faced by their Ukrainian subsidiaries, foreign parent banks should provide liquidity support as needed. In case they are not able to do so, foreign parent banks should in principle request ELA from their respective central banks. Indeed, providing ELA at the parent bank's level is preferable to ensure appropriate control and oversight by the central bank. Ideally, the NBU should regularly discuss

intragroup funding and liquidity risks faced by Ukrainian subsidiaries of foreign banks with the relevant foreign central banks and supervisors (e.g., in supervisory colleges).

54. **NBU has identified difficulties in exchanging supervisory information with the parents of Euro Area banks subsidiaries, given that those supervisors don't seem to be willing to share supervisory information with the NBU Banking Supervision.** This is a consequence of the negative assessment by the European Banking Authority on the equivalence of Ukrainian data protection legislation to the European one. In these instances, the provision of ELA to subsidiaries of such foreign parent banks should be accompanied by measures that prevent ELA loans to be channeled to the parent bank.

Assessment of Risks to Financial Stability

55. **NBU's ELA regulation recognizes the financial stability nature of ELA, while not restricting ELA to systemic banks.** For the decision on ELA provision, the Financial Stability Department (FSD) of the NBU assesses the bank's potential impact on the stability of the financial system considering its quantitative and qualitative parameters of activity, as well as the state of the banking and financial system, the macroeconomic environment, and the presence of systemic risks. In practice, the NBU also considers whether the bank is regionally relevant. From the seven banks that have requested ELA, only two were considered as not having an impact on financial stability—these two banks were not supported and were declared insolvent without an impact on the stability of the financial system.

56. **The NBU's approach to financial stability assessment is adequate as even liquidity issues in medium and small banks can, through contagion effects, jeopardize the stability of the financial system.** The approach to financial stability risks in an ELA context therefore should combine assessments on the systemic importance of the bank's requesting ELA, but also on potential contagion effects (see Box 2). The fact that the ELA assessment considers contagion risks should make it clear that ELA is not reserved only to systemic banks. An adequate communication of the ELA framework is specifically relevant in this context.

Box 2. Essential Information for Evaluating Risks to Financial Stability in the Context of an ELA Request

The FSD evaluation of the risks to financial stability in the context of an ELA request should provide a summary of the following information:

a) Evaluation of the bank's systemic character on the basis of: (i) its size/market share (deposits, loans); (ii) its connections with other domestic banks and other financial institutions; (iii) its role in financing the government and certain economic sectors; (iv) provision of critical financial functions; and (v) regional relevance.

b) Evaluation of the risk of contagion: for example, is there a flight of deposits from other local banks?

Source: IMF mission team.

ELA Interest Rate

57. **NBU's ELA Regulation defines ELA interest rate as the NBU's key policy rate plus two percentage points.** This means that the ELA interest rate currently stands at 15 percent, while the overnight loan facility stands at 16 percent (see Figure 3).

58. **The interest rate for ELA loans should be adjusted to reflect its penalty nature in the context of the current monetary policy operational framework of the NBU.** The interest rate applicable to ELA should be a penalty interest rate, comparing to available central bank funding, such as the overnight lending facility, to reduce moral hazard, but it should not be too high as to not jeopardize the receiving banks recovery. To avoid the situation where an ELA loan is less expensive than the overnight lending facility, the interest rate on ELA should be defined as a fixed spread (for instance, of 200 bps) over the overnight lending facility and not the key policy rate.

ELA Maturity and Time Limit

59. **The NBU's ELA regulation defines that an ELA loan can have a maturity of up to 90 days, which may be extended by up to 90 days and may not exceed a total duration of one year.** Furthermore, the actual ELA loan amount, referred to as 'tranches' in the NBU's ELA Regulation, would be (re)calibrated based on a short-term (two-weeks) liquidity forecast.

60. **The NBU's ELA regulation should clearly set the maturity of any ELA loan at up to two weeks.** A maturity of up to 90 days is not appropriate as: (i) it would likely lead to an excessive calibration of the ELA envelope, considering the difficulty to assess a liquidity-stressed bank's liquidity needs on such a long period; and (ii) it would not be consistent with the necessary regular monitoring of the bank's efforts to improve its liquidity situation. On the contrary, a maturity of two weeks would align the frequency of ELA approvals and extensions (so-called 'tranches') with the need for frequent updates on the bank's progress and the monitoring of the liquidity conditions, thereby emphasizing that any provision of ELA is conditional on the bank's continued efforts.

Collateral Framework for ELA

61. **NBU's ELA regulation states that ELA loans must be collateralized, and the NBU has the right to establish the priority of collateral accepted.** The ELA regulation also describes the conditions under which the NBU has the right to refuse to accept collateral for ELA (Section III, of the NBU's ELA Regulation).

62. **NBU's ELA framework currently in place does not accept as collateral the use of assets that are accepted for monetary policy operations, namely Government Securities and foreign currency.** For ELA, the types of assets accepted as collateral are corporate bonds precious metals, real estate and certain types of property rights under loan agreements (i.e., credit claims). Furthermore, the NBU can accept guarantees from the Government, other national governments, international financial institutions, and non-resident banks/ financial institutions. The list of acceptable collateral is published as an annex to the NBU's ELA regulation (see Figure 7).

Figure 7. Types of Assets Accepted as Guarantees or Collateral for ELA

	Type of Collateral
1	Guarantees of the Cabinet of Ministers of Ukraine
2	Guarantees of national governments
3	Corporate bonds (except for target bonds), bonds of the State Mortgage Institution
4	Guarantees of International Financial Institutions
5	Guarantees of non-resident banks and/or non-resident financial institutions
6	Precious metals
7	Immovable property (except for unfinished construction)

	Type of Collateral
8	Property rights under loan agreements concluded by the borrowing bank with legal entities (except banks, budgetary institutions), individual entrepreneurs, the fulfillment of obligations under which is secured by a mortgage, except for unfinished construction projects
9	Property rights under loan agreements concluded by the borrowing bank with individuals, except for individual entrepreneurs (according to the register of loan agreements concluded by the bank), the fulfillment of obligations under which is fully secured by a mortgage, except for objects of unfinished construction
10	Property rights under loan agreements concluded by the borrowing bank with individuals, except for individual entrepreneurs (according to the register of concluded bank of loan agreements), except for property rights specified in line nine of Table 1

Source: NBU.

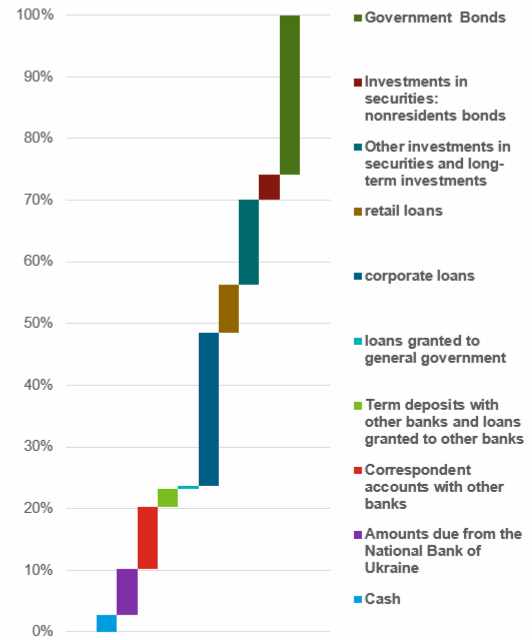
63. **The NBU also makes public, in an Annex to its ELA Regulation, the haircuts to the assets that it accepts as collateral for ELA.** These haircuts range from 10 percent, for so-called 'Guarantees of the Cabinet of Ministers of Ukraine' to 80 percent for some categories of credit claims. Note that for Government Securities accepted to monetary policy operations the haircuts range from five percent to 55 percent, depending on currency, maturity and coupon.

64. **Overall, the NBU's ELA collateral framework is highly transparent, which may be justified in the Ukrainian context.** The NBU's ELA regulation provides a high degree of transparency about the ELA collateral: there is full transparency on the eligible assets, the risk control measures and the mobilization process. A highly transparent ELA collateral framework has pros and cons: on the one hand, a transparent ELA collateral framework facilitates banks' understanding and preparation of possible ELA requests and reduces the risks of a misuse of the ELA framework (e.g., the provision of LoLR support against inadequate collateral, or even uncollateralized LoLR); on the other hand, excessive transparency on the ELA collateral framework reduces the central bank's leeway in addressing complex situations. In the Ukrainian context and given past experiences with uncollateralized or insufficiently collateralized LOLR types of loans, the NBU's preference for a transparent ELA collateral framework is justified; however, some adjustments should be made to reinforce the collateral framework and reflect that for ELA provision the NBU, within the rules and regulations, has discretion to choose the appropriate collateral for ELA loans.

65. **The NBU should add the collateral accepted for monetary policy operations to the eligible collateral for ELA, with an appropriate haircut.** All types of assets accepted as collateral to monetary policy operations should also be accepted as collateral for ELA, namely, government bonds, foreign currency etc. NBU has recognized that this change in its ELA framework is warranted and urgent. On average, government bonds represent 26 percent of the Ukrainian bank's assets, corporate loans around 25 percent and retail loans around eight percent.[8]

[8] 'Other investments in securities and long-term investments' are mainly composed of NBU's certificate of deposits.

Figure 8. Composition of the Asset side of Ukrainian Banks' Balance Sheet (as of October 2024)



Asset type	%
Government Bonds	26%
Corporate loans	25%
Other investments in securities and long-term investments	14%
Correspondent accounts with other banks	10%
Retail loans	8%
Amounts due from the National Bank of Ukraine	7%
Investments in securities: nonresidents bonds	4%
Term deposits with other banks and loans granted to other banks	3%
Cash	3%
Loans granted to general government	0%
Banking metals	0%
loans granted to non-bank financial institutions	0%

Source: NBU, IMF mission team calculations.

66. **The NBU's ELA regulation should more clearly affirm the discretionary nature of the selection of ELA collateral by the central bank.** While Article 20 of the ELA Regulation states that the NBU has the right to accept collateral from the list of eligible assets defined, the regulation could clarify that: (i) the bank requesting ELA must regularly provide an exhaustive list of its eligible assets, for the NBU to select which assets will be mobilized as ELA collateral; and (ii) that the composition of the ELA collateral pool may change, at the initiative of the NBU (i.e., some eligible assets may be replaced by other eligible assets, or additional assets may be mobilized to better collateralize the ELA loan).

67. **The NBU should regularly scan each bank's collateral and ability to deal with outflows from runnable liabilities, and could consider the prepositioning of illiquid collateral, e.g., high-quality credit claims, for all banks or only systemic banks, for a percentage of their assets or runnable liabilities, on the basis of such assessment.** From an operational perspective, a critical challenge to activate ELA is the quick mobilization of sufficient collateral, particularly as ELA collateral is typically focused on illiquid assets (credit claims), which take much more time to mobilize and assess than securities. Collateral prepositioning for necessary due diligence could alleviate that challenge.

68. **To improve crisis preparedness, the NBU should encourage banks to preposition collateral (especially credit claims) and conduct regular tests for its mobilization.** Prepositioning involves identifying, verifying eligibility of, and validating collateral—during this stage, legal title to the collateral is not transferred to the central bank. Once due diligence is satisfactorily completed, the collateral is considered prepositioned and ready to be drawn against, subject to the approval of the central bank; the collateral will be encumbered at that time. Prepositioning also facilitates identifying asset features relevant to their valuation and the design of risk control measures, leading to better market intelligence at the central bank.

69. **The published ELA haircuts should be described as minimum haircuts, to reconcile the NBU's preference for transparency with the protection of the central bank's leeway.** To mitigate the risks of a very transparent ELA collateral framework, NBU ELA regulation should present the haircuts as minimum haircuts, leaving the possibility for the NBU to apply more conservative haircuts (without disclosing them) if required from a risk management perspective. This would result in an "asymmetric" transparency—reassuring all stakeholders that the NBU will apply strict eligibility rules and risk control measures to ELA collateral while keeping the discretion for the central bank to implement stricter measures if needed to mitigate the risk of ELA abuse.

70. **The NBU should ensure in advance that there are no legal constraints on the credit claims mobilization.** Given their features, credit claims cannot be transferred to the NBU's account like common tradable financial assets, and thus it is crucial to ensure that they can be swiftly realized in the event of a bank's default. To this end, the NBU's Legal Department should decide on the best approach to guarantee that these assets can be fully transferable and mobilized for the benefit of the NBU. Additionally, to avoid excessive bureaucratic burden on the successive credit claims reports by banks over time (e.g., loans mobilizations, demobilizations, and features changes), the NBU should assess the possibility of factoring such procedures in an initial Agreement to be signed by banks. Furthermore, the NBU should confirm all the legal formalities for a valid mobilization of credit claims, in particular the need to deliver the loan contract either physically or electronically, and whether debtors have to be notified of such events. Once those verifications have been made, testing credit claims mobilization in real conditions with (systemic) banks could be envisioned, to bolster both the NBU's and banks' preparedness for such operations.

71. **The NBU establishes several criteria for the acceptance of credit claims as collateral (see Annex I).** The application of these criteria significantly reduces the volume of credit claims that can be mobilized—internal analysis conducted by the NBU found that the application of the criteria would lead to the acceptance of less than 15 percent of the total volume of credit claims in the bank's balance sheet. A different approach that could be followed by the NBU would be to accept all credit claims, and apply very high haircuts (i.e., from 80 percent to 100 percent), to those credit claims it assesses riskier. However, given the very high NPLs in the banking system at present (around 40 percent), the current NBU approach seems prudent. The alternative of accepting a wider pool of credit claims, through relaxing some of the criteria, could be considered if necessary to alleviate pockets of stress, with additional risk mitigation measures.

72. **Further IMF technical assistance on streamlining the credit claims mobilization process, as well as defining haircuts and valuation metrics can be provided.** The NBU has shown interest in further TA from the IMF to continue improving its processes and risk control measures related to the use of credit claims as collateral. Additionally, the NBU has been in contact with Banca d'Italia and the Bank of England to gain from their experience on credit claims mobilization.

Government's Role

73. **The NBU's ELA framework should specify, subject to the Ministry of Finance's agreement and possibly necessary legal changes, under which conditions ELA can only be provided with a government guarantee, with strict conditions and safeguards.** A sound ELA framework must be effective also in critical situations in which financial stability is at extreme risk, e.g., when a severe liquidity shock affects one or several systemic banks, possibly affected also by temporary undercapitalization. ELA should be extended where necessary, to preserve financial stability, only with a government guarantee (as complement, rather than substitute, of collateral, and of credible action to restore solvency, outside or within resolution) in the three following situations:

i. If there is significant uncertainty on solvency, ELA may be considered only under a government guarantee. Although forward looking solvency is a condition for ELA, in certain cases where there is significant uncertainty of the banks solvency, the bank may also be allowed to receive ELA, provided there is a government indemnity on the central bank's ELA loan, as complement to: (i) collateral; and (ii) a credible action to address the temporary undercapitalization. In such circumstances, ELA must not be provided without all efforts to fully collateralize ELA and a detailed plan to recapitalize the bank (e.g., a time-specific and credible commitment to recapitalize the bank by its existing shareholders or new investors, or a commitment by the State to recapitalize the bank)—i.e., a government guarantee (or indemnity) should not be considered sufficient to provide ELA. Furthermore, if the bank is clearly insolvent, i.e., there is no credible recapitalization plan, ELA must not be provided.

ii. If there is insufficient collateral, ELA may be considered with a government guarantee to fill the collateral gap. Also in this scenario, collateral must be mobilized as much as possible (with sound risk control measures) to mitigate the financial risk for the State. Furthermore, a credible recapitalization plan should also be probably envisioned under this scenario, as insufficient collateral to cover ELA is likely to be reflective of fragile solvency. If there is no credible plan to recapitalize the bank, ELA must not be provided.

iii. In case of an ongoing resolution leading to the emergence of a solvent, viable bank in the near term, ELA may be envisioned, for funding-in-resolution, though only under a government guarantee if the central bank has concerns on the exit strategy. Also in this scenario, all efforts must be made by the central bank to obtain sufficient collateral from the bank to cover the ELA envelope, thereby limiting the State's financial exposure—i.e., government guarantee should be considered as a second layer of protection for the central bank and as a complement, rather than a substitute, of collateral. As in a non-resolution scenario, a credible prospect for the bank to return to solvency and viability is a requirement for ELA. If there are concerns on the exit strategy, a government guarantee would be required. For instance, in a good bank/bad bank separation, only the good bank may be eligible to ELA, while the bad bank should not receive any ELA. In case of a bank liquidation, ELA must not be provided (regardless of the existence of a government guarantee).

74. The NBU should work with the Ministry of Finance (MoF) towards a Memorandum of Understanding (MoU) defining information exchanges, safeguards, and the conditions requiring a government guarantee in certain ELA situations. The NBU should establish and operationalize strict safeguards (strict assessment of solvency and viability, strict collateralization with conservative haircuts, strict conditionality) in its ELA framework to reassure the Ministry of Finance that the NBU's ELA policies will significantly mitigate fiscal risks, i.e., the risk that the government guarantee might need to be activated. In the ELA cases in which a government guarantee is needed (see paragraph above), information exchanges by the NBU to the Ministry of Finance should provide sufficient clarity on the bank's situation (in particular its solvency, viability, collateral, and compliance) for the Ministry of Finance to make an informed decision as regards a possible government guarantee. The process for putting the guarantee in place should also be clear among relevant parties, as part of the preparedness for ELA.

Conditionality

75. No ELA should be provided without conditions, enshrined in an agreement with the bank and monitored through a funding plan. ELA does not directly solve the fundamental issues at the root of banks' liquidity stress. Instead, it is only an instrument that provides time for banks to solve their liquidity issues in an effective manner through various corrective measures. Therefore, ELA should be made conditional on the application of certain measures that have three main objectives: (i) accompany the bank under ELA in the definition and implementation of effective measures to address the vulnerabilities that caused the liquidity stress; (ii) control the level of risk that the central bank incurs when giving out ELA by strengthening its monitoring of the bank and imposing measures that will reduce the bank's inherent risk; and (iii) ensuring that ELA is only used as last resort.

76. **NBU's ELA framework establishes restrictions and requirements for banks that obtain an ELA loan.** Section VII of NBU's ELA Regulation states that the NBU, to reduce the banks liquidity risks, shall impose restrictions and requirements on the bank's activities, such as, prohibition on distribution of capital, early repayment of debt securities, active transactions with persons related to bank, among others.

77. **NBU's ELA regulation conditionality currently focuses on restrictions and prohibitions, while other measures could also be useful, such as, for instance, sale of non-core assets and reinforced reporting obligations (see Box 3)**. Some of those corrective measures would be applied in most or all ELA cases (for instance, the imposition of more detailed and frequent information on the bank's liquidity and capital position and the prohibition of the distribution of dividends during the period under ELA), while the application of others would depend on the individual situation of the bank.

Box 3. Example of a Set of Corrective Measures that Should be Applied to a Bank in Case of ELA

- Obligation of reporting more frequent information on the bank's liquidity and capital position
- Suspension of dividend distributions and debt or share buybacks
- Suspension or pre-approval procedure for new significant investments
- Measures to limit the granting of new loans (e.g., through limits, prior notification or pre-approval procedures)
- Conditions on recovery efforts for non-performing loans
- No bonuses, or salary increases for administration
- No up-streaming to foreign parent bank
- Enhanced obligations on anti-money laundering
- Sale of non-core assets
- Measures to stabilize deposits and restore market access
- Measures to strengthen capital adequacy (e.g., recapitalization)
- Obligation to carry out asset quality reviews and external audits at the request of the Central Bank, at the bank's expense, and to share their results with the Central Bank

Source: IMF mission team.

78. **The NBU ELA regulation makes the provision of ELA conditional on the signing by the requesting bank of an ELA General Agreement.** The NBU has developed a template for a General Agreement and such an Agreement has already been signed by two banks in the past—although they did not receive ELA in the end.

79. **The NBU might consider the publication of the ELA General Agreement as a technical, non-legally-binding, document, distinct from the ELA regulation.** The ELA General Agreement is a

model agreement (i.e., a template), which will be adjusted to a bank's specific situation when it requests ELA (for instance to adapt the conditionality to the bank's specific challenges). The NBU may consider two alternative options (subject to legal verification): (i) the publication of the ELA General Agreement as technical document, on the NBU's website; or (ii) the transmission of the ELA General Agreement to banks for information, for instance in the context of a seminar for banks on the NBU's revised ELA framework. Both options would facilitate banks' preparation for any future ELA requests. However, it should be noted that the publication of the ELA general Agreement would have pros and cons: deviations from the ELA General Agreement may give rise to controversies or be contested by the beneficiary bank (even if there should be little scope for debate in practice). Most central banks do not publish their ELA General Agreement.

80. **The ELA Agreement should be tailored to specific bank situations, which may require specific conditions, measures, and monitoring by the central bank.** The NBU may build on its existent ELA General Agreement to develop additional "building blocks" in case of need. The ELA Agreement should support the central bank's capacity to closely monitor the bank receiving ELA (as a complement to the regular supervisory framework) and to accompany the bank in the implementation of the necessary remedial measures. Box 4 illustrates the usual "core" building blocks of an ELA Master Agreement, and the possible "complementary" building blocks, which may be tailored and added to the ELA Agreement to reflect a bank's specific challenges.

Box 4. Core and Complementary Building Blocks of an ELA Master Agreement

"Core" building blocks can be found in most ELA agreements (they are not specific to a bank's situation). They may include:

- General provisions
- Purpose of the ELA loan
- Provision of the full list of eligible (unencumbered) assets
- Collateral management
- Extension of the ELA loan
- Repayment
- Participation in the central bank's monetary operations and standing facilities (if the bank has kept its monetary policy counterparty status)
- Prohibition of interbank deposits (as the recourse to ELA should be strictly limited)
- Enhanced reporting obligations
- Penalties
- Settlement of disputes
- Termination of contract

"Complementary" building blocks may be added to the "core" building blocks, depending on the bank's specific situation and the need for reinforced monitoring by the central bank:

- Lending and investment policies (reinforced information obligations, prior notification or prior approval system, freeze of new significant investments, etc.)
- Asset sales (restricted and where considered, and obligation for the bank to regularly inform the central bank)
- Mergers & acquisitions
- Salaries, bonuses, and dividends (freeze, suspension, or prohibition)

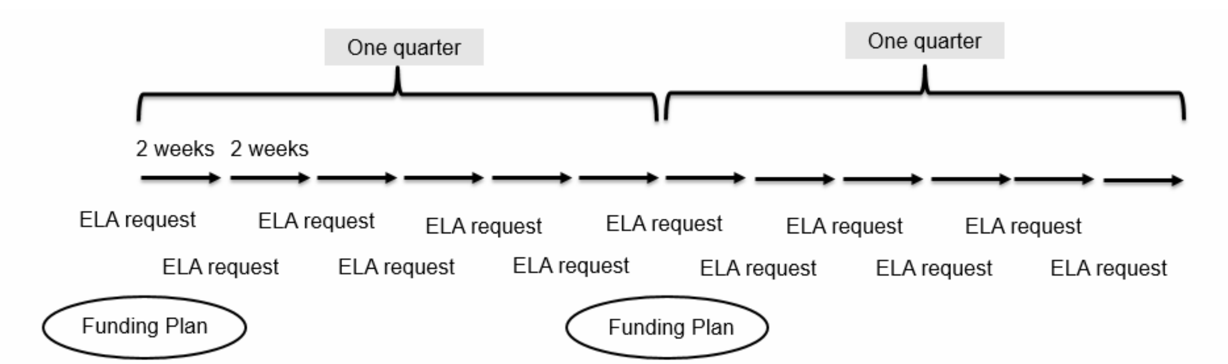
- Prohibition of loans to related parties
- Reinforced AML/CFT obligations
- Audits and asset quality reviews (results must be shared with the central bank)

Source: IMF mission team.

81. **The NBU should use and may publish a funding plan template,[9] with a well-calibrated level of granularity for its ELA assessment and monitoring.** The funding plan template that the NBU already developed and is used by the NBU divisions in ELA process (according to Regulations 411, 783, and 457) for their analysis should be used. The granularity of the funding plan template may be adjusted to facilitate the analysis of the funding plan by the central bank and the monitoring of the bank's progress in the implementation of remedial actions, while avoiding overcomplicating the exercise for banks (as each additional line in the template requires banks to add multiple forecasts, for several points in the future). The funding plan template should aim at facilitating the discussions between the bank and the central bank about the expected developments in the bank's reliance on central bank funding (in particular, ELA) and about remedial actions. Consequently, given the structure of Ukrainian banks, the emphasis should be put on sufficient granularity on the loan books, securities portfolios, and deposit categories.

82. **The use of the funding plan template for ELA requests allows the NBU to have a more systematic view of the bank's situation, allowing for a comparation of the bank's assumptions and measures**. For the duration of the ELA provision, the funding plan should be updated monthly or quarterly. The frequency of the revision of the funding plan should allow a careful preparation by the bank, including an iterative feedback process with the banking supervisor, to ensure the quality and credibility of the funding plan.

Figure 9. Proposed ELA Timeline and Deliverables



Source: IMF mission team.

83. **The funding plan submitted by a bank under ELA should be: (i) credible; (ii) detailed and specific; and (iii) it should reflect the bank's best effort.** The funding plan presented by the bank's management to the central bank should rely on realistic assumptions regarding the economic and financial environment, and the feasibility of the measures envisioned by the bank to

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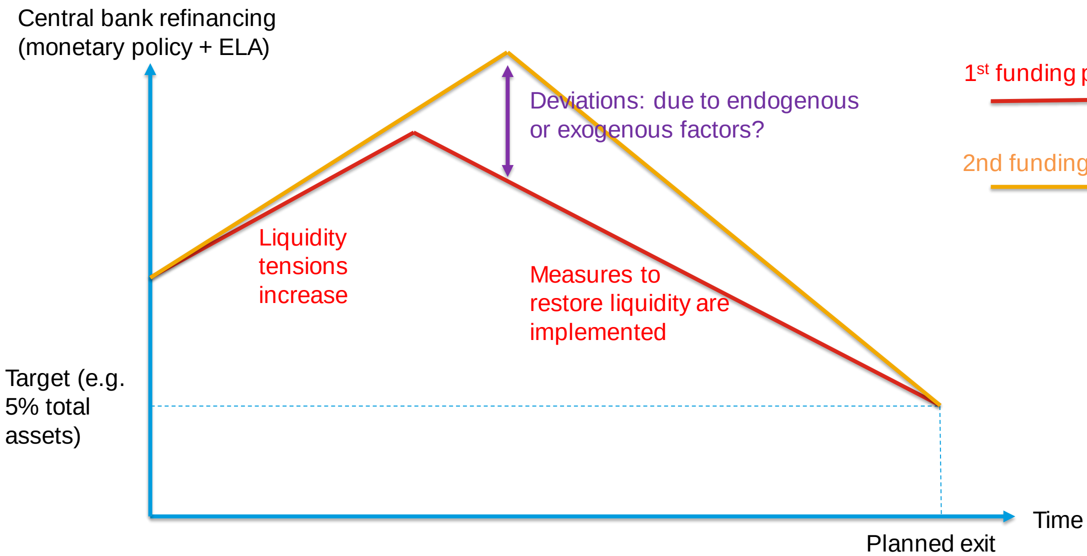
[9] A funding plan is an analytical projection of the bank's balance sheet and in an ELA context should reflect the corrective actions that the banks plans to adopt for the quick reimbursement of the operation and restoration of the liquidity position.

restore its liquidity. Consequently, it is crucial for the NBU to challenge the bank's assumptions, e.g., on deposit growth, on the restoration of interbank access, on the timing of an envisioned recapitalization or asset sales. If the bank's plan is insufficiently ambitious, for instance if the bank plans to rely on ELA for an extended period, the banking supervisor should challenge the bank's strategy and open the discussion on more ambitious remedial measures, such as asset sales, a recapitalization, a plan to restore market access, a freeze on new loans, etc.

84. **Each new funding plan should be accompanied by written explanations on the bank's strategy and presented by the bank's senior management.** The funding plan should reflect the bank's senior management's commitment vis-à-vis the central bank. To contribute to its quality, the central bank should provide a set of objectives (such as the full repayment of ELA before a certain deadline), hypotheses and constraints, while leaving sufficient leeway to the bank to express its strategy through its funding plan.

85. **The assessment of the funding plan by the banking supervisor and the central bank should focus on: (i) its credibility; (ii) deviations between realized and forecast balance sheet data; (iii) revisions in successive funding plan versions; and (iv) the causes, endogenous or exogenous to the banks, for those deviations.** Funding plans are useful through the basis they provide for a quantitative discussion on the bank's remedial actions, and through the iterative process of the comparisons between the bank's plans and its realizations. Depending on the assessment on the causes of negative deviations from the targets set by the central bank (such as delays in repaying ELA), the central bank may adjust its ELA decisions, for instance by strengthening the conditionality framework and/or increasing overcollateralization if it is concerned by risks of non-compliance.

Figure 10. Schematic Representation of Successive Funding Plans



Source: IMF mission team.

Decision Making

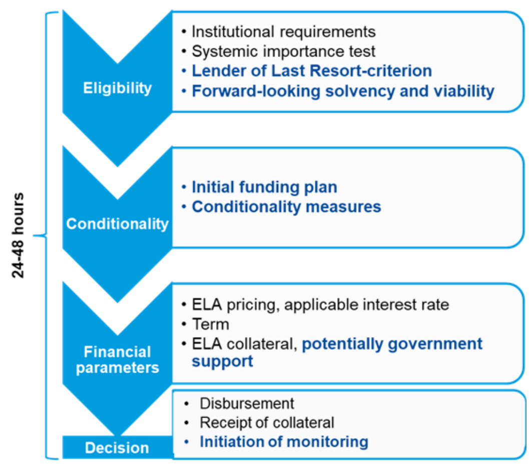
86. **The decision-making process seems adequate as it ensures speed, collegiality, and efficiency.** The NBU Board[10] decides on each individual ELA request. While standard loans granted under the NBU's monetary policy framework do not require special NBU Board approval, the NBU Board, advised by the Credit Committee, decides on each individual ELA request, based on a proposal by the ELA Team, coordinated by the Director of CALSD.[11]

C. Internal Procedures

87. **The NBU has an extensive ELA procedure in place, involving 11 departments.** The main participants of the process are the Integrated Banking Supervision Department (IBSD), the Financial Stability Department (FSD), Credit Analysis and Liquidity Support Department (CALSD), Risk Management Department (RMD) and Legal Department. The CALSD is leading and coordinating any ELA request.

88. **One of the key tasks is to set up the process of an ELA request assessment, so it can be handled quickly in 24 to 48 hours.** Requesting ELA is a highly stigmatizing decision for a bank and its management—so the bank can be expected to only request it at the very last minute. The ELA framework should aim to preserve financial stability irrespective of situation however—stress in a single entity or several entities simultaneously. Completing ex ante preparation (design of the ELA framework, setting out internal procedures) should help the central bank to act in a timely manner in high-risk, and stressed situations where there is usually no more than 24 hours (end-of-day) or 48 hours (weekend) available**.** Figure 11 shows the steps of assessing an ELA request.

Figure 11. Steps in Assessing ELA Requests



Source: IMF mission team.

[10] The NBU Board is exclusively composed by members of the NBU, namely the Governor, First Deputy Governor and five Deputy Governors. No external members sit on the Board.

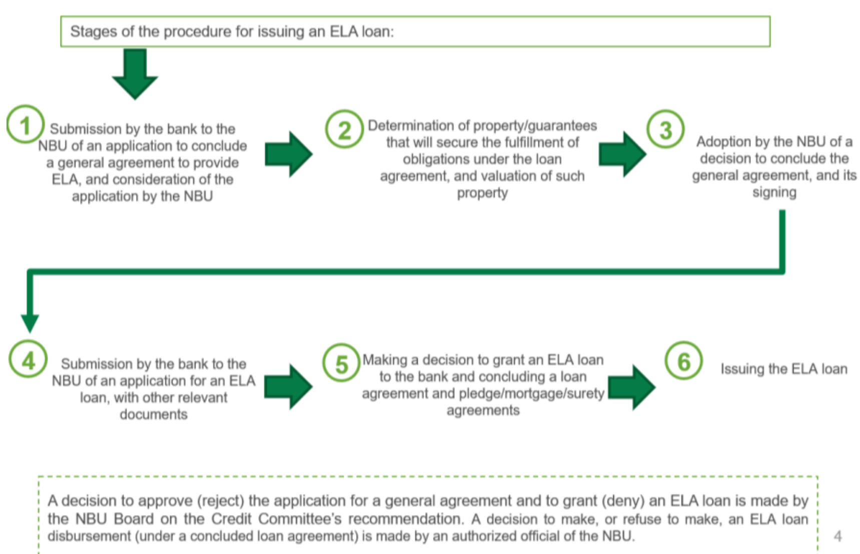
[11] The Credit Committee is chaired by the Deputy Governor responsible for Market Operations, and includes the Deputy Governor responsible for Finance, Administration and Operations, the director of the Risk Management Department, the director of the Financial Stability Department, the director of the Banking Supervision Department, the director of the Legal Department, and the director of the Credit Analysis and Liquidity Support Department, the head of the Problem Assets Management Office.

89. **The NBU's current ELA regulation, while compliant with many best practices, is in practice too inefficient and takes too long: up to three or four weeks for an ELA request to be processed.** This is largely due to issues with collateral mobilization (see section III.B). However, the large number of departments and staff involved may lead to inefficiencies as well.

90. **The NBU should create an ELA Team, coordinated by the CALSD, and composed of 2/3 staff from each involved Department to ensure speed and confidentiality.** There should be a minimum amount of people involved to make the process efficient and prevent leaks, while working in parallel on different steps of the assessment. Excessive collegiality (many consultations etc.) may slow down the decision-making process and increase the risk of leaks, to the detriment of the financial stability objective. The amount of people involved in an ELA request assessment should therefore be minimized to a maximum of about 20 people; one manager and 2/3 staff per department.[12] The colleagues involved should be made free of other ongoing work as much as possible. The processes in Figure 12 should also not be executed sequentially but rather in parallel. The assessment may be shared later with a broader group of colleagues for learning and education purposes. Frequent testing can further increase the efficiency of the process (see next section).

91. **The division of labor could be shifted away from FSD towards Banking Supervision.** The mission carried out a scan of the responsibilities the NBU assigns to different departments along best practices (Figure 13). In general, these are in line (marked green). Some tasks that are mentioned for an ELA request (marked yellow) should be available at that moment in time, so no time would have to be spent doing them at the moment of request. In general, the FSD could be less involved, and Banking Supervision should have its own forward-looking view and holistic view on a bank's solvency, liquidity, asset quality. Concretely, FSD involvement could be limited to the assessment of systemic relevance of the bank and overseeing the forward-looking solvency assessment.

Figure 12. Procedure for Granting ELA



Source: NBU.

[12] Naturally, the ELA team members from each department should also coordinate their contribution to the work of the ELA Team with the respective Department's Director.

Figure 13. Roles and Responsibilities of Main Departments Involved at NBU in an ELA Request

Integrated Banking Supervision Department

Provides expert opinions/information regarding:
- the bank's actual solvency
- compliance/noncompliance with the capitalization plan
- current supervisory restrictions and the bank's compliance/noncompliance with them
- the status of implementation of the bank's financial recovery program/plan
- application of enforcement measures to the bank for breach of banking laws
- establishment of facts and/or identification of signs of the bank's risky activities
- the results of analysis of the bank's business model
- the results of the last diagnostic check
- comments on the bank's cash flow forecast
- other relevant information.

Credit Analysis and Liquidity Support Department

Organizes/supports the process, coordinates interactions between its participants, conducts credit administration and monitoring of ELA loans, specifically:
- organizes consideration of banks' applications to conclude general agreements and take out ELA loans
- communicates with the bank and/or NBU units about the analysis/provision/receipt of necessary documents/information/conclusions
- does preliminary reviews of applications received from banks
- processes expert opinions of specialized NBU units
- prepares materials for the Credit Committee and the NBU Board for consideration and decision-making regarding ELA
- prepares drafts of the general/loan agreement and pledge/surety agreements and organizes their approval/signing/accounting
- analyzes the bank's financial standing (including actual/projected cash flow)
- monitors the bank's payment obligations and negative information about the bank/guarantors.

l Markets

Financial Stability Department

Provides expert opinions/information regarding:
- the bank's impact on financial system stability
- the bank's actual and expected solvency [to supervision?]
- the bank's liquidity [to market operatoins?]
- quality of the bank's loan portfolio [to supervision?]
- the results of stress testing the bank's liquidity
- the results of the analysis of the liquidity and/or financial sustainability of the banks' qualifying holders' businesses
- comments on the bank's cash flow forecast
- other relevant information.

Risk Management Department

Conducts risk analyses and prepares expert opinions, including:
- conclusions and recommendations regarding the decision (to grant or deny ELA) and conditions for granting ELA
- assessment and acceptability of identified risks, proposals to minimize them
- expert opinions on proposed collateral (liquidity of collateral, compliance with ELA Regulation requirements, value of collateral, presence of specific risks, etc.)
- the bank's credit rating under internal methodology and external rating by international rating agencies
- comments on the bank's projected cash flow (establishing whether the indicators are viable, identifying the bank's increased risks of failure to repay loans)
- other relevant information.

Legal Department

Checks the legal aspects of applications for ELA, specifically:
- by verifying documents confirming the ownership of the assets pledged as collateral and by drawing up conclusions about the documents' compliance with legislation
- by preparing conclusions about the possibility of (legally) pledging asset as collateral
- by verifying that mortgages are formalized in accordance with the bank's loan agreements under which ownership rights are pledged as collateral to the NBU.

Source: NBU, IMF mission team.

D. ELA Preparedness

92. **The NBU should conduct annual ELA simulations to train its staff on ELA procedures and to identify possible gaps and vulnerabilities.**[13] Because ELA operations are by nature infrequent, there are risks that NBU staff might become unfamiliar with ELA processes. To facilitate NBU's staff's understanding of ELA procedures and their effectiveness in implementing them, ELA simulations (e.g., building from the exercise conducted with the mission team) could be envisioned on an annual basis, using real local banks' situations combined with a simulated liquidity shock.[14]

93. **Regular training on ELA principles for NBU staff could be organized.** ELA is a cross-departmental activity, therefore, in order to foster staff familiarity with key ELA concepts and build a solid "corporate culture" about the role of the NBU and the necessary limits to its actions (e.g., the required conditions and safeguards for ELA), the NBU could organize training for its staff working on financial stability, monetary policy, banking supervision, risk management, communications, and legal issues.

[13] NBU reported that the CALSD simulated the issuing of an ELA loan in a test mode to identify possible deficiencies in the process of issuing/accounting of an ELA loan/accounting of the collateral. During that simulation, the NBU tested the communication between the Credit Analysis and Liquidity Support Department and the Operational Department.

[14] The simulated liquidity shock should be large enough to wipe out the bank's existing liquidity buffers, so that the bank would be in a situation to request lender-of-last-resort support.

94. **Workshops could be conducted with banks to make them more familiar with the NBU's ELA framework.** Such workshops should clarify all requirements for ELA, particularly the need for a bank requesting ELA to pre-mobilize sufficient collateral and sign a highly constraining ELA agreement with the NBU prior to receiving any ELA. This should help banks better prepare for ELA and this should also mitigate any moral hazard.

95. **The NBU should also develop a communication strategy and policy for ELA.** A comprehensive ELA transparency[15] and communication strategy comprises: (i) an ex-ante transparency policy; (ii) a communication strategy around on-going ELA; and (iii) an ex-post transparency policy:

   i. The objectives of **ex-ante disclosure**, namely regarding the ELA rules and conditions (except for restricted information) are: (i) to manage expectations of other ELA stakeholders; (ii) highlight that ELA is for the liquidity needs of solvent and viable institutions; and (iii) ensure central bank accountability—binding central banks to sound governance.

   ii. The NBU should generally apply strict confidentiality to its **ongoing ELA operations** but should also be prepared to publicly communicate on ELA if deemed necessary**.** Considering the high level of stigma associated with this operation, if an individual bank is concerned and the bank's liquidity stress is unnoticed to the public, the ELA should not be disclosed as it may worsen the bank's prospects to bring a temporary liquidity issue under control. On the contrary, in a systemic crisis, or if a bank is facing widespread negative rumors, a proactive and timely communication by the central bank may be justified to restore the confidence in the financial system or in the bank. As far as possible, the delineation of such public approach should be coordinated with the ELA beneficiaries and should include the relevant elements to reassure that the provision of ELA will support the bank's liquidity and the continuity of its operations.

   iii. **Ex-post transparency** can be provided through balance sheet data as well as more elaborately in the Annual Report of the NBU. The NBU may consider publishing limited information on already repaid ELA loans, in consistency with principles of transparency and accountability. The NBU's Annual Report could be the appropriate support to explain how and to what extent the emergency liquidity provided by the central bank contributed to maintain the financial stability. Nevertheless, the NBU, in discussion with its external auditors, should assess whether more detailed information on past ELA, such as banks' names or individual amounts, need to be published or could undermine banking confidence if communicated to the public. Additionally, excessive transparency on past ELA operations might undermine the central bank's discretion on the provision of ELA, in particular the necessary flexibility to adjust the set of eligible collateral, haircuts, and the risk control framework to the banks' specific situation.

96. **Given the very challenging timeline for the preparation of ELA assessments, the NBU should focus on the several actions aimed at improving the ELA preparedness.** Box 5 provides a comprehensive list of actions that would support the ELA preparedness and responsiveness of NBU expert staff.

[15] The NBU is advised to refer to the IMF Central Bank Transparency code for a comprehensive transparency strategy for the ELA framework.

Box 5. Summary of Possible Actions to Increase ELA Preparedness

- **Complementing the existing Early Warning System (EWS) by relevant liquidity indicators:**
  - Funding structure of each bank (deviations from the usual funding structure may signal increasing liquidity risks)
  - Funding costs (deposits, interbank borrowings…)
  - Average maturity of interbank borrowings (a sudden shortening may signal creditor concerns)
  - Shifts from unsecured to secured interbank borrowings
  - Breakdown of insured vs. uninsured deposits (significant additions of beneficiaries to bank accounts may signal concerns on a bank's soundness)
  - Mapping of the interbank market, based on observed transactions within the past 12 months (identification of nodes, interconnections, weak links…)
  - Bidding behavior at the central bank's liquidity-providing operations
  - Repeated and significant usage of the standing credit facility
  - Shift from frontloading to backloading for the fulfilment of reserve requirements
  - Monetary policy collateral buffers
  - Maturity profile of the monetary policy collateral pool
- **Preparing all key technical documents:**
  - Funding plan template *(already prepared and used by the NBU)*
  - Template for funding plan instructions, hypotheses, and targets *(already prepared and used by the NBU)*
  - Liquidity monitoring template
  - ELA Master Agreement / General agreement *(already prepared by the NBU)*
  - ELA collateral mobilization forms for credit claims
- **Preparing forward-looking solvency assessments, on a semi-annual or annual basis**
- **Preparing viability assessments, on an annual basis**
- **Preparing assessments of the systemic nature of the banks, on an annual basis** *(already done by the NBU)*
- **Assessing ELA collateral sufficiency, on a semi-annual or annual basis:**
  - Preparing an exhaustive list of ELA eligible credit claims, for each bank
  - Defining a priority order in the mobilization of credit claims (e.g., based on volume, risk, concentration, residual maturities etc.)
  - Calculating the value after haircuts of the ELA collateral pool, for each bank
  - Defining the perimeter of loan mobilization depending on various liquidity risk scenarios
- **Considering the pre-emptive mobilization of credit claims (pre-positioning)**
- **Preparing an ELA request assessment template**
- **Informing all stakeholders about the ELA framework, rules, and procedures:**
  - Banks: seminars, tests
  - Ministry of Finance
  - Relevant NBU staff (e.g., newcomers)
- **Conducting simulations:**
  - Defining multi-disciplinary ELA Teams
  - Defining ELA scenarios / case studies
  - Testing the ELA Teams' ability to coordinate and prepare an ELA assessment based on the information provided in the case studies
  - Identifying errors and gaps in the existing framework and internal procedures

Source: IMF mission team.

Annex I. NBU's Requirements for Credit Claims Acceptance under the Current ELA Framework

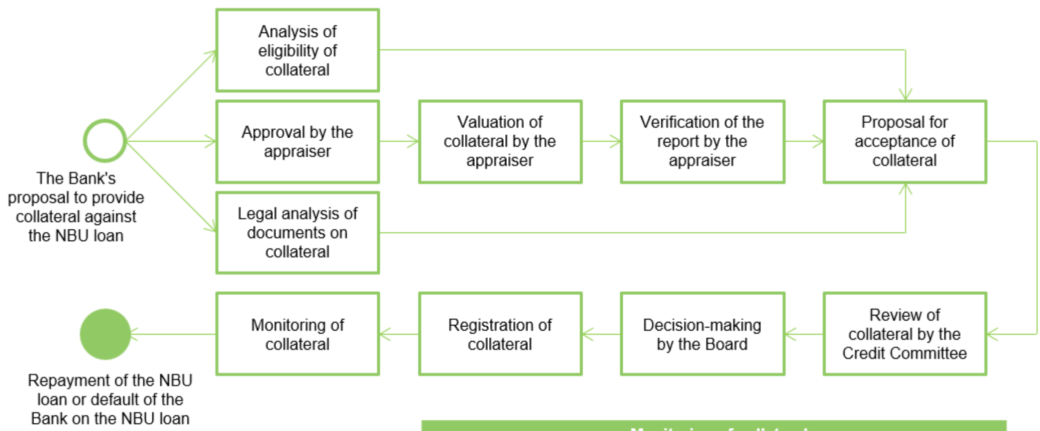
Figure A.1 NBU's Requirements for Credit Claims Acceptance

... individuals and sole proprietors, secured by a mortgage	... individuals, secured by a mortgage	... individuals (except for property rights secured by a mortgage)
Debt on the loan is recorded on the respective balance sheet account of the bank > 180 calendar days.		
Over the past 180 calendar days, the class of a legal person under the loan agreement (except for a bank or public institution) has been determined by the bank to be at least class five, while that of a sole proprietor – at least class one, as per the NBU regulation on determination by banks of the size of credit risk for asset exposures.	Over the past 180 calendar days, the class of an individual under the loan agreement has been determined by the bank to be at least class one as per the NBU regulation on determination by Ukrainian banks of the size of credit risk for asset exposures.	The class of an individual under the loan agreement has been determined to be at least class one as per the NBU regulation on determination by Ukrainian banks of the size of credit risk for asset exposures.
Under the loan agreement concluded with a legal person and/or a sole proprietor and/or an individual, the periodicity of debt repayments is set to at least once a month/quarter, and their amount equals at least the size of income recognized by the bank in line with NBU accounting regulations.		
No repayments are past due on the debt under the borrower's current loan agreements with the bank.	There is no information about any repayments more than seven days past due on the debt under the borrower's current loan agreements with the bank.	
There is no information indicating any past-due repayments on the debt under the borrower's current loan agreements with other banks.	There is no information about any repayments more than seven days past due on the debt under the borrower's current loan agreements with other banks.	
The NBU has not established that a legal entity or individual is unable to fully meet its obligations to the bank under a loan agreement within the timeframe specified therein.		
The NBU has not established that the market value of the mortgaged property securing the fulfillment of obligations under a loan agreement concluded by a bank with a legal person and/or an individual is overstated.		
The NBU has not established that the mortgaged property securing the fulfillment of obligations under a loan agreement concluded by a bank with a legal person and/or an individual is encumbered by any other obligation under any other loan agreement.		

Excluding property rights under loan agreements:
(1) concluded with related parties
(2) concluded with persons registered in the temporarily occupied territory
(3) concluded by the bank in the temporarily occupied territory
(4) the pledged property is located in the temporarily occupied territory
(5) under which the currency of the loan is other than the domestic currency (except for legal entities)

Source: NBU

Figure A.2 Process for Credit Claims Acceptance



Monitoring of collateral		
Real estate	**Property rights under loans to legal persons**	**Property rights under loans to individuals**
Compliance		
Revaluation of collateral		
Insurance of collateral	Overdue debts	
Onsite inspections	Inspections (selective)	

Source: NBU.