STATUTORY INSTRUMENTS
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STATUTORY INSTRUMENTS SUPPLEMENT

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STATUTORY INSTRUMENTS.

2004 No. 62.

THE MICRO FINANCE DEPOSIT-TAKING INSTITUTION (LIQUIDITY AND FUNDS MANAGEMENT) REGULATIONS, 2004.

ARRANGEMENT OF REGULATIONS

PART I—PRELIMINARY.

Regulation.

STATUTORY INSTRUMENTS.

2004 No. 62.

The Micro Finance Deposit-Taking Institutions (Liquidity and Funds Management) Regulations, 2004.

(Under section 89(3) of the Micro Finance Deposit-Taking Institutions Act, 2003, Act No. 5 of 2003)

IN EXERCISE of the powers conferred on the Central Bank by section 89 (3) of the Micro Finance Deposit Taking Institutions Act, 2003, these Regulations are made this 12th day of May, 2004.

PART I—PRELIMINARY.

1. Citation

These Regulations may be cited as the Micro Finance Deposit-Taking Institutions (Liquidity and Funds Management) Regulations, 2004.

2. Application

These Regulations apply to all micro finance deposit-taking institutions in Uganda.

3. Interpretation

(1) In these Regulations, unless the context otherwise requires—

"Act" means the Micro Finance Deposit-Taking Institutions Act, 2003;

"institution" or "MDI" means a micro finance deposit taking institution.

(2) Terms and expressions used in these Regulations have the same meaning ascribed to them in the Act.

4. Objectives

The objectives of these Regulations are—

(a) to ensure that institutions maintain an adequate level of liquidity at all times and are thus able to meet all known obligations and commitments and to plan for unforeseen obligations and commitments;

(b) to promote public confidence in institutions by ensuring that the institutions have adequate liquidity at all times; and

(c) to help ensure that institutions manage their liquidity by means of clear and well thought out written policies which take into account all aspects of proper liquidity management.

5. Purpose

The purpose of these Regulations is—

(a) to emphasise to institutions that micro finance business involves public trust, especially with regard to institutions meeting their obligations as to depositors, other liabilities, and off balance sheet commitments; and that proper liquidity management is essential to ensure that such trust and confidence is maintained; and

(b) to emphasise to institutions that maintaining an adequate level of liquidity is more complex than simply meeting a liquid asset requirement, and that the intent is to put forth a quantitative requirement with a qualitative approach through a policy statement on liquidity management.

PART II—REGULATORY REQUIREMENTS

6. Liquid asset requirement

(1) For the purposes of these Regulations, the liquid asset requirement shall be consistent with section 17 of the Act (which provides for minimum liquid assets).

(2) An institution shall maintain, at all times, minimum liquid assets as defined in section 17 (2) of the Act, to equal or exceed the sum of 15% of total deposit liabilities.

(3) " Liquid assets" include all or any of the following—

(a) notes and coins which are legal tender in Uganda;
(b) balances with the Central Bank;
(c) balances with banks and financial institutions licensed to accept deposits in Uganda;

(d) money at call in Uganda;

(e) treasury bills issued by Government and maturing within three months, exclusive of days of grace;

(f) marketable Government securities that are held by financial institutions for trading purposes; and

(g) such other assets as the Central Bank may from time to time approve.

(4) The Central Bank shall monitor compliance with liquid asset requirements by means of a weekly liquidity return in the form set out in Schedule 1 to these Regulations.

(5) An institution which fails to meet the liquid asset requirements commits an offence and is liable, on conviction, to a fine of one hundred currency points, and in case of a continuing contravention, to an additional penalty of twenty currency points in respect of each day on which the offence continues.

7. Internal policies on liquidity and funds management

(1) An institution shall properly manage its liquidity, taking into account the complex aspects of sound asset and liability management, through an approved board policy on liquidity and funds management.

(2) In formulating and implementing the policy referred to in subregulation (1), an institution shall follow widely accepted norms for the prudential aspects of the institutions' liquidity and shall be guided by the Central Bank's policy statement set out in Schedule 2 to these Regulations.

8. Role of Board of Directors

(1) The Board of Directors of an institution shall—

(a) approve the procedures, guidelines, internal controls and limits for managing and monitoring liquidity submitted to it by the institution's senior management;

(b) understand the nature and level of the institution's liquidity risk;
(c) at all times, be informed of the liquidity situation of the institution;

(d) ensure that senior management monitors and controls liquidity risk;

(e) ensure that contingency plans are in force, which shall include strategies for handling liquidity crises and procedures for addressing cash-flow shortfalls in emergency situations; and

(f) ensure that management information systems are in place which can adequately measure, monitor, control and report on liquidity risk.

(2) Where an institution operates a branch, the role of the board shall be ascribed to a group comprising the chief executive officer and the finance managers of the institution.

9. Role of management

(1) The board shall assign to the senior management of the institution the responsibility to—

(a) establish procedures, guidelines, internal controls and limits for managing and monitoring liquidity to ensure that adequate liquidity is maintained at all times;

(b) prepare contingency plans;

(c) review the institution's liquidity position on a regular basis and monitor internal and external factors and events that could have a bearing on the institution's liquidity;

(d) review, periodically, the institution's liquidity strategies, policies and procedures;

(e) develop the required techniques, procedures and information systems for implementation of the policy, and to ensure their dissemination to all appropriate personnel within the institution;

(f) ensure that the techniques employed measure accurately, continually and consistently with the institution's current liquidity, and estimate its projected liquidity; and

(g) prudently manage and control liquidity in accordance with the policy.

(2) The choice of analytical techniques, procedures and level of sophistication of the information systems, shall depend in part, on the size of the institution, the number and location of its operating units, its products, and the stability of its funding sources and the extent to which it accesses funds.

10. Liquidity management process

(1) The management of an institution shall put in place mechanisms that assist in the identification of problems in order to explore ways and means of raising additional funds of the right type and amount.

(2) An institution shall base its liquidity management process on the following—

(a) preparation of cash flow projections; and assumptions made in cash flow projections shall be clear and documented and shall be subject to review to determine the validity of underlying factors;

(b) maintenance of a stock of readily available high quality liquid assets in line with the cash flow projections;

(c) measurement and control of the institution's funding requirements which shall involve the process of assessing cash inflows against the institutions outflows to identify the potential for any shortfall and shall incorporate funding requirements for off-balance sheet items;

(d) managing access to funds in the market;

(e) contingency plans to handle a liquidity crisis shall be in place; the strategy for handling liquidity crises shall include procedures for making up liquidity shortfalls in emergency situations and each institution shall develop a back-up liquidity strategy for circumstances in which its normal sources of funding operations is disrupted.

11. Computation and weekly returns

(1) An institution shall, at all times, maintain adequate records with regard to liquid assets, all deposit liabilities and all off-balance-sheet commitments in the form MDI 110A set out in Schedule 1.

(2) Each institution shall submit to the Central Bank, on a weekly basis, a return showing its compliance with regulation 6(4) of these Regulations.

(3) The Central Bank may use its powers to inspect under section 56 of the Act to verify the accuracy of a return and direct the institution to adjust the return or past returns as a result of the inspection.

(4) An institution shall, upon request of the Central Bank, require its external auditor, as appointed under section 30 of the Act, to verify to the Central Bank the accuracy of a return and to alert the Central Bank as to any errors or adjustments to the return.

PART III—REMEDIAL MEASURES AND ADMINISTRATIVE SANCTIONS.

12. Remedial measures

(1) Where the Central Bank determines that an institution is not in compliance with these Regulations, it may exercise its powers to take corrective action under section 58 of the Act.

(2) Where the Central Bank determines that an institution's non-compliance with these Regulations has resulted in such undue risk that it is unsound, does not have adequate liquidity, or that the funds of depositors are in jeopardy, it may exercise its powers to take prompt mandatory corrective action under section 59 of the Act.

13. Administrative sanctions

The Central Bank may, in addition to the remedial measures specified in regulation 12, impose any or all of the following administrative sanctions with regard to an institution that fails to comply with these Regulations—

(a) prohibition from declaring or paying dividends;

(b) suspension of establishment of new branches and expansion into new financial activities;

(c) suspension of acquisition of fixed assets;

(d) suspension of acceptance of new deposits; and

(e) suspension of lending operations.

SCHEDULE 1

Regulations 6(4), 11(1)

FORM MDI 110A

WEEKLY STATEMENT OF LIQUIDITY FOR MICRO FINANCE DEPOSIT - TAKING INSTITUTIONS

NAME OF MICRO FINANCE DEPOSIT-TAKING INSTITUTION:...……………………………………………......

WEEKLY STATEMENT OF LIQUIDITY AS AT: ……………

(in thousands of shillings)

Amount ('000s)

1. Notes and coins which are legal tender in Uganda ……………… …………………………………………………………………...
2. Demand balances and money at call from banks ……………… …………………………………………………………………...
3. Balances with other financial institutions ……………………… …………………………………………………………………...
4. Government of Uganda treasury bills ………………………… …………………………………………………………………...
5. Uganda Government stocks and marketable securities maturing in not more than 5 years ………………………………………
6. Demand balances with Head Office and branches……………… …………………………………………………………………...
7. Demand balances with Head Office, branches and other money at call abroad in convertible currencies after off-setting amount due to such institutions ………………………………………………
8. Commercial bills and promissory notes eligible for discount at the Bank of Uganda ……………………………………………..
9. Total liquid assets held …………………………………………..

DEPOSIT LIABILITIES

10. Saving liabilities ………………………………………………… …………………………………………………………………...
11. Time deposits …………………………………………………
12. Total deposit liabilities. …………………………………………

LIQUIDITY RATIO REQUIREMENTS

13. 15% of deposit liabilities ……………………………………...
14. Total liquid assets needed to comply with the statutory requirements (surplus, compare item 9 with item 12) ………… …………………………………………………………………...

15. Total advances ………………………………………………...

16. **Ratio:** Advances/deposits ……………………………………...

We certify that to the best of our knowledge, the figures in this statement are those appearing in our books and records as at close of business.

Date ……………………………………………

Signature ………………………………………

SCHEDULE 2

Regulation 7 (2)

POLICY STATEMENT OF THE BANK OF UGANDA
ON
PRUDENTIAL ASPECTS OF LIQUIDITY OF
MICRO FINANCE DEPOSIT-TAKING INSTITUTIONS

1. INTRODUCTION

1.1 Maintenance of an adequate level of an institution's liquidity along with solvency is an essential aspect of the overall institution's soundness. This policy statement is aimed at guiding institutions as to considerations for their own liquidity policy, as well as to inform them of supervisory standards for their liquidity. The policy statement is confined to liquidity for prudential purposes, i.e. safety and soundness, and is not intended to address monetary policy aspects.

1.2 The Micro Finance Deposit-Taking Institutions Act 2003, No. 5/2003 ("the Act") authorises the Bank of Uganda to prescribe a minimum holding of liquid assets. The liquid assets required are stipulated in these Regulations. Liquidity is a complex facet of an institution's business. It cannot be fully measured and analysed in a single ratio. The dynamics of effective liquidity management must take into account cash flow analysis, maturity profile, funding and off-balance-sheet commitments, and back-up sources of funding. Unlike capital adequacy and profitability, ratio analysis alone cannot reveal the full extent of an institution's liquidity. The Bank of Uganda expects institutions to internally manage their own liquidity by means of their own written and approved Board policies. The guidelines as to such liquidity management are given as follows—

2. SUPERVISORY PERSPECTIVES ON AN INSTITUTION'S LIQUIDITY

2.1 For prudential purposes, liquidity can be defined as "the ability to fund at reasonable cost, all contractual obligations of an institution including lending and investment commitments, withdrawal of deposits, and liability maturities in the normal course of business.

2.2 In considering proper liquidity management, the "reasonable cost" element is crucial. Institutions often raise liquidity quickly if they are willing to sell or otherwise dispose of assets at a huge loss/discount or to acquire funds quickly at a very high price. In turn, institutions which take a very cautious approach to liquidity may do so at an opportunity -cost to profits. Thus it must be recognised that there is a close relationship between liquidity and profitability.

2.3 For the above reasons, institutions are required to properly "manage" their liquidity in addition to ensuring that they are meeting the liquid assets requirement given in these Regulations. Sound liquidity management takes into account all the elements of an institution's business that affect liquidity, including: maturities of assets and liabilities; core deposits as opposed to volatile sources of funding; commitments to lend and other off-balance-sheet contingencies; and secondary and/or back-up sources of liquidity to be used under unforeseen circumstances. Stated above, these multi-faceted aspects cannot be captured in a single ratio, though the Bank of Uganda will continue to use the liquid asset requirement as the key indicator to monitor the trend of liquidity.

2.4 Sound liquid management begins with a written policy, approved by the institution's Board of Directors, for liquidity/funds management.

3. (a) KEY POLICIES FOR LIQUIDITY AND FUNDS MANAGEMENT

3.1 Institutions should manage their liquidity (and applicable Funds Management aspects such as interest rate risk) using a formal policy. The policy should be written by senior management, approved by the board (annually with amendments/changes as needed), and fully enforced through controls and reporting and by means of written exception reports when limits and/or guidelines are exceeded.

3.2 An effective policy for liquidity and funds management is dependent on the availability, timeliness and accuracy of data made available to management with regard to assets, liabilities and off-balance-sheet items. Institutions must therefore have in place management information systems (MIS) to support written liquidity and funds management policies.

3.3 The liquidity policy should begin with clearly stated objectives. A main objective should be to ensure that the institution has sufficient liquidity for expected and most foreseen and/or contingent needs. Such liquidity needs are to be above the Bank of Uganda's reserve requirement. The objectives should also include ensuring that cash needs can always be met at a reasonable cost, i.e. avoidance of penalty rates or selling assets at a loss.

3.4 Institutions should write a comprehensive Asset and Liability Management (ALM) policy. The other objectives in an ALM policy would include interest rate risk, foreign exchange risk, and profitability as affected by pricing management.

3.5 Such policies should have quantitative elements. These would usually be shown as target ratios for liquidity components. A target should be set for meeting the liquid assets requirement. Additional targets may cover: advances to deposit ratios, and liquid assets to deposit/borrowings, etc. The policy should also take into account targets based on cash flow and/or maturity profiles so as to reflect the on-going dynamics of a financial institution's liquidity as opposed to reliance on "point-in-time" ratios.

3.6 The written policy should also call for regular analysis of maturity structures of both assets and liabilities to reasonably take into account all funding obligations, especially deposits and borrowings. Included in this analysis should be a determination of core deposits (usually savings and a percentage of borrowings). Normally institutions with heavy reliance on volatile funding should have higher levels of liquid assets.

3.7 In writing a liquidity policy, management should closely analyse the level of normal and/or anticipated funding commitments. Limits as to the amount of such contingents or commitments should be set and effectively communicated to all lending personnel and closely monitored for compliance.

3.8 The policy should also take into account economic aspects, especially seasonal factors which affect liquidity in Uganda's institutions. Contingent plans for obtaining needed liquidity during certain times of the year should be specified in the policy.

3.9 Finally, the policy should set out responsibilities for the management of liquidity, including the Board of Directors, senior management (perhaps through funds management or ALCO committee), line managers (especially lending officers), and support group primarily responsible for timely and accurate data for policy makers. The flow of information should be made clear in the policy, and it should also include exception reports for times when limits are exceeded or targets are not met. Such exception reports should not only be promptly reviewed and acted upon by senior management but should also be brought to the attention of the Board at the earliest possible time.

3.10 Liquidity management is far more effective when done through a formal Board - approved written policy. As such, the Bank of Uganda will be calling for such policies to be written and will be reviewing them for completeness and effectiveness as part of its on-site examination of institutions.

3 (b) MANAGEMENT OF LIQUIDITY

Institutions should base their liquidity management processes around six essential steps—

(i) Prepare cash flow projections.

(ii) Maintain a stock of readily available high quality liquid assets in line with the cash flow projections.

(iii) Measure and control the institutions funding requirements.

(iv) Manage access to funds in the market.

(v) Contingency planning.

(vi) Foreign currency liquidity management.

3.11 Cash Flow Projections

Institutions should prepare cash flow projections on a regular basis for measuring and managing their net refinancing risk. Projections should cover not only the assets and liabilities as they exist in the balance sheet at a particular time, but also flows from planned future activities. In addition, a statement of assets and liabilities prepared in the order of liquidity level of various items can serve as a useful management tool for monitoring operations.

3. 12 Stock of Liquid Assets

Assets of varying levels of liquidity should be categorised in accordance with their credit quality, marketability and market value.

Institutions should establish thresholds for minimum holdings at all times of different categories of liquid assets for liquidity management purposes. Such thresholds will be set in the light of factors, such as an institutions' loan portfolio quality, stability of funding sources and their associated costs, and short term funding requirements. The 'liquidity' assets used should be unencumbered and of high quality so that they can be readily liquidated without incurring a substantial discount.

Where an institution is a subsidiary of another financial institution, the degree of integration of liquidity management with the parent will be taken into account, particularly when the parent is financially sound and has given a commitment of financial support to the subsidiary. Consideration will, however, be given to any legal or foreign exchange restriction on transfer of funds between countries. An institution should adopt limits on the extent of placements with the parent and other related companies.

3.13 Measuring and Controlling Net Funding Requirements

The guideline is not intended to be prescriptive on how an institution should measure and control its funding requirements. Each institution is responsible on its own for identifying and establishing well-based approaches most suitable to its operations. Certain approaches or ratios may be used to advantage.

Commercial Deposit and Loan Exposure

Because of the uncertainties associated with deposits and loans from other financial institutions and non-bank operators (e.g. corporations, fund managers), a continuing assessment of an institution exposure to such sources of funds should be maintained. A ratio of net liquid assets to total deposits and loans from other institutions of over 30 days maturity and from non-bank operators of over 30 days maturity plus ordinary deposit accounts, may be calculated to signal any undue exposure. Similarly, the ratio of advances to deposits will reflect on the extent to which commercial credit activity is financed by commercial deposits.

Liquidity concentration risk, associated with large individual depositors, should be continually monitored in terms of amounts involved and their loyalty to the institution, to control the institution's reliance on them. A regular assessment should be made of individual depositors with deposits representing over 2 % of total shillings and foreign currency liabilities.

Gap Analysis

A gap analysis (building a maturity ladder) determines fund excess or shortage at selected maturity dates. Maturity should be assessed on the basis of terms and conditions of funding or loan instruments as well as on the basis of behaviour of customers, assessed from their past history and current relationship with the institution.

A maturity ladder traces cash inflows and outflows over a series of specified time periods. Cash inflows arise from such items as maturing assets, saleable non-maturing assets, interest receivable, and drawdowns on credit lines. Cash outflows include maturing liabilities, other deposit runoffs and interest payable. A maturity ladder or any other method employed should identify, separately, cash flows.

The timeframe for a maturity ladder is usually short, starting with the next day and using intervals of, say, 2 to 8 days, 9 days to one month etc. Institutions would find it useful to prepare gap analysis beyond the usual short timeframe, taking into account their involvement in markets for long-term assets and liabilities. A funding gap in a distant period often requires planning and time to obtain assets with appropriate maturities to offset the gap.

An institution should establish prudential limits on short term and medium term mismatches. To enforce the limits, a ratio of mismatch to total balance sheet liabilities should be calculated. Such limits should be applied on total currency basis as well as separately for significant foreign currencies.

Since market conditions and an institution's liquidity needs change constantly, an institution will need suitably designed systems to generate accurate and timely information for decision making.

Scenario Testing

Scenario testing is an important tool for measuring and controlling funding requirements. The behavior of cash flows varies under different conditions. Analysing liquidity, therefore, entails doing a sensitivity analysis or laying out "what if" scenarios.

An institution should test at least two scenarios, first, in a "going concern" environment, that is, in the ordinary course of business, and second, as if there is a "specific crisis". For each scenario, the institution will be required to make well informed, conservative judgments respecting assets, liabilities, and off-balance sheet activities. For example, in the case of—

Assets

(a) the proportion of maturing assets that will be rolled over;

(b) the expected level of new loans;

Liabilities

(a) the expected level of rollovers of deposits and other liabilities;

(b) the expected growth in new deposits;

Off-balance sheet

* the anticipated outcome of contingent liabilities, such as financial guarantees.

Moreover, in an institution’s specific crisis scenario, questions, such as the following should also be answered—

(a) Which sources of funds will likely stay with the institution under any circumstances?

(b) Which sources of funds are likely to run off gradually and at what rate?

(c) Which maturing liabilities or liabilities with early withdrawal options are likely to run off immediately?

(d) Are there any back-up facilities that can be relied upon?

The uncertainty inherent in answering these questions demands a conservative stance, that is, a bias toward assigning later dates to cash inflows and earlier dates to cash outflows.

3.14 Managing Access to Funds

An institution should assess periodically its efforts to maintain diversification of liabilities and foster relationships with liability holders. The assessment should be by individual funding sources, classified by providers of funds, instrument type, and geographic market. The institution should establish internal limits on the maximum funds it will accept from any one counterpart or funding market (for example, commercial paper).

Institution’s should explore developing arrangements where they can borrow against assets or dispose of assets in the given market and legal environment.

3.15 Contingency Planning

An institution’s ability to withstand a liquidity crisis depends, to a large extent, on the quality of its contingency planning. Each institution should have in place a contingency plan, approved by its board of directors. The plan must be realistic, unambiguous, and designed for fast decisions and actions. It must have at least the following elements—

(a) A clear division of responsibility and accountability among managers in the event of an emergency.

(b) Processes to ensure timely and uninterrupted flow of information to senior management, conducive to fast decisions.

(c) A strategy to alter normal approaches to handling assets and liabilities. For example, it might be necessary to sell assets that would be ordinarily retained and otherwise market assets more aggressively.

(d) A prioritisation of sources of funds and their classification into primary and secondary sources for the purposes of liquidity, taking full account of their availability on a timely basis.

(e) A classification of borrowers and trading customers according to their importance to the institution . This would permit identification of relationships that might be foregone at different times in the crisis as well as those that should be nurtured and preserved.

(f) Procedures to communicate with the media, including identification of the person responsible for such communications.

In the design and implementation of its contingency plan, an institution should take a conservative stance in estimating the extent and availability of its sources of funds.

4. BOU MONITORING OF INSTITUTION'S LIQUIDITY

4.1 While the Bank of Uganda (BOU) expects institutions to properly manage their liquidity by means of written policies as called for above, it will, through its off-site surveillance efforts, monitor institutions liquidity through a number of measurements.

4.2 As stated above, an institution's liquidity is too complex a topic to be fully analysed through a single ratio. However liquidity ratios can serve as indicators as to the level and especially the trend of liquidity within an institution. The Bank of Uganda wishes to make clear to institutions how this monitoring will take place and what ratios will be emphasised.

4.3 In addition, the BOU will be closely monitoring compliance with the liquid assets requirement as called for in the Act and prescribed in these Regulations. Institutions should note the fine authorised in the Act for failure to meet the liquid assets requirement. Failure to meet this requirement will also be seen as a serious liquidity problem, and efforts will be made to determine the underlying cause.

4.4 The BOU will be monitoring institution's liquidity on quarterly basis as part of its off-site surveillance of institutions. In addition to liquid assets requirement, the BOU will also review various balance sheet ratios from returns, such as advances to deposits and liquid assets to deposits, to determine the level and trend of liquidity, as well as in comparison with the liquidity positions of other institutions. This analysis will also take into account seasonal factors. While taking also these factors into account, non- compliance with requirements, overdrafts in the BOU clearing account, or a declining trend and/or low ratios will be seen by the BOU as an indicator of a liquidity problem affecting the institution's soundness. When this is the case, the BOU may, at its discretion, seek to determine the underlying causes or problems, most likely through an on-site exam.

5. ON-SITE REVIEW OF INSTITUTIONS' LIQUIDITY

5.1 As part of long-term upgrading of its on-site exams, the BOU shall include a review of liquidity management in its scope of exams for general (full-scale) exams. As exam procedures and guidelines are written, institutions will be informed as to the scope of such review. However, all reviews of liquidity will focus on overall adherence to BOU requirements (liquid assets requirement) as well as giving special attention to a review of the institution's own written liquidity (funds management or ALM) policy. The review will be for completeness, compliance, adequacy of MIS to support the policy, and overall effectiveness in implementation.

5.2 In addition to the inclusion of liquidity reviews in general examinations, the BOU reserves the right to conduct limited scope examinations when compliance with BOU requirements and/or a declining trend in an institution's liquidity ratios is noted. Such exams will attempt to determine the underlying cause of liquidity problems. They will also include a review of the institution's own internal policy as discussed above. In addition, these limited scope examinations will focus on the institution's control of off-balance sheet commitments as well as the deposit structure (core deposits vs. volatile funding) and back-up sources of funding.

5.3 When on-site exams disclose a severe liquidity problem or poor liquidity management practices and/or policies, the BOU reserves the right, when necessary, to use any or all of its enforcement powers as specified in the Act.

5.4 When severe remedial measures are not necessary, but some form of supervisory action is essential to ensure improved liquidity, the BOU will look to administrative sanctions as described in these Regulations.

6. SUMMARY

6.1 Liquidity, as a complex aspect of an institution's business, needs to be properly managed. While institutions are expected to adhere to all BOU requirements for liquidity, including the liquid assets requirement given in these Regulations, the BOU also recognises that no single ratio or requirement can fully address all aspects of an institution's liquidity.

6.2 Institutions should manage their liquidity by a well written-out policy approved by the bank's Board of Directors. The policy needs to be supported by effective MIS and fully implemented, with reporting to management and Board. Liquidity management processes should be based on the four essential steps stipulated in these Regulations.

6.3 The BOU will monitor institution's liquidity through compliance with all BOU requirements as well as through off-site surveillance using a set to finance deposit ratios to be used as indicators as to the level and, especially, the trend of the institution's liquidity. It is expected procedures for a review of liquidity will be made part of the scope for all general examination of institutions, and the BOU may conduct limited scope exams of financial institutions to determine the underlying causes of emerging liquidity problems.

6.4 While BOU reserves the right to use its enforcement powers under the Act, it prefers close dialogue with an institution's management. When necessary, the BOU will call for a written agreement with the institution's management to include specific steps to strengthen liquidity. It may choose to impose administrative sanctions given in these Regulations to move toward the same goal of improved liquidity.

E. TUMUSIIME-MUTEBILE,
Governor, Bank of Uganda.

Enquiries on any aspect of these Regulations should be referred to—

The Executive Director
Supervision Function
Bank of Uganda
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KAMPALA.