

STATUTORY INSTRUMENTS SUPPLEMENT

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S T A T U T O R Y I N S T R U M E N T S

2005 No. 46.

**THE FINANCIAL INSTITUTIONS (LIQUIDITY)
REGULATIONS, 2005.**

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STATUTORY INSTRUMENTS

2005 No. 46.

The Financial Institutions (Liquidity) Regulations, 2005.

*(Under section 131(1) of the Financial Institutions Act, 2004
Act No. 2 of 2004)*

IN EXERCISE of the powers conferred on the Central Bank by section 131(1) of the Financial Institutions Act, 2004, these Regulations are made this 16th day of February, 2005.

PART I—PRELIMINARY

- | | |
|---|-----------------|
| 1. These Regulations may be cited as the Financial Institutions (Liquidity) Regulations, 2005. | Title |
| 2. These Regulations apply to all financial institutions in Uganda. | Application |
| 3. In these Regulations, unless the context otherwise requires—
“Act” means the Financial Institutions Act, 2004;
“ALCO” means the Assets and Liability Management Committee. | Inter-pretation |
| 4. The objectives of these Regulations are—
(a) to help ensure that financial institutions maintain an adequate level of liquidity at all times and are able to meet all known obligations and commitments and to plan for unforeseen obligations and commitments;
(b) to promote public confidence in financial institutions in Uganda through ensuring that they have adequate liquidity at all times;
(c) to help ensure that financial institutions manage their liquidity by means of clear and well thought out written policies which take into account all aspects of proper liquidity management; and | Objectives |

(d) to provide guidance on compilation of accurate and timely liquidity returns.

Rationale

5. (1) The rationale for these Regulations is that—

- (a) a financial institution business involves public trust and proper liquidity management and it is therefore essential to ensure that the trust and confidence is maintained, especially with regard to meeting the obligations of financial institutions as they fall due;
- (b) the Central Bank is primarily concerned about the solvency and liquidity of the financial institutions it supervises and seeks to address solvency and liquidity concerns in accordance with these Regulations;
- (c) maintaining an adequate level of liquidity is more complex than simply meeting a liquid assets requirement, and accordingly, it is required that financial institutions have sound liquidity management policies.

PART II—REGULATORY REQUIREMENTS

Liquidity
management

6. (1) A financial institution shall manage its assets, liabilities and off-balance sheet contracts with a view to meeting fully its contractual commitments as they fall due and at a reasonable cost.

(2) A financial institution shall have an articulated and specific liquidity management policy which shall include such crucial elements of strong liquidity management as—

- (a) good management information systems;
- (b) central liquidity control;
- (c) analysis of net funding requirements under alternative scenarios;
- (d) diversification of funding sources; and
- (e) contingency planning.

(3) The Board of Directors of a financial institution shall, in accordance with section 60 of the Act, constitute an Asset and Liability Management Committee (ALCO) which shall establish broad guidelines on the financial institution's tolerance for risk, and whose responsibilities shall include managing the overall liquidity of the financial institution.

7. (1) A financial institution shall maintain liquid assets amounting to not less than 20% of deposit liabilities denominated in local and foreign currencies on a weekly average basis.

Liquid
assets
requirements

(2) As stipulated in section 28(6) of the Act, liquid assets shall include all or any of the following—

- (a) notes and coins which are legal tender in Uganda and any other currency freely negotiable and transferable in international exchange markets;
- (b) balances held at the Central Bank for cash reserves and clearing purposes;
- (c) moneys at call and balances at banks in Uganda, other than the Central Bank, after deducting balances owed to those banks;
- (d) Uganda treasury bills maturing within a period not exceeding ninety one days;
- (e) marketable government securities that are held by a financial institution for trading purposes;
- (f) uncommitted balances at banks outside Uganda withdrawable on demand and money at call outside Uganda after deducting the balances owed to banks outside Uganda, if the balances and money at call are in currencies which are freely negotiable and transferable in international exchange markets consistent with the Articles of Agreement of the International Monetary Fund; and

(g) commercial bills and promissory notes which are eligible for discount by commercial banks or the Central Bank under the Bank of Uganda Act.

(3) A financial institution shall submit to the Central Bank a Liquid Assets Report in the form set out in Schedule 1, within four days after the end of the reference week stated in the report.

8. (1) A financial institution shall provide data on the contractual and anticipated maturity of its assets and liabilities in the form set out in Schedule 2 and Schedule 3 respectively, within ten days after the end of the reference month.

(2) Maturity analysis shall take into account off-balance sheet commitments that are likely to crystallise.

(3) Off-balance sheet obligations shall be included in the maturity analysis only if they are legally compulsory or if there is reason to believe that they will be used.

(4) The time band will depend on the judgement of management as to when they will be called or drawn down.

9. (1) The Central Bank may verify the accuracy of the reports required under regulations 7 and 8 and may direct a financial institution to adjust the reports as a result of the inspection.

(2) Upon the request of the Central Bank, a financial institution shall require its external auditor to verify to the Central Bank the accuracy of a report under regulations 7 and 8 and to alert the Central Bank, as to any errors or adjustments to the report.

PART III—REMEDIAL MEASURES AND ADMINISTRATIVE SANCTIONS

10. (1) When the Central Bank determines that a financial institution is not in compliance with these Regulations, it may impose any or all of the corrective actions prescribed in Part IX of the Act.

(2) A financial institution which fails to maintain the minimum amount of liquid assets shall pay a civil penalty of one-tenth of one per cent of the amount of the deficiency for every day on which the deficiency continues.

(3) Without prior written approval of the Central Bank, no new or additional loan or credit accommodation to any person shall be granted by a financial institution which fails to maintain the minimum amount of liquid assets.

11. In addition to the remedial measures prescribed in regulation 10, the Central Bank may impose any or all of the following administrative sanctions with regard to a financial institution that fails to comply with these Regulations—

Admini-
strative
sanctions

- (a) prohibition from declaring or paying dividends, paying bonuses, salary incentives and other discretionary compensation to directors or officers of the financial institution;
- (b) suspension of the establishment of new branches or expansion into new banking or financial activities;
- (c) suspension of access to the Central Bank's credit facilities;
- (d) suspension of the opening of letters of credit;
- (e) suspension of the acceptance of new deposits;
- (f) suspension of the acquisition of fixed assets; and
- (g) prohibition or suspension from any other activity that the Central Bank perceives to be contributing to the liquidity strain in the financial institution.

SCHEDULE.

SCHEDULE I

REGULATION 7(3)

LIQUID ASSETS REPORT

Name of Financial Institution.....

For the week ending

(shs '000')	Mon	Tues	Wed	Thurs	Fri	Sat	Sun	W e e k l y average
I. Required Liquid Assets								
1. Total deposit liabilities								
2. 20% of Total Deposit Liabilities								
II. Liquid Assets held								
1. Notes and coins								
2. Balances with BOU								
3. Treasury Bills								
4. Other marketable Government securities								
5. Discountable commercial bills, promissory notes								
6. Net due from Banks inside Uganda*								
7. Net due from Banks outside Uganda *								
8. Total liquid assets held								
III. Excess/deficit (I.2 less II.8)								
IV. Penalty per day on Weekly Average Deficiency (Deficit x 1/10 of 1%).								

*Refers to demand and call deposits held with other banks which should not be committed or earmarked in any way.

Name of officer.....

Designation

Signature

Date

SCHEDULE 2

Regulation 8(1)

MATURITY ANALYSIS OF ASSETS AND LIABILITIES
(Contractual Maturity)

Name of Financial Institution

Month ending

TIME BANDS		0 - 30 days	31 - 60 days	61 - 90 days	91 - 180 days	6 - 12 months	Over 12 months
I ASSETS	SHS '000 Amount						
A On Balance Sheet							
1. Cash and balances from BOU							
2. Due from Banks and non-Banks in Uganda							
3. Due from Banks abroad							
4. Marketable securities							
5. Investment securities							
6. Loans and advances							
7. Inter-office accounts							
8. Others							
B Off-Balance Sheet							
1. Guarantees							
2. Letters of Credit							
3. Others							
C TOTAL							
II LIABILITIES							
A On Balance Sheet							
1. Deposits							
1.1 Demand and call							
1.2 Savings							
1.3 Time							
2. Balances due to Banks							
3. Borrowing from BOU							
4. Bills payable							
5. Inter-office accounts							
6. Other liabilities							

TIME BANDS		0 - 30 days	31 - 60 days	61 - 90 days	91 - 180 days	6 - 12 months	Over 12 months
6. Other liabilities							
B Off-Balance Sheet							
1. Guarantees							
2. Letters of credit							
3. Others							
C TOTAL							
III Net Mismatch(LC less IL C)							
IV Cumulative Mismatch							

Name of Officer..... Designation

Signature Date

- Assets and liabilities should be entered according to the remaining period to maturity.

SCHEDULE 3

REGULATION 8(1)

MATURITY ANALYSIS OF ASSETS AND LIABILITIES
(Anticipated Maturity)

Name of Financial Institution

Month ending.....
C TOTAL

TIME BANDS	0-30 days	31-60 days	61-90 days	91-180 days	6-12 months	Over 12 months	Matured Total
I ASSETS	SHS'000 Amount						SHS'000 Amount
A On Balance Sheet							
1. Cash and balances with BOU							
2. Due from banks and non-banks in Uganda							
3. Due from banks abroad							
4. Marketable securities							
5. Investment securities							
6. Loans and advances							
7. Inter-office accounts							
8. Others							
B Off-Balance Sheet							
1. Guarantees							
2. Letters of credit							
3. Others							
C TOTAL							
II LIABILITIES							
A On Balance sheet *1 to 6							
7. Deposits							
1.1 Demand and call							
1.2 Savings							
1.3 Time							
8. Balances due to Banks and non-banks in Uganda.							
9. Borrowings from BOU							

TIME BANDS	0-30 days	31-60 days	61-90 days	91-180 days	6-12 months	Over 12 months	Matured Total
10. Bills payable							
11. Inter-office accounts							
12. Other liabilities							
B Off-Balance Sheet							
1. Guarantees							
2. Letters of credit							
3. Others							
C TOTAL							
III Net Position (LC less II. C)							
IV Cumulative Mismatch							

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