GOVERNMENT NOTICE NO. 29

FINANCIAL SERVICES ACT

(CAP. 44:05)

FINANCIAL SERVICES (PRUDENTIAL LIQUIDITY REQUIREMENTS FOR BANKS) DIRECTIVE, 2018

ARRANGEMENT OF PARAGRAPHS

PARAGRAPHS

IN EXERCISE of the powers conferred by section 34 (2) (*c*) of the Financial Services Act, I, DR. DALITSO KABAMBE, Registrar of Financial Institutions, make the following Directive—

PART I—PRELIMINARY

Citation

1. This Directive may be cited as the Financial Services (Prudential Liquidity Requirements for Banks) Directive, 2018.

Interpretation

2. In this Directive unless the context otherwise requires—

Cap. 44:05 "Act" means the Financial Services Act;

Cap. 44:01 "bank" has the meaning ascribed to that term in the Banking Act;

Cap. 44:01 "banking business" has the meaning ascribed to that term in the Banking Act;

"liquid assets" means—

(*a*) notes and coins;

(*b*) cheques in the course of collection;

(*c*) balances with the Reserve Bank of Malawi and Malawi Government Treasury Bills;

(*d*) Reserve Bank Bills;

(*e*) Malawi Government Bonds;

(*f*) local registered stocks maturing within a year; and

(*g*) balances with banks in Malawi and balances with banks abroad:

Balances with banks abroad may be included in liquid assets provided that they are—

(i) withdrawable on demand or mature within seven (7) days; and

(ii) denominated in a currency which is freely convertible and transferrable in international exchange markets;

"short term liabilities" means liabilities maturing within one year; and

"total deposits" includes local and foreign currency denominated customers deposits.

PART II—OBJECTIVES

Objectives

3. The objectives of this Directive are to ensure that banks—

(*a*) effectively manage their liquidity positions to enable them meet all known obligations and commitments thereby promoting confidence in the banking sector;

(*b*) implement liquidity and funds management policies that conform to established international standards; and

(*c*) maintain an adequate level of unencumbered, high quality liquid assets that can be converted into cash to meet their on-going liquidity needs.

PART III—REGULATORY REQUIREMENTS

Responsibility of the Board of a bank

4.—(1) The Board of Directors of a bank shall—

(*a*) adopt and implement sound and prudent liquidity risk management and funding policies consistent with principles set out in the Risk Management Guidelines for Banks issued by the Registrar;

(*b*) ensure that the policies in subparagraph (1)(*a*) are reviewed annually or more frequently as and when necessary to ensure that they remain appropriate and prudent;

(*c*) ensure that management adopts a consistent method for measuring and assessing the liquidity of a bank;

(*d*) have a liquidity contingent plan for dealing with unforeseen liquidity squeezes that takes into account stressful conditions. The plan shall include procedures—

(i) to ensure availability of necessary information that enables senior management to make timely decisions;

(ii) to ensure availability of mechanisms that facilitate constant monitoring and reporting of liquidity indicators; and

(iii) for funding cash-flow shortfalls in crisis situations, expected sources of funds, assessment of the cost of alternative funding strategies and the impact on the capital of the bank;

(*e*) have an Asset and Liability Management Committee which shall be responsible for overall liquidity and funds management in the bank; and

(*f*) ensure that a robust management information system is in place for effective monitoring of liquidity positions.

Computation of minimum liquidity ratios

5. For purposes of this Directive, liquidity ratios shall be computed as follows—

(1) Liquidity ratio: total liquid assets as defined in this Directive, less suspense account in foreign currency, divided by total deposits and short term liabilities.

(2) All encumbered liquid assets of a bank shall not be included in the computation of liquidity ratio.

(3) All funds held for liquidity reserve requirement purposes shall not be included in the computation of liquidity ratio.

Minimum liquidity rations

6. A bank shall—

(*a*) maintain a minimum liquidity ratio of twenty five percent (25%);

(*b*) conduct stress tests and construct scenarios that could cause difficulties for their specific business activities; and

(*c*) share the assumptions and results of the stress tests with the Registrar either during on-site examinations or at any time as requested by the Registrar.

Liquidity reports

7. A bank shall submit to the Registrar, a monthly liquidity report in the format specified in the Call Report Template as prescribed by the Registrar from time to time.

PART IV—ENFORCEMENT

Administrative penalties

8.—(1) Where a bank reports liquidity ratios below the stipulated minimum for three consecutive months to the Registrar, the Registrar shall require a written undertaking from the Board of Directors of the bank stipulating specific measures that the bank will undertake to improve the liquidity position within the timeframe specified by the Registrar.

(2) If such an undertaking does not result in an improved liquidity position, the Registrar shall impose directions, administrative penalties and enforcement action as provided for under the Act and the Banking Act.

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Monetary penalties

9.—(1) Notwithstanding paragraph 8 above, the Registrar may impose the following monetary penalties for violations of this Directive—

(*a*) for banks, up to fifty million Kwacha (K50,000,000); and

(*b*) for natural persons who are members of the Board of Directors, or senior management up to ten million Kwacha (K10,000,000).

(2) With respect to banks, the Registrar shall—

(*a*) debit the penalty in subparagraph (1) (*a*) from the main account of the bank maintained at the Reserve Bank; and

(*b*) notify the bank in writing prior to debiting the account.

(3) With respect to natural persons or where the bank does not maintain an account with the Reserve Bank of Malawi, the natural person or the bank shall pay the penalty through a bank certified cheque or electronic transfer payable to the Reserve Bank of Malawi within ten (10) working days after being notified by the Registrar.

10. The Financial Services (Prudential Liquidity Requirements for Banks) Directive, 2014 is hereby revoked. Revocation of G. N. 41/2014

Made this 3rd day of April, 2018.

D. KABAMBE, PhD
Registrar of Financial Institutions

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