

FINANCIAL SERVICES ACT, 2010

(ACT No. 26 OF 2010)

FINANCIAL SERVICES (PRUDENTIAL LIQUIDITY REQUIREMENTS
FOR SAVINGS AND CREDIT COOPERATIVE SOCIETIES) DIRECTIVE, 2013

ARRANGEMENT OF PARAGRAPHS

PARAGRAPH

PART I—PRELIMINARY

1. Citation
2. Interpretation

PART II—OBJECTIVES

3. Ensuring management and maintenance of liquidity

PART III—MINIMUM LIQUIDITY REQUIREMENT

4. Responsibility of the board
5. Minimum liquidity ratio
6. Reporting requirement

PART IV—ENFORCEMENT

7. Enforcement

PART V—TRANSITIONAL ARRANGEMENTS

8. Compliance with this Directive

IN EXERCISE of the powers conferred by section 34 (2) (c) of the Financial Services Act 2010, I, CHARLES S. R. CHUKA, Registrar of Financial Institutions, make the following Directive—

PART I—PRELIMINARY

1. This Directive may be cited as the Financial Services (Prudential Liquidity Requirements for Savings and Credit Cooperative Societies) Directive, 2013. Citation

2.—(1) In this Directive, unless the context otherwise requires—

Interpretation

“liquid assets” means assets easily converted into cash and cash equivalents such as current accounts, commercial bank deposits, and any investment with a maturity of thirty days or less which can be easily converted into cash without suffering a penalty or loss;

“liquidity” means the ability to fund at reasonable cost all contractual obligations of a Savings and Credit Cooperative Society (in this Directive hereinafter referred to as a “SACCO”), notably lending and investment commitments, share and deposit withdrawals, and liability maturities, in the normal course of business;

“liquidity risk” means the risk that liquid assets will be inadequate to meet share and savings withdrawals, external borrowing repayments, member loan demand and operating expenses; and

“Registrar” means the Registrar of Financial Institutions appointed under the Act.

(2) Any term used in this Directive, and which has been defined in the Act, has the meaning ascribed to that term under the Act.

PART II—OBJECTIVES

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

Ensuring
management
and
maintenance
of liquidity

(a) effectively manage their liquidity positions to enable them meet obligations and commitments thereby promoting confidence in the SACCO 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—MINIMUM LIQUIDITY REQUIREMENT

4.—(1) The board of directors of a SACCO shall—

Responsibility
of the board

(a) adopt and implement sound and prudent liquidity risk management and funding policies;

(b) ensure that the policies in subparagraph (1) (a) are reviewed as and or when necessary or at least once every two years, to ensure that they remain appropriate and prudent;

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

(d) ensure that a robust management information system is in place for effective monitoring of liquidity positions; and

(e) have a liquidity contingent plan for dealing with unforeseen liquidity squeezes that takes into account stressful conditions, which plan shall include procedures—

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

(ii) to ensure availability of mechanisms that facilitate 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 SACCO.

Minimum liquidity ratio 5.—(1) A SACCO shall maintain at least ten per cent (10%) of total deposits and redeemable share capital in liquid assets, in order to provide sufficient liquidity to meet obligations as they fall due.

(2) The liquidity ratio calculation shall be liquid assets less liabilities due within thirty days, divided by the sum of total deposits and redeemable share capital.

(3) A SACCO shall calculate the liquidity ratio using weekly averages calculated based on daily balances.

Reporting requirement G.N. No. ... of 2013 6. A SACCO shall report its liquidity ratio to the Registrar as prescribed under the Financial Services (Reporting Requirements for Savings and Credit Cooperative Societies) Directive, 2013.

PART IV—ENFORCEMENT

Enforcement 7.—(1) When a SACCO has reported liquidity ratios below the stipulated minimum for two consecutive months, the Registrar shall require an enforceable undertaking from the board of the SACCO stipulating specific measures that would be undertaken to improve the liquidity position within the timeframe as shall be prescribed by the Registrar.

(2) If after the undertaking stipulated in subparagraph (1), the SACCO does not improve its liquidity position, the Registrar may impose directions, administrative penalties and enforcement action as provided under the Act and the Financial Cooperatives Act.

Act No. 8 of 2011

PART V—TRANSITIONAL ARRANGEMENTS

Compliance with this Directive 8. A SACCO that does not meet the minimum standards prescribed in this Directive shall comply with the Directive within twelve months from the date of publication.

Made this 13th day of November, 2013.

C. S. R. CHUKA
Registrar of Financial Institutions