

S.I. 22 of 2009

FINANCIAL INSTITUTIONS ACT, 2004

(Act 14 of 2004)

**Financial Institutions (Liquidity Risk Management)
Regulations, 2009**

Arrangement of Regulations

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**Financial Institutions (Liquidity Risk Management)
Regulations, 2009**

In exercise of the powers conferred by section 69(a) of the Financial Institutions Act, 2004, the Central Bank makes the following Regulations —

1. These Regulations may be cited as the Financial Institutions (Liquidity Risk Management) Regulations, 2009.

Citation

2. In these Regulations —

Interpretation

“Board of Directors” means the highest body of authority in a bank responsible for strategically guiding, effectively monitoring management of, and properly accounting to shareholders of, the bank;

“Committee” means the Risk Management Committee established under regulation 5(1);

“liabilities” means future sacrifices of economic benefits that an entity is presently obliged to make to other entities as a result of past transactions or other events;

“liquid assets” means -

- (a) cash on hand;
- (b) balances with the Central Bank excluding

minimum reserve requirements;

- (c) balances with domestic banks;
- (d) balances with banks abroad;
- (e) treasury bills and other securities issued by the Government or the Central Bank and maturing within 365 days;
- (f) foreign treasury bills and other securities issued by the government of a member country of the Organisation for Economic Co-operation and Development and maturing within 365 days;
- (g) negotiable instruments approved by the Central Bank that are payable within 180 days; and
- (h) other unencumbered, freely transferable assets approved by the Central Bank;

“liquidity” means the ability of a bank to fund asset growth and meet contractual obligations including —

- (a) collateral needs; and
- (b) obligations to fund loan and investment commitments, deposit withdrawals and other maturing liabilities,

as they come due;

“liquidity risk” means the risk that a bank will not be able to efficiently meet expected and unexpected cash flow and collateral needs without affecting either the daily operations or the financial condition

of the bank;

“liquidity risk management” means the process of managing liquidity on both a day-to-day and long term basis to ensure that a bank's need for funds, in order to maintain the required level of liquidity and meet expected and contingent cash needs, can be regularly met at a reasonable cost;

“net funding requirements” means the liquid assets necessary to fund a bank's cash obligations and commitments in the future, determined by performing a cash flow analysis in which all cash inflows are measured against all cash outflows to identify potential net shortfalls and the timing of these shortfalls;

“senior officer” includes the chief executive officer, deputy chief executive officer, chief operating officer, chief financial officer, treasurer, secretary to the Board of Directors, chief internal auditor, manager of a significant unit within a financial institution and any other person with an equivalent position or similar responsibilities regardless of that person's official title.

3. (1) These Regulations apply to banks licensed by the Central Bank under section 6 of the Act to engage in domestic banking business or offshore banking business and are applicable to each bank individually and where applicable, on a fully consolidated basis to a bank, holding company and banking group, as required by the Central Bank.

(2) When a banking operation is conducted by a branch of a foreign bank, the role of the Board of Directors shall be assumed by the head office of that foreign bank, which shall ensure that its branch is in compliance with applicable laws,

Application

regulations, guidelines and other prudential directives.

Liquid Assets
Requirements

4. (1) A bank shall maintain liquid assets in an amount which shall not, as a daily average each month, be less than twenty percent (20%) of the bank's total liabilities.

(2) If a bank fails to meet the liquid asset requirement specified by sub-regulation (1), the bank shall pay to the Central Bank a charge at an annual rate, not exceeding twice the highest effective lending rate of the bank charged to any of its customers during the period of deficiency, for each day on which the deficiency occurs, in line with section 25(3) of the Act.

Risk
Management
Committee

5. (1) The Board of Directors of each bank shall establish a Risk Management Committee consisting of at least three members of the Board and such other members as determined by the Board.

(2) The functions of the Committee are to –

- (a) oversee the efforts of the senior officers of the bank to manage risk including liquidity risk; and
- (b) ensure that the responsibility for managing liquidity needs and risk is assigned to specific persons.

Liquidity Risk
Management
Policy

6. (1) The Board of Directors of each bank shall ensure that the senior officers of the bank formulate a policy for the management of the bank's liquidity risk which shall include strategies and be based on certain underlying assumptions.

(2) The policy shall be in writing and communicated throughout the bank.

(3) At regular times during the year, the senior officers

shall review the strategies and underlying assumptions of the policy to ensure that the policy remains valid, and recommend changes that they consider necessary.

(4) The Board of Directors shall review the liquidity position of the bank to ascertain adherence by the senior officers to the strategies and policy on a regular basis.

(5) At least annually, the Board of Directors shall review the policy, strategies and underlying assumptions and approve revisions thereto that they consider necessary.

7. The liquidity risk management policy referred to in regulation 6 shall –

Liquidity
Strategy,
Management
Plan and Process

- (a) include a strategy for the day to day management of the bank's liquidity and a liquidity management plan to monitor, control and limit liquidity risk overall, and for each currency in which the bank is materially active;
- (b) set limits on the size of the bank's liquidity position over a particular time frame, such as limits on cumulative cash flow mismatches or required ratio of liquid assets to total and short-term liabilities;
- (c) provide for methods to ensure proper oversight of the bank's liquidity risk management by senior officers, the Committee and the Board of Directors;
- (d) establish requirements and parameters within which the senior officers are to operate when managing liquidity;
- (e) require that the senior officers develop

processes to implement the strategy referred to in paragraph (a) and ensure adherence to established controls and limits;

- (f) require that a crisis plan be developed and ready for implementation in case of an occurrence of a liquidity crisis such as a deposit run-off from a specific event or a collateral call triggered by a credit downgrade;
- (g) ensure that the liquidity risk management process of the bank is adequately covered by the internal control system of the bank and reviewed by both internal and external auditors; and
- (h) provide for a reporting mechanism to senior officers and the Board of Directors on the bank's liquidity position, both on a regular basis and in emergencies.

Management of
Liquidity

8.

A bank shall –

- (a) measure, project and monitor its net funding requirements over various specified periods of time and under alternative, including adverse scenarios with consideration given to how other risks such as credit, market and operational risks, may impact the overall liquidity strategy of the bank;
- (b) have diverse funding sources and avoid undue concentrations based on providers and types of instruments and the bank shall regularly assess its reliance on such providers and instruments under normal and alternative, including adverse scenarios;

- (c) analyze the bank's liquidity and its liquidity management plan under various scenarios that differ from the normally expected scenario which address both internal (bank specific) and external (market related) stress factors and such analysis should be conducted in each currency in which the bank is materially active;
- (d) have a written plan for managing liquidity during a crisis that shall include—
 - (i) methods to cover shortfalls in liquidity;
 - (ii) clearly defined duties, responsibilities and plan of action; and
 - (iii) timely and consistent communication with the Central Bank, media, analysts, customers and employees.
- (e) establish and maintain a management information system that provides the senior officers with adequate and timely information to—
 - (i) track the bank's liquidity positions, including trends, in all currencies in which the bank has material activity;
 - (ii) project the bank's liquidity position over different time periods, including daily and longer-term, and under alternative scenarios including stress scenarios;
 - (iii) review risk measures on a timely basis;

- (iv) compare current liquidity exposures with limits established by the Board of Directors; and
- (v) show evidence of compliance with the bank's board-approved policies, procedures, and limits and the Central Bank's liquidity requirements pursuant to section 25 of the Act and these Regulations.

Reports to the
Central Bank

9. (1) By or before noon on Tuesday of each week, each bank shall submit to the Financial Services Supervision Division of the Central Bank the Return L1, contained in Schedule 1, showing the bank's daily compliance with the minimum requirement for liquid assets during the previous week.

(2) Each bank shall provide to the Central Bank, data on the contractual maturity of its assets and liabilities, within 15 days after the end of the reference month -

- (a) for domestic banks, using Return A3 as set out in Schedule 2 together with a breakdown for the categories other liabilities and other assets; and
- (b) for offshore banks, using the Form OB (iii) as set out in Schedule 3.

SCHEDULE I

(regulation 9(1))

REPORT ON LIQUID ASSETS REQUIREMENTS

**To: Financial Services Supervision Division
Central Bank of Seychelles**

Return: L1

REPORTING BANK :

REPORT ON LIQUID ASSETS REQUIREMENTS

For the week ending:

		(R'000)				
		MON	TUE	WED	THU	FRI
A	Required Liquid Assets					
1.	Total Liabilities					
2.	20% of total liabilities	-	-	-	-	-
B	Liquid Asset Held					
1.	Cash on hand					
2.	Balances with the Central Bank excluding minimum reserve requirement					
3.	Balances with domestic banks					
4.	Balances with banks abroad					
5.	Treasury bills and other securities issued by the Government of Seychelles or the Central Bank and maturing within 365 days					
6.	Foreign treasury bills and other securities issued by a Government of an OECD country and maturing within 365 days					
7.	Negotiable instruments of such types as the Central Bank may approve that are payable within 180 days					
8.	Other liquid assets approved by the Central Bank					
9.	Total Liquid Assets	-	-	-	-	-
C	Excess/Deficit (B9-A2)	-	-	-	-	-
D	Actual Ratio held (B9/A1)					

Return A3(I)

Reporting Bank:

SCHEDULE 2

Maturity Profile as at:
To: Financial Services Supervision Division
Central Bank

[illegible]

MADE this 9th day of February, 2009

P. LAPORTE
GOVERNOR
