

S.I. 75 of 2018

FINANCIAL LEASING ACT, 2013

(Act 8 of 2013)

**Financial Leasing (Liquidity Risk Management)
Regulations, 2018**

In exercise of the powers conferred by sections 81 read with section 50(2)(b) of the Financial Leasing Act, 2013, the Central Bank of Seychelles, in consultation with the Minister of Finance, Trade, Investment and Economic Planning hereby makes the following Regulations—

1. These Regulations may be cited as the **Financial Leasing (Liquidity Risk Management) Regulations, 2018.**

Citation

2.(1) These Regulations apply to licensed deposit-taking financial leasing institutions.

Application

(2) These Regulations shall not apply to banks which have been granted approval pursuant to section 36 to engage in financial leasing business as part of its banking business licence.

3. In these Regulations—

Interpretation

“Act” means the Financial Leasing Act, 2013;

“bank” means a bank as defined under section 2 of the Financial Institutions Act (Cap 79);

“Board of Directors” means the Board of Directors of the financial institution;

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

“deposit taking financial leasing institution” means a financial leasing institution which has been granted approval to accept deposits under section 32 of the Act;

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

“liquid assets” means the following unencumbered, freely transferable assets—

- (a) cash on hand;
- (b) balances with domestic banks;
- (c) balances with banks abroad;
- (d) treasury bills and other securities issued by the Government of Seychelles or the Central Bank which mature within 365 days;
- (e) foreign treasury bills and other securities issued by the government of a member country of the Organisation for Economic Co-operation and Development which mature within 365 days;
- (f) negotiable instruments approved by the Central Bank that are payable within 180 days; and
- (g) other liquid assets approved by the Central Bank;

“liquidity” means the ability of a financial leasing institution to fund asset growth and to meet contractual obligations as they come due, including obligations to fund leases and investment

commitments, deposit withdrawals and other maturing liabilities;

“liquidity risk” means the risk that a financial leasing institution will not be able to efficiently meet expected and unexpected cash flows without affecting either the daily operations or the financial condition of the financial leasing institution;

“liquidity risk management” means the process of managing liquidity on both a day-to-day and long term basis to ensure that a financial leasing institution’s needs for funds, including maintaining the required level of liquidity and meeting expected and contingent cash needs, can be regularly met at a reasonable cost;

“net funding requirements” means the liquid assets necessary to fund a financial leasing institution’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 leasing institution and a person with an equivalent position or responsibilities regardless of that person’s official title; and

“underlying assumptions” means presumptions or expectations about future conditions that underlie the operations or plans of a financial leasing institution.

Liquid Assets
Requirements

4.(1) A financial leasing institution shall maintain liquid assets of an amount which shall not, as a weekly average, be less than 20% of the institution's total liabilities.

(2) Where a financial leasing institution fails to meet the liquid asset requirement specified under subregulation (1), the financial leasing institution shall be liable to pay to the Central Bank a fine of SCR 40,000 for the first week in which the deficiency occurs and where this deficiency is continued, a further fine of SCR 20,000 for every day on which the deficiency occurs until such time that the liquid assets requirement is met.

(3) A fine under subregulation (2) shall be paid in the manner as determined by the Central Bank.

Risk
Management
Committee

5.(1) The Board of Directors of each financial leasing institution shall establish a Risk Management Committee

(2) The Committee shall consist of at least 3 members of the Board and such other members as may be determined by the Board.

(3) The Committee shall be responsible for approving and monitoring the overall risk management framework of the company and identifying, evaluating and mitigating strategic, operational and external environment risks.

(4) The functions of the Committee in terms of liquidity risk management shall be to—

(a) oversee the efforts of the senior officers of the financial leasing institution to manage risk including liquidity risk;

(b) ensure that the responsibility for managing liquidity needs and risk is assigned to specific persons who have the ability to manage such risk; and

(c) provide guidance on the level of tolerance for liquidity risk.

6.(1) The Board of Directors shall subject to regulation 7 ensure that a policy for the management of the company's liquidity risk is formulated which shall include strategies and be based on certain underlying assumptions.

Liquidity Risk Management Policy

(2) The policy shall be in writing and communicated to the senior officers of the company.

(3) At regular intervals during the year, the strategies and underlying assumptions of the policy shall be reviewed by senior officers and recommend changes as considered necessary to ensure that the policy remains valid.

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

(5) The Board of Directors shall at least annually, review the policy and approve such revisions of the policy as they consider necessary.

7. The liquidity risk management policy shall —

Liquidity Strategy and Management Plan

(a) include a strategy for the day to day management of the financial leasing institution's liquidity and a liquidity management plan to monitor, control and limit liquidity risk overall, including for each currency in which the financial leasing institution is materially active;

(b) set limits on the size of the financial leasing institution'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 financial leasing institution'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 made ready for implementation;
- (g) ensure that the liquidity risk management process of the financial leasing institution is adequately covered by the internal control system of the financial leasing institution and reviewed by both the internal and external auditors; and
- (h) provide for a reporting mechanism to senior officers and the Board of Directors on the financial leasing institution's liquidity position, both on a regular basis and in emergencies.

Management
of Liquidity

8. A financial leasing institution shall —

- (a) measure, project and monitor its net funding requirements over various specified periods of time and under alternative scenarios, including adverse scenarios with consideration given to how other risks such as market and operational risks, may impact the institution's overall liquidity strategy;

(b) have diverse funding sources and avoid undue concentrations based on providers and types of instruments for which it shall regularly assess their reliance under normal and alternative scenarios, including adverse scenarios;

(c) analyse its liquidity and its liquidity management plan under various scenarios that differ from the normally expected scenario which address both institution-specific and market related stress factors and such analysis should be conducted in each currency in which the financial leasing institution 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 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 financial leasing institution's liquidity positions, including trends, in all currencies in which the company is materially active;

(ii) project the financial leasing institution's liquidity position over different time

periods, including daily and long-term, and under alternative scenarios including stress scenarios;

(iii) review risk measures on a timely manner;

(iv) compare current liquidity exposures with limits established by the Board of Directors; and

(v) show evidence of compliance with the financial leasing institution's board-approved policies, procedures and limits; and the Central Bank's liquidity requirements pursuant to these regulations.

Reports to the
Central Bank

9.(1) Each financial leasing institution shall, by or before noon on Tuesday of each week submit to the Central Bank, a report in such format to be provided by the Central Bank, showing the institution's daily compliance with the minimum requirement for liquid assets during the previous week.

(2) Each financial leasing institution shall provide data to the Central Bank on the contractual maturity of its assets and liabilities within 15 days after the end of every month, in such format provided by the Central Bank.

MADE this 28th day of November, 2018.

**CAROLINE ABEL
GOVERNOR**

CENTRAL BANK OF SEYCHELLES