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

2023 No. 73.

THE FINANCIAL INSTITUTIONS (LIQUIDITY) REGULATIONS, 2023

ARRANGEMENT OF REGULATIONS

Regulation

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

2023 No. 73.

The Financial Institutions (Liquidity) Regulations, 2023

(Under sections 28(3) and 131(1) (m) of the Financial Institutions Act, 2004, Act 2 of 2004)

IN EXERCISE of the powers conferred on the Central Bank and in consultation with the Minister responsible for finance under sections 28(3) and 131(1) (m) of the Financial Institutions Act, 2004, these Regulations are made this 19th day of June, 2023.

PART I—PRELIMINARY

1. Title

These Regulations may be cited as the Financial Institutions (Liquidity) Regulations, 2023.

2. Objectives

The objectives of these Regulations are to—

(a) maintain an adequate level of liquidity of a financial institution at all times and manage the liquidity risk to meet all known obligations and commitments and to plan for unforeseen obligations and commitments;

(b) manage the liquidity of a financial institution by means of clear and well-articulated policies which take into account all aspects of proper liquidity management;

(c) maintain liquidity standards of a financial institution recognised internationally as prudent; and

(d) prescribe the liquidity coverage ratio and net stable funding ratio requirements for financial institutions.

3. Interpretation

In these Regulations, unless the context otherwise requires—

"Act" means the Financial Institutions Act, 2004, Act 2 of 2004;

"available stable funding" means the portion of capital and liabilities of a financial institution expected to be reliable over the time horizon considered by the net stable funding ratio which extends to one year;

"cash" means notes and coins which are legal tender in Uganda, electronic money, and any other currency freely negotiable and transferable in international exchange market;

"Central Bank" means the Bank of Uganda existing under the Bank of Uganda Act;

"electronic money" means a monetary value represented by a claim on the issuer, which is—

(a) stored on an electronic device;

(b) issued upon receipt of funds in an amount not less in value than the monetary value received; and

(c) accepted as a means of payment by undertakings other than the issuer and prepaid or redeemable in cash;

"electronic money issuer" means a payment service provider who is licensed to issue electronic money under section 47 of the National Payment Systems Act, 2020;

"expected cash inflows" means the cash calculated by multiplying the outstanding balances of various categories of contractual receivables by the rates at which the cash inflows are expected to flow in;

"expected cash outflows" means the cash calculated by multiplying the outstanding balances of various categories or types of liabilities and off-balance sheet items by the rates at which the cash outflows are expected to run off or be drawn down;

"financial institution" means a company licensed to carry on or conduct financial institutions business in Uganda and includes a commercial bank, merchant bank, mortgage bank, post office savings bank, credit institution, a building society, an acceptance house, a discount house, a finance house or any institution which by regulations is classified as a financial institution by the Central Bank;

"high-quality liquid assets" means assets that are liquid in markets during a time of stress or assets that are easily and immediately converted into cash at very little or no loss of value;

"internal liquidity adequacy assessment process" means the periodic identification, measurement, management and monitoring of liquidity risk, implemented by a financial institution;

"liquidity" means ability of a financial institution to obtain sufficient cash or cash equivalent at the right time to meet liabilities of a financial institution as the liabilities fall due;

"liquidity coverage ratio" means the ratio of stock of high-quality liquid assets of a financial institution to net cash outflows of the financial institution over a period of thirty days and shall be equal or higher than one hundred percent or as prescribed by the Central Bank;

"liquidity risk" means the risk of a financial institution being unable to meet commitments, repayments and withdrawals as they fall due in terms of time, place and in the required currency and that the financial institution may not be able to fund increases in assets or meet obligations as they fall due without incurring unacceptable losses;

"liquidity risk appetite" means the total impact of liquidity risk a financial institution is willing to accept in pursuit of the strategic objectives of the financial institution;

"net cash outflows" means the expected cash outflows minus expected cash inflows for the subsequent thirty calendar days;

"net stable funding ratio" means the ratio of available stable funding to the required stable funding of a financial institution and shall not be less than one hundred percent;

"non-convertible currency" means a currency that is used primarily for domestic transactions and is not openly traded on a foreign exchange market;

"off-balance sheet items" includes all items not shown on the balance sheet but which constitute credit risk and such other risks as in guarantees, acceptances, performance bonds, letters of credit and other off-balance sheet items deemed to constitute risk by the Central Bank;

"required stable funding" means a function of the liquidity characteristics and residual maturities of the various assets held by a financial institution as well as those of its off-balance sheet items;

"secured funding sources" means funding sources that are backed by security or collateral whereby the funding obtained is less than or equal to the market value of the assets constituting that security or on the basis of a valuation by the Central Bank;

"stress" means a sudden or severe deterioration in the solvency or liquidity position of a financial institution due to changes in market conditions or financial institution specific factors which may affect the ability to meet commitments of the financial institution as the commitments fall due;

“unencumbered high-quality liquid asset” means an asset free of legal, regulatory, contractual or other restrictions on the ability of the financial institution to liquidate, sell, transfer, or generally dispose of the asset via outright sale or a repurchase agreement;

“unsecured funding sources” means funding sources—

(a) that do not require security;

(b) in respect of any funding backed by security or any part of the funding which at any time exceeds the market value of the assets constituting that security; or

(c) in respect of any funding backed by security or any part of the funding where the Central bank is satisfied that there is no established market value, on the basis of a valuation approved by the Central Bank.

PART II—REGULATORY REQUIREMENTS

4. Liquid assets

(1) For the purposes of these Regulations “liquid assets” means all or any of the following—

(a) notes and coins which are legal tender in Uganda and any other currency prescribed by the Central Bank;

(b) balances held at the Central Bank as may be approved by the Central Bank;

(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 financial institutions for trading purposes;

(f) uncommitted balances at banks outside Uganda withdrawable on demand and money at call outside Uganda after deducting therefrom 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 by the Central Bank under the Bank of Uganda Act.

(2) Subject to section 28 (6) (h) of the Act, the Central Bank approves the following as liquid assets—

(a) funds held under a special deposit facility and the standing deposit facility at the Central Bank;

(b) Bank of Uganda Bill;

(c) electronic money balances held by financial institutions acting as agents of electronic money issuers; and

(d) Government securities held in available for sale portfolios or held in accordance with "hold to collect and sale" business models subject to a haircut to be determined by the Central Bank.

(3) A financial institution shall maintain a sufficient stock of high-quality liquid assets for purposes of complying with the liquidity coverage ratio prescribed under regulation 10.

(4) A high-quality liquid asset shall—

(a) be a property, right, entitlement or interest held by a financial institution and unencumbered;

(b) be capable of being determined on the basis of widely disseminated and easily available market prices;

(c) be eligible only in so far as the financial institution uses the asset to meet liquidity outflows in that country in respect of assets held outside Uganda where there are restrictions to the assets' free transferability; and

(d) be eligible only in so far as the financial institution uses the asset to meet liquidity outflows in that currency in respect of asset held outside Uganda and held in a non-convertible currency.

(5) Notwithstanding subregulation (4), the value of the high-quality liquid asset shall be determined on the basis of an easy-to-calculate formula, approved by the Central Bank.

(6) A financial institution shall maintain liquid assets amounting to not less than twenty percent of deposit liabilities denominated in local and foreign currencies on an ongoing basis.

5. Liquidity risk appetite

(1) A financial institution shall set its liquidity risk appetite.

(2) The liquidity risk appetite set in subregulation (1) shall—

(a) define the level of liquidity risk that the financial institution is willing to take on;

(b) match the business strategy of the financial institution and role in the financial system of the financial institution;

(c) reflect the financial condition and funding capacity of the financial institution;

(d) manage the liquidity of the financial institution efficiently in normal times so as to be able to withstand prolonged periods of stress; and

(e) reflect a clear understanding of the trade-off between risk and return at all levels of management.

(3) The liquidity risk appetite shall be reviewed periodically and adjusted in line with changes in the business strategy and operating conditions of the financial institutions.

6. Liquidity management framework

(1) A financial institution, with the approval of the board of directors of the financial institution, shall formulate a liquidity risk management framework including—

(a) liquidity management policy; and

(b) liquidity management strategy.

(2) The liquidity management strategy shall prescribe—

(a) a general approach to liquidity risk management in line with the liquidity risk appetite of the financial institution;

(b) measures to maintain sufficient liquidity of the financial institution including a cushion of unencumbered high quality liquid assets and the loss or impairment of both unsecured and secured funding sources; and

(c) measures to manage the assets, liabilities and off-balance sheet items of the financial institution for the purpose of meeting the contractual commitments of the financial institution at a reasonable cost as and when they fall due.

(3) A financial institution shall have a well-articulated liquidity management policy indicating crucial elements of sound liquidity management including—

(a) the appropriate mix and composition of assets and liabilities required to maintain sufficient liquidity;

(b) an effective process for identifying, measuring, monitoring and controlling liquidity risk considering the forecasting of cash inflow and outflows over a suitable time horizon;

(c) active monitoring of liquidity risk exposures and funding needs across all business lines, subsidiaries and currencies;

(d) good management information systems;

(e) central liquidity control;

(f) a funding strategy that provides effective diversification and stability of funding sources; (g) active management of liquidity positions within the same day in order to meet payment system obligations in a timely manner under both normal and stressed conditions;

(h) ongoing analysis and stress testing of net funding requirements under alternative scenarios to manage long term and temporary liquidity disruptions; and

(i) monitoring and reporting of the liquidity metrics in these Regulations.

(4) The financial institution shall review the liquidity management policy on an annual basis.

(5) The financial institution shall review the liquidity management strategy as part of the overall strategy of the financial institution.

7. Liquidity contingency plan

(1) A financial institution shall formulate a liquidity contingency plan.

(2) The liquidity contingency plan shall prescribe a strategy for addressing liquidity shortages and the procedures for managing cash flow deficits in emergency situations.

(3) The liquidity contingency plan shall identify the range of events that may trigger a liquidity shortfall, outline mechanisms to facilitate monitoring of these trigger events, establish clear lines of responsibility of monitoring and approval procedures of remedying the liquidity shortfall.

(4) The financial institution shall review, test and update the liquidity contingency plan annually and documentation of the results for the purpose of verifying that the liquidity contingency plan is operationally robust.

8. Stress-testing and scenario analysis

(1) A financial institution shall conduct regular stress tests in accordance with the guidelines set by the Central Bank.

(2) A financial institution shall maintain adequate liquidity to withstand stressed conditions, taking into account the liquidity risk appetite of the financial intuition.

(3) A financial institution shall conduct separate stress tests for all positions denominated in Uganda shillings and those denominated in each specific foreign currency in which the financial institution has significant positions.

(4) The stress tests referred to in subregulation (3) shall include institution-specific and general market-wide crisis scenarios.

(5) For purposes of subregulation (4), a financial institution specific crisis scenario shall cover situations that may arise from the financial institution experiencing real or perceived problems.

(6) The liquidity stress test scenarios shall be rigorous and challenging.

(7) The results of the stress test shall be used for and linked to enhancements to the strategy, policies and practices for sound liquidity risk management and the liquidity contingency plan.

(8) The stress tests under subregulation (4) shall be undertaken according to a defined schedule set out in the policies of the financial institution.

(9) The frequency of the stress test may depend on several factors including—

(a) the objectives of the stress testing framework;

(b) the scope of the stress test;

(c) the size and complexity of the financial institution; and

(d) changes in the macroeconomic environment.

9. Internal liquidity adequacy assessment process

(1) The Board of Directors of a financial institution shall implement an Internal Liquidity Adequacy Assessment Process (ILAAP) to verify that all material risks are identified, effectively managed and covered by a sufficient level of high-quality liquidity buffers.

(2) A financial institution shall conduct an internal liquidity adequacy assessment process at least every two years and submit a report to the Central Bank by the last day of April of the year following that to which the report refers.

(3) Notwithstanding subregulation (2), the Central Bank may require a financial institution to submit the ILAAP report on a more frequent basis.

(4) The Central Bank shall issue guidance to financial institutions on the minimum requirements for the ILAAP.

(5) The Central Bank may refer to the ILAAP report submitted by a financial institution and require the financial institution to maintain liquidity ratios exceeding the minimum ratios set out in Part III of these Regulations or require the financial institution to meet the ratios in respect of significant currencies.

10. Liquidity coverage ratio

(1) The Central Bank may vary the minimum liquidity coverage ratio requirement for a financial institution to reflect business and related potential risks or for any other reason.

(2) The amount of cash inflows that are used to offset outflows shall not be less than seventy-five percent of the cash inflows.

(3) A financial institution shall meet the following liquidity coverage ratio requirements—

(a) in Uganda shillings for obligations denominated in Uganda shillings;

(b) a consolidated basis of all currencies; and

(c) for each significant foreign currency in which the aggregate liabilities of the financial institution amount to ten percent or more of total liabilities of the financial institution.

(4) A financial institution shall compute and maintain its liquidity coverage ratio on a weekly basis.

(5) The Central Bank shall, in writing, issue guidelines setting out the requirements, computation and treatment of the liquidity coverage ratio.

11. Net stable funding ratio

(1) A financial institution shall maintain, on an on-going basis, a net stable funding ratio of not less than one hundred percent.

(2) Notwithstanding subregulation (1), the Central Bank may vary the net stable funding ratio minimum requirement for a financial institution to reflect business and related potential risks or for any other reason.

(3) A financial institution shall compute and maintain its net stable funding ratio on a weekly basis.

(4) The Central Bank shall, in writing, issue guidelines setting out the requirements, computation and treatment of the net stable funding ratio.

Part III—Reporting And Disclosure Requirements

12. Reporting liquid assets requirement

(1) A financial institution shall submit a liquid assets report in a form prescribed by the Central Bank on the official website of the Central Bank.

(2) A financial institution shall submit the liquid assets report before the end of the Tuesday following the end of the reference week stated in the report.

13. Reporting liquidity coverage ratio and net stable funding ratio

(1) A financial institution shall provide a report on the contractual and anticipated maturity of assets and liabilities of the financial institution in a form prescribed by the Central Bank on its official website.

(2) The financial institution shall submit the report on the contractual and anticipated maturity of assets and liabilities before the end of the Tuesday following the end of the reference week stated in the report.

(3) The report on the contractual and anticipated maturity of assets and liabilities of a financial institution referred to in subregulation (1) shall take into account off-balance sheet items.

(4) The Central Bank shall use the data provided in this regulation to compute the liquidity coverage ratio and net stable funding ratio of the financial institution.

(5) A financial institution shall on a weekly basis, monitor the liquidity coverage ratio and net stable funding ratio.

14. Disclosure requirements

(1) A financial institution shall disclose information regarding its liquidity position and liquidity risk management on its website after every three months.

(2) The information referred to in subregulation (1) shall include—

(a) the strategy of the financial institution for managing liquidity risk;

(b) the governance of the liquidity risk;

(c) liquidity risk management function and interaction with other functional areas;

(d) stress testing and forecasting framework;

(e) the ratio of liquid assets to total deposits ratio, including the main drivers of any changes to the ratio during the report period;

(f) the liquidity coverage ratio, including the main drivers of any changes to the ratio during the report period, composition of high-quality liquid assets and any currency mismatches; and

(g) net stable funding ratio, including the main drivers of any changes to the ratio during the period and composition of available stable funding.

PART IV—REMEDIAL MEASURES AND ADMINISTRATIVE SANCTIONS

15. Remedial measures

(1) The Central Bank may impose any of the corrective actions prescribed under the Act against a financial institution or against an officer of the financial institution who fails to comply with the requirements of these Regulations.

(2) A financial institution which fails to maintain the amount of liquid assets or high-quality liquid assets or available stable funding to meet the minimum ratio requirements prescribed under these Regulations 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) A financial institution which fails to maintain the minimum liquid assets to total deposits ratio, liquidity coverage ratio or net stable funding ratio shall, within five working days, submit in writing a corrective plan to the Central Bank.

(4) The financial institution referred to in subsection (3) shall ensure that the corrective plan submitted addresses the deficiencies in liquidity within a period not exceeding forty-five calendar days.

(5) The Central Bank may call for more stringent or accelerated remedial action in case the financial institution does not adequately address the deficiencies identified, or in the event that the Central Bank deems further action is warranted.

16. Administrative sanctions

The Central Bank may in addition to the remedial measures prescribed in regulation 15, the Central Bank may impose any or all of the following administrative sanctions against a financial institution that fails to comply with these Regulations—

(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; or

(g) prohibition or suspension from any other activity that the Central Bank perceives to be contributing to the liquidity strain in the financial institution.

17. Revocation of S.I. No. 46 of 2005

The Financial Institutions (Liquidity) Regulations, 2005, S.I. No. 46 of 2005 are revoked.

Cross References

Bank of Uganda Act, Cap. 51

National Payments Systems Act, 2020, Act 15 of 2020

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