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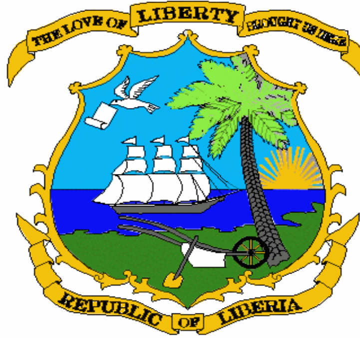

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E X T R A O R D I N A R Y

The Government of the Republic of Liberia announces that the Central Bank of Liberia (CBL), pursuant to its mandate under the Central Bank of Liberia Act of 1999 and its authority under the Financial Institutions Act of 1999, and specifically consistent with Section 55 of the said Central Bank of Liberia Act of 1999 and Section 39 of the Financial Institutions Act of 1999, has issued on Monday, July 29, 2013, its Prudential Regulations No. CBL/RSD/005/2013 revising Prudential Regulations No. CBL/SD/03/2000 herein under:

CONCERNING PRUDENTIAL REGULATIONS ON LIQUIDITY REQUIREMENTS FOR LICENSED BANKS

BY ORDER OF THE PRESIDENT

AUGUSTINE KPEHE NGAFUAN

MINISTER OF FOREIGN AFFAIRS

MINISTRY OF FOREIGN AFFAIRS

MONROVIA, LIBERIA
July 29, 2013

PRUDENTIAL REGULATIONS ON LIQUIDITY REQUIREMENTS FOR LICENSED BANKS

1.0 INTRODUCTION

In compliance with the provisions of Sections 17 and 18 of the New Financial Institutions Act of 1999 (FIA) and in accordance with section 4.3 of the CBL Risk Management Framework, all licensed banks are required to maintain sufficient liquidity to meet their expected and contingent cash flow needs at reasonable cost. In view of this requirement, the Central Bank of Liberia (CBL) hereby issues this regulation, Regulation No. CBL/RSD/005/2013, replacing Regulation No. CBL/SD/03/2000.

The purpose of this regulation is to provide for an adequate balance between banks' invested funds (assets) and their financial resources (liabilities) and to ensure that banks are at all times able to fund their operations under any condition and at a reasonable cost. It establishes the requirements for the minimum amount of liquid resources that a bank must maintain, and sets forth the basic principles for effectively managing liquidity.

Notwithstanding the standards in this regulation, which are minimum required standards, banks are required to have in place adequate measures consistent with the operations and/or risk profile.

2.0 DEFINITIONS

1. **Asset and Liability Management** - The process of effectively managing a bank's portfolio mix of assets, liabilities, and, when applicable, off-balance sheet contracts. This process involves the management of two primary financial risks, interest rate and foreign exchange, and directly relates to sound overall liquidity management.

2. **Interest Rate Risk** - The exposure of a bank financial condition to adverse movements in interest rates. Changes in interest rates can have significant impact on a bank's earnings as well as the underlying economic value of a bank assets, liabilities, and off-balance sheet items.

3. **Liquidity** - The ability to fund all contractual obligations of the bank, notably lending and investment commitments and deposit withdrawals and liability maturates, in the normal course of business, i.e. is the ability to fund increases in assets and meet obligations as they come due.

4. **Liquidity Management** - An on-going process to ensure that cash needs can be met at reasonable cost in order for a bank to maintain the required level of reserves at the CBL and to meet expected and contingent cash needs. Required reserves at the CBL should not be considered to be a routine source of liquidity. Good management information systems, analysis of net funding requirements under alternative scenarios, diversification of funding sources, and contingency planning are crucial elements of sound liquidity management.

5. **Liquidity Risk** - The risk of loss to a bank resulting from its inability to meet its needs for cash or from inadequate liquidity levels, which must be covered by funds, obtained at excessive cost.

6. **Net Funding Requirements** - The liquid assets necessary to fund a bank cash obligations and commitments going forward determined by performing a cash flow analysis, all cash inflows against all cash outflows, to identify potential net shortfalls.

3.0 PRINCIPLES OF LIQUIDITY MANAGEMENT

The following principles detail the key elements for effectively managing liquidity. Banks should formally adopt and implement these principles for use in their overall liquidity management process.

I. Banks must develop a structure for liquidity management.

i. Each bank should have a documented strategy for day-to-day liquidity management. This strategy should be communicated throughout the bank;

ii. The Board of Directors should approve the strategy and significant policies related to liquidity management. The Board should also ensure that senior management of the bank takes the steps necessary to monitor and control liquidity risk and should be informed regularly of the liquidity situation of the bank and immediately if there are any material changes in the bank's current or prospective liquidity position;

iii. Each bank should have a management structure in place to effectively execute the liquidity strategy. This structure should include the ongoing involvement of members of senior management. Senior management must ensure that liquidity is effectively managed, and that appropriate policies and procedures are established to control and limit liquidity risk. Banks should set and regularly review limits on the size of their liquidity positions over particular time horizons; and

iv. Banks must have adequate information systems for measuring, monitoring, controlling and reporting liquidity risk. Reports should be provided on a timely basis to the bank's Board, senior management and other appropriate personnel, and to the CBL as required by this regulation.

II. Banks must measure and monitor net funding requirements.

i. Each bank should establish a process for the ongoing measurement and monitoring of net funding requirements;

ii. Banks should analyze liquidity utilizing a variety of what if scenarios; and

iii. Banks should frequently review the assumptions utilized in managing liquidity to determine that they continue to be valid.

III. Banks should manage market access. Each bank should periodically review its efforts to establish and maintain relationships with liability holders, to maintain the diversification of liabilities, and aim to ensure its capacity to sell assets.

IV. Banks should manage their foreign currency liquidity.

i. Each bank should have a measurement, monitoring and control system for its liquidity positions in the major currencies in which it is active. In addition to assessing its aggregate foreign currency liquidity needs and the acceptable mismatch in combination with its domestic currency commitments, a bank should also undertake separate analysis of its strategy for each currency individually;

ii. Subject to the analysis undertaken according to the Section 3.0 (IV) (i) above, a bank should, where appropriate, set and regularly review limits on the size of its cash flow mismatches over particular time horizons for foreign currencies in aggregate and for each significant individual currency in which it operates; and

iii. Adhere to the requirements of the Guidelines for the Management of Foreign Exchange Risk Exposure, Guideline No. CBL/SD/001/2011.

V. **Each bank must have an adequate system of internal controls over its liquidity risk management process. A fundamental component of the internal control system involves regular independent reviews and evaluations of the effectiveness of the system and, where necessary, ensuring that appropriate revisions or enhancements to internal controls are made. The results of such reviews should be available to the CBL upon request.**

VI. **Each bank should have in place a mechanism for ensuring that there is an adequate level of disclosure of information about the bank in order to manage public perception of the organization and its soundness.**

4.0 REQUIRED LIQUIDITY RATIO

I. The liquidity ratio shall be measured as the percentage of **liquid assets** to the **deposits and designated liabilities**. The prescribed ratio shall be **fifteen (15%) percent** and may be varied by the CBL within the statutory range of five (5%) to twenty five (25%) percent as and when appropriate in keeping with Section 17(1) the new FIA of 1999.

II. Highly Liquid Assets eligible for inclusion in the numerator of the ratio described in Section 4.0 (I) above include the following unencumbered assets:

i. Banknotes and coins which are legal tender in Liberia;

ii. Balances with the CBL, excluding required reserves and marginal reserves established under Section 34(1) of CBL Act of 1999. In this respect, only the current account with

the CBL is to be reported. Temporary advances by the Central Bank, if applicable, should be deducted;

iii. Net Balances at financial institutions in Liberia and money at call in Liberia. If such balances are negative, they shall be subtracted from the liquid assets (any such overdrafts would be a component reported on the balance sheet, under liability);

iv. Treasury Bills and other securities issued by the Government of Liberia or CBL and maturing within one hundred and eighty (180) days;

v. Bills of Exchange and Promissory Notes eligible for re-discount at the CBL and Warehouse Warrants or their equivalents securing possession of goods against which the CBL may grant advances;

vi. Net Balances at Financial Institutions in such monetary areas as may be designated by the CBL, provided that if such balances are negative they will be subtracted from the liquid assets;

vii. Money at Call, approved Bills of Exchange, 90-day and 180-day Treasury Bills in monetary areas designated by the CBL;

viii. Liberian Treasury Certificate – coupon-bearing special certificate of indebtedness within maturity within one year; and

ix. CBL Registered Certificates – Certificate of indebtedness maturing within one year.

N/B: The approved monetary zones must be so designated by CBL and verifiable documentation must be available for inspection by Regulation & Supervision Department of CBL. Additionally, foreign currency notes are restricted to G10 countries currencies and CFA for the purposes of calculating the liquid asset ratio.

III. The eligible deposits and other liabilities for inclusion in the denominator of the ratio described in Section 4.0 (I) above shall consist of the following:

i. Deposit Liabilities: Deposits shall represent credit balances only on customers' deposits accounts. The deposits shall include the following;

- Checking or Demand Deposit Accounts;
- Time Deposits;
- Savings Deposits;
- Certificate of Deposits; and
- Special Deposits.

ii. Margins against Contingent Liabilities (Cash collaterals held against booked facilities).

iii. Interest Accrued. Interest accrued is the amount of interest earned by customers on their accounts but not yet credited. Such amounts should be determined monthly.

iv. Managers' Checks;

v. Remittances Awaiting Disposal.

5.0 Contingency Funding Plan (CFP)

Every licensed bank should have a contingency liquidity plan in place that includes procedures for making up cash flow shortfalls in emergency situations and addresses the bank's strategy for handling liquidity crises. A CFP is a combination of policies, procedures, and action plans for responding to contingent liquidity events. Events are unexpected situations or business conditions that may increase liquidity risk, given a bank's balance sheet structure, organizational structure, business activities, and other institution-specific characteristics. Events can result from:

- The inability to fund asset growth;
- The inability to renew or replace maturing funding liabilities;
- Unexpected deposit withdrawals or off-balance-sheet commitment activity;
- Change in economic conditions, market perception, or dislocations in the financial markets; or

- Disturbances in payment and settlement systems due to operational or local disasters

Events can affect any institution, regardless of size or complexity, and can be bank-specific or result from external factors. Bank-specific events are typically related to internal operational and strategic risks, whereas external events may be related to systemic financial market conditions, like securities price volatility resulting from market events, economic conditions, or financial market disruption. Events can be high-probability/low-impact or low-probability/high-impact, and banks need to plan for both. The risk from the former can be addressed in a bank's daily management of its sources and uses of funds using variations in expected cash-flow projections and provisions for adequate liquidity reserves. The risk from the latter should be addressed in the CFP.

Therefore, the CFP's primary purpose is to assist management with considering potential events and scenarios that may result in a liquidity shortfall, in order to ensure that liquidity sources are sufficient to fund normal operating requirements without incurring undue expense or causing business disruptions. The CFP provides the bank with a plan for responding to a liquidity crisis. The adoption of contingency plans will assist the banks in the following ways:

i) Minimize disruptions of service to customers;
ii) Minimize financial loss due to disruptions;
iii) Ensure a timely resumption of normal operations in the event of a disaster;
iv) Manage the day-to-day liquidity adequacy by demonstrating that the financial institution can find sources of funds to cover its uses of funds in the event of a liquidity or credit event;
v) Ensure that a financial institution can prudently and efficiently manage routine and extraordinary fluctuations in liquidity; and
vi) Reduce the risk of inadequate funding and liquidity.

5.02 Elements of the CFP

Key elements of the CFP shall include:

i. **The identification of reasonably plausible events**: Banks should conduct regular monitoring for potential events and establish early-warning indicators and event triggers that are specific to its liquidity risk profile;

ii. **The evaluation of those events under different levels of severity:** The various severity levels of each event should be defined and an associated response plan established. This includes temporary liquidity disruptions, as well as intermediate- or longer-term disruptions;

iii. **The conduct of quantitative projections and assessments of funding needs and funding capacity:** This is a crucial element of a CFP. Analysis should be realistic, include all material on- and off-balance-sheet cash flows, and assess potential funding erosion at the various severity levels of the event and potential cash flow mismatches that may occur. Banks also need to determine and document the sequence of steps for responding to an event and sources of funds. Two common quantitative reports that are developed are pro forma cash flow reports that estimate funding surpluses or shortfalls over selected future time frames and under various liquidity event scenarios;

iv. **The identification of potential funding sources:** Alternative sources should be identified, and administrative procedures and agreements should be created and established well in advance of any potential liquidity event. These sources are rarely utilized in the normal course of business, yet any steps necessary to ensure that an institution is ready to activate alternative funding sources should be defined and detailed in the CFP; and

v. **The provision of commensurate management processes, reporting, and external communication:** A crisis management team should be identified, and appropriate action plans for each event severity level should be established. Communication and reporting among crisis team members and between the team and the board of directors and other business line management are essential. In addition, communication and reporting should be ramped up with each increasing level of event severity.

5.03 TIME FRAME

All banks and deposit-taking financial institutions are expected to have in place contingency plans within six (6) months of the coming into effect of this amended regulation.

6.00 REPORTING REQUIREMENTS

6.01 Licensed banks shall be required to submit, **on a weekly basis,** details of their liquid assets and deposits and the designated liabilities to the CBL in the attached format. They should report in the same format, on a memorandum basis, the advances received from other financial institutions, own offices and branches overseas as well as the required reserves and other reserves with the CBL.

6.02 Every licensed bank shall have its contingency plans reviewed and approved annually by its board and senior management and sent to the CBL for approval no later than three weeks subsequent to the board meeting at which approval was granted

7.00 SANCTIONS

Any licensed bank that fails to maintain the required liquidity ratio shall be sanctioned by the CBL as provided in Section 17 (4) and (5) of the FIA.

8.00 EFFECTIVE DATE

These amended regulations shall take effect immediately upon publication in the Gazette and shall remain in force until otherwise advised by the CBL

Issued this 29th day of July A. D. 2013 in the City of Monrovia, Republic of Liberia.

CENTRAL BANK OF LIBERIA
MONROVIA, LIBERIA

WEEKLY RETURN ON LIQUIDITY REQUIREMENT
FOR THE WEEK DAY ENDED:

FORM
WBR 100

Name of Bank:

LINE NO	ITEM	AVERAGE BALANCES '000		
		US $'000	**L $'000**	***TOTAL L$'000 EQUIVALENT**
NO		**US $'000**	**L $'000**	***TOTAL L$'000 EQUIVALENT**
A	**LIQUID ASSETS**			
1	Bank Notes & Coins (Legal tender in Liberia)	-	-	-
2	Balances (excluding required reserves & marginal reserves) with the CBL	-	-	-
3	Net Balances at Financial Institutions and money at call in Liberia	-		-
4	Treasury bills and other Securities issued by the Government of Liberia and maturing within 180 days (Max. 2% of B16)	-	-	-
5	Bills of Exchange & Promissory notes eligibe for re-discount at CBL & eligible warehouse warrants	-	-	-
6	Net Balances at Financial Institutions in monetary areas designated by the CBL	-	-	-
7	Money at Call, Approved Bills of Exchange and Treasury Bills maturing within 180 days in designated monetary areas	-	-	-
8	Liberian Treasury Certificate – coupon-bearing special certificate of indebtedness within maturity within one year			
9	CBL Registered Certificates – Certificate of indebtedness maturing within one year			
10	**TOTAL LIQUID ASSETS(sum of 1 to 9)**	-	-	-

B	**DEPOSITS & DESIGNATED LIABILITIES**			
9	Demand (or checking) Deposits	-	-	-
10	Time Deposits	-	-	-
11	Savings Deposits	-	-	-
12	Certificates of Deposits	-	-	-
13	**TOTAL DEPOSITS (sum of 9 to 12)**	**-**	**-**	**-**
14	Margins against Contingent Liabilities (Cash collaterals held)	-	-	-
15	Interest Accrued	-	-	-
16	Manager's Check	-	-	-
17	Remittances awaiting disposal	-	-	-
18	**TOTAL DEPOSITS & LIABILITIES (sum of 13 to 17)**	**-**	**-**	**-**
1	Liquidity ratio (A10 as percentage of B18)	**0%**	**0%**	**0%**
2	Required Ratio (15%)	**15%**	**15%**	**15%**
3	Surplus/ (deficit)			
4	Liquidity Ratio of previous week			
D	**MEMORANDUM ITEMS**			
1	Advances from Other Financial Institutions	-	-	-
2	Own offices and Branches overseas	-	-	-
3	Required Reserves with CBL	-	-	-
4	Required Marginal Reserves with CBL	-	-	-

We Certify that the figures given in the return are true and correct as reflected in the books of the Bank.

Prepared by: ……………………….

Approved by: ……………………………….

Date: ....

Date: ………………………………………..