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General Notice

BANK OF NAMIBIA

No. 441

2014

DETERMINATION UNDER THE BANKING INSTITUTIONS ACT, 1998: (ACT NO. 2 OF 1998), AS AMENDED: MINIMUM LIQUID ASSETS

In my capacity as Governor of the Bank of Namibia (Bank), and under the powers vested in the Bank by virtue of section 71(3) of the Banking Institutions Act, 1998 (Act No. 2 of 1998), as amended read in conjunction with Section 31 of the aforementioned Act, I hereby issue **this Determination on Minimum Liquid Assets (BID-6)**. The Determination on Minimum Liquid Assets (BID-6) published, as General Notice No. 292, in the Government Gazette No. 4373 of 6 November 2009, is hereby repealed.

I. SHIMI
GOVERNOR

Windhoek, 27 November 2014

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PART I: PRELIMINARY

1. **Short Title** - Liquidity Risks.
2. **Authorization** - Authority for the Bank to issue this Determination is provided in section 71(3) of the Banking Institutions Act, 1998 (Act).
3. **Application** - This Determination applies to all banks authorized by the Bank to conduct banking business in Namibia.
4. **Definitions** - Terms used within this Determination are as defined in the Act, as further defined below, or as reasonably implied by contextual usage:

- 4.1) **“bank”** - means banking institution as defined in the Act.
- 4.2) **“composition of liquid assets”** - For the purpose of this Determination, liquid assets comprise: -
- (a) Notes and coins which are legal tender in Namibia, gold coin and bullion;
 - (b) Clearing account balances held with Bank of Namibia;
 - (c) Call account balances held with Bank of Namibia;
 - (d) Securities of the Bank of Namibia;
 - (e) Treasury Bills of the Government of Namibia;
 - (f) Stocks, securities, bills and bonds of the Government of Namibia **issued in domestic and foreign currencies**;
 - (g) STRIPS¹ bonds;
 - (h) Any other securities, bonds and bills fully guaranteed by the Government of Namibia, which form part of the public issue²;
 - (i) Investment graded debt securities (rated by reputable international rating agency such as Fitch, Moody and Standard&Poor (S&P) or any other reputable institution recognized by the Bank) issued by Namibian Public Sector Entities (PSE) and Corporates;
 - (j) Net amount of loans and deposits, repayable on demand, plus the net amount of negotiable certificates of deposits with maturities of twelve months or less, with Namibian banks or building societies other than a subsidiary or fellow subsidiary of the bank or building society concerned or of a bank or building society by which the bank or building society concerned is controlled directly or indirectly;
 - (k) **Investment graded debt securities (rated by reputable international rating agencies such as Fitch Moody’s and Standards and Poor or any other reputable institution recognised by the Bank issued by Multilateral Development Banks or Multilateral Development Organizations denominated in domestic currency**;
 - (l) **Foreign currency deposits placed with the Bank of Namibia.**
- 4.3) **“maturity mismatch approach”** - an approach used to assess the mismatches between assets and liabilities within different time bands on a maturity ladder.
- 4.4) **“maturity ladder”** - a table constructed for comparison use of a bank’s future cash inflows and outflows over a series of specified time periods.
- 4.5) **“liquidity”** - refers to a bank’s ability to fund increases in assets and meet obligations as they fall due including off-balance sheet commitments, without incurring unacceptable losses as approved by banks board of directors.
- 4.6) **“average amount of total liabilities to the public”** - average daily amount of total liabilities to the public shall be determined by aggregating the total liabilities of all the days in a given month divided by the number of the days of the same month.

¹Separate Trading of Registered Interest and Principal of Securities of Namibian Government Securities

²Method for inviting offers from the public, for the subscription or purchase of shares in, or debentures of, a body corporate by means of a notice, circular or advertisement in the press.

In determining the average as described above, the total liabilities as at the end of the previous working day shall be used for liabilities on Sundays and Public Holidays. Total liabilities (incl. foreign liabilities) mean deposits (net of investment in negotiable certificate of deposits and inter-bank term deposits/loans³), loans and advances received and other liabilities to the public; but shall exclude capital funds⁴.

Liabilities under acceptances shall be excluded.

- 4.7) **“net cumulative mismatch position”** - a figure obtained by cumulating the differences between assets and liabilities in various time bands and expressed as a percentage of total liabilities.

PART II: STATEMENT OF POLICY

5. **Purpose** - This Determination is intended to ensure that banks maintains effective and ongoing liquidity management systems.

6. **Scope** - This Determination applies to all the banks overall components of liquidity.

7. **Responsibility**

The board of directors of each bank shall be responsible for establishing, implementing and maintaining a liquidity management strategy that is appropriate for the operations of the bank to ensure that it has sufficient liquidity to meet its obligations as they fall due.

A bank shall adhere to its liquidity management strategy at all times and review it regularly (at least annually) to take account of changing operating circumstances.

PART III: IMPLEMENTATION AND SPECIFIC REQUIREMENTS

8. **Requirements** - The following minimum requirements shall form part of this determination:

8.1 A bank's liquidity management strategy shall include the following elements:

- (a) a liquidity management policy approved by the board of directors or a board committee;
- (b) a system for measuring, assessing and reporting liquidity;
- (c) procedures for managing liquidity;
- (d) clearly defined managerial responsibilities and controls; and
- (e) a formal contingency plan for dealing with a liquidity crisis.

8.2 A bank's liquidity management strategy shall cover both the local and cross-border operations of the bank, as well as all related entities which have

³ Whilst net interbank deposits repayable on demand are accorded liquid asset status, net interbank deposits of a term nature are not. However, these term deposits are allowed to be netted off against the total liability base.

⁴ Capital funds as defined in BID-5

impact on the bank's liquidity. Where a bank manages liquidity on a group basis, the strategy shall cover both the bank and the group as a whole. The strategy shall address all on- and off-balance sheet activities of the bank and, where relevant, the bank group as a whole across all currencies.

- 8.3 A bank's liquidity management strategy should, where appropriate, include scenario analysis. At least two scenarios are to be addressed:
- (a) "going-concern" refers to the "normal" behaviour of cash flows in the ordinary course of business; and
 - (b) "name crisis"⁵ refers to the behaviour of cash flows in adverse operating circumstances specific to the bank, where it has significant difficulty in rolling over or replacing its liabilities.
- 8.4 A bank shall hold an average daily amount of liquid assets in Namibia which shall not be less than an amount equal to **10** per cent of the average daily amount of its total liabilities to the public for the preceding month and shall furnish to the Bank a return in accordance with paragraph 13 of this Determination.
- 8.5 Provided that the minimum amount of liquid assets held on any day during the period specified in paragraph 9 below shall not be less than an amount equal to 75 per cent of the average daily amount of liquid assets required to be held by the bank in terms of this Determination.
- 8.6 For prudential purposes, banks shall be required to report their liquidity through the maturity mismatches approach and furnish the Bank a monthly return.
- 8.7 Banks shall also be required to set their own limits on net cumulative mismatches for each maturity time band. These limits should be included in the bank's liquidity management policy, approved by the board of directors of the bank.
- 8.8 The debt securities issued by a PSE and Corporates shall have a minimum public issue size of N\$50 million and shall be subject to the following valuation haircuts:

Description	Fitch rating	Moody	S & P	Haircut
Long term domestic ratings	A to A-	A1 to A3	A to A-	10%
	BBB+ BBB	Baa1 Baa2	BBB+ BBB	20%
Short term issue ratings	F1	P-1	A-1	10%
	F2	P-2	A-2	20%
	F3	P-3	A-3	30%

⁵ Please refer to annexure with examples. However the examples to the excerpts should only be taken as minimum and banks should not be limited to these examples.

These securities are also subjected to the following additional requirements:

- They shall not be convertible;
- Where a bank holds more than 30% of the total market value of a particular issue of debt security, a 50% haircut should be applied; and
- They should be carried at fair value.

8.9 The debt securities issued by the Multilateral Development Banks or Multilateral Development Organizations shall have a minimum public issue size of at least N\$50 million and shall be subject to the same haircuts outlined in paragraph 8.8 with respect to long term domestic ratings and short-term issue ratings including the additional requirements outlined under paragraph 8.8.

8.10 The foreign currency deposits of banks placed with the Bank of Namibia and recognised as part of the composition of liquid assets are limited to 10% of the total foreign currency deposits placed at the Bank of Namibia.

9. Maintenance - A bank shall maintain the minimum amounts contemplated in paragraph 8.4 of this Determination during the compliance period, that is, from the fifteenth day of the month to which a particular return relates, up to and including the fourteenth day of the following month.

10. Assets pledged or encumbered

10.1 Unless specifically or generally approved by the Bank in writing, no liquid assets used for the fulfillment of the requirements of paragraph 8.4 of this Determination shall be pledged or otherwise encumbered.

10.2 Securities lodged with the Bank to secure facilities shall not be regarded as pledged except to the extent that they are required to secure facilities actually utilized.

10.3 Investments on foreign deposit accounts at Bank of Namibia cannot be used for the purpose of collateral when participating in repurchase facilities offered by the Bank of Namibia.

11. Netting-off - For calculation of liquid assets for the purposes of liquid assets requirement in terms of this Determination, all reciprocal deposits with other banks shall be netted out.

12. Contingency funding plan

Banks shall have in place a contingency funding plan to deal with liquidity crises. The contingency funding plans have to be dynamic and should also reflect the conceivable funding in the market under stressful situations. Banks should therefore on a regular basis (at least once a year) test their plans for such eventualities.

13. Reporting requirements

13.1 The bank shall, at the end of each month submit to the Bank all returns in terms of this Determination by not later than the 26th day of the following month.

Example: the liquidity compliance for the month of July 2003 which covers the compliance period of 15th of July to 14th August 2003 must be reported by not later the 26th of August 2003, based on the following-

- Average daily liquid assets holdings over the period 15th July 2003 to 14th of August 2003.
- Average daily total liabilities to the public as computed over the month of June 2003.

13.2 Notwithstanding the above requirement, banks must report to the Bank immediately, in accordance with the provisions of section 31(2) of the Act, in the event that their liquid assets holdings, on any day, fall short of the legal requirement. The banks are required to state the reason(s) for such failure and to indicate how and when the failure is to be rectified. In addition, the banks are required to explain the steps to be taken to ensure such failure will not occur again.

PART IV: CORRECTIVE MEASURES

14. **Remedial measures** - If a bank fails to comply with this Determination, then the Bank may pursue any remedial measures as provided under the Act or any other measures the Bank may deem appropriate in the interest of prudent banking practice.

PART V: EFFECTIVE DATE

15. **Effective date** - The effective date of this Determination shall be 1 December 2014.

16. **Repeal of BID-6** - This Determination repeals and replaces the Determinations on Minimum Liquid Assets Requirements (BID-6) published, as General Notice No. 292, in the Government Gazette No. 4373 of 6 November 2009.

Questions relating to this Determination should be addressed to the Director, Banking Supervision Department, Bank of Namibia, Tel: 283-5040.

Annexure Examples

1. Some examples for elements concerning scenarios for projecting cashflows considering both market-wide and bank-specific difficulties are the following:

To test market illiquidity or system-wide events, scenarios may assume:

- interbank market difficulties,
- the withdrawal of a major market player from a particular market,
- illiquidity in specific markets (e.g. crisis in emerging countries), and
- distress of specific currencies important for the bank's funding.

To test bank-specific liquidity distress, scenarios may assume:

- a downgrade of the bank's own rating or an expectation of a downgrade leading to an increase in funding cost,
- a sharp increase in the drawdown of commitments by borrowers,

- a sudden change in the composition of deposits and a sudden increase of cash deposit withdrawals, and
 - a tightening of credit lines.
2. Examples for reasonable assumptions when assessing the impact of these scenarios on the cash flows are:
- the bank's projected stock of potential assets,

Banks could consider (i) the expected proportion of maturing assets that will be rolled-over, (ii) the expected amount of new loans that will be approved, and (iii) the level of draw downs of commitments to lend that the institution will need to fund.
 - the cash flows arising from the bank's liabilities under stress conditions,

These may be derived in comparison with the cash flows that normally arise (i.e. given the level of roll-overs, the effective maturity of liabilities with non-contractual maturity and the growth of deposits). Assumptions on the liability side are likely to determine (i) the stable sources of funding in cases of stress, (ii) the potential runoff of liabilities with non-contractual maturities, (iii) the potential exercise of options giving counterparties the right to withdraw funds immediately, as well as (iv) the potential use of back-up facilities.
 - the market perception of the bank and its access to the markets.

This may include assumptions relative to the bank's access to OTC derivative and foreign exchange markets, as well as its access to secured funding, including by way of repo transactions. Securitisation may be also considered to assess potential triggering of early amortisation. Banks may also estimate their capacity to sell assets including the terms of such sales (e.g. discounts).
3. Examples for elements of a contingency plan are:
- definition of the events triggering the plan,
 - a description of the potential sources of funding either on the asset or on the liabilities side (e.g. slowing loan growth, sale or repo of liquid assets, securitisation, subsidiary sales, increasing deposit growth, lengthening maturities of its liabilities as they mature, draw-down of committed facilities, capital raising, stopping dividends to parents),
 - an escalation procedure detailing how additional funds could be raised,
 - a procedure for the smooth management of the contingency, which should include a description of the delineation of responsibilities (including the responsibilities of the management body) and a process to ensure timely information flow (for instance through contact lists), and
 - a procedure to guide potential contacts with external parties such as important counterparties, auditors, analysts, media or supervisory authorities.
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