GOVERNMENT NOTICE NO. 724 published on. 06/10/2023

THE BANKING AND FINANCIAL INSTITUTIONS ACT,
(CAP. 342)

REGULATIONS

(*Made under section 71*)

THE BANKING AND FINANCIAL INSTITUTIONS (LIQUIDITY MANAGEMENT) REGULATIONS, 2023

ARRANGEMENT OF REGULATIONS

Regulation *Title*

PART III
GENERAL PROVISIONS

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PART I
PRELIMINARY PROVISIONS

Citation

1. These Regulations may be cited as the Banking and Financial Institutions (Liquidity Management) Regulations, 2023.

Application

2. These Regulations shall apply to all banks and financial institutions except where prescribed otherwise by the Bank.

Interpretation

3. In these Regulations, unless the context otherwise requires-

"Act" means the Banking and Financial Institutions Act;

Cap. 197

"Bank" has the meaning ascribed to it under the Bank of Tanzania Act;

"bank" means an entity engaged in the banking business;

"banking business" means the business of receiving funds from the general public through the acceptance of deposit payable upon demand or after a fixed period or notice, or any similar operation through the frequent sell or placement of bonds, certificate, notice or other securities, and to use such funds, in whole or part, for loans or investments for the account of and at the risk of the person doing such business;

"demand liabilities" include current account deposits, time deposits, savings deposits, deposits of banks, interbank borrowings payable at call or within seven days, banker's cheques and drafts issued, payment orders and transfers payable, foreign currency deposits and borrowings, other deposits, off balance sheet commitments maturing within one year and such other liabilities as the Bank may determine;

"financial institution" means an entity engaged in the business of banking, but limited as to size, locations served, or permitted activities, as prescribed by the Bank or required by the terms and conditions of its licence;

"liquid assets" include-

(a) cash;

(b) current account balances and currency deposits with the Bank as shown in the books of the Bank;

(c) balances with other banks with maturities of twelve months or less or withdrawal on demand;

(d) uncommitted balances with banks outside Tanzania withdrawable on demand and money at call outside Tanzania after deducting there from balances owed to banks outside Tanzania;

(e) foreign exchange notes and coins including gold, treasury bills and other government securities maturing within one year and as long as there are unencumbered;

(f) commercial bills and promissory notes discounted at the bank;

(g) cheques and items for clearing; and

(h) such other assets as the Bank may determine; and

"off balance sheet exposure" means all items not shown on the balance sheet but which constitute credit risk or other risks as determined by the Bank; and such items include guarantees, acceptances, performance bonds, letters of credit, interest and exchange rate related items, and other off balance sheet items deemed by the Bank to constitute risks.

Objectives

4. The objectives of these Regulations are to-

(a) ensure that banks and financial institutions implement liquidity management standards that conform to established international norms; and

(b) maintain public confidence by ensuring that banks and financial institutions have sufficient liquidity at all times.

PART II
LIQUIDITY REQUIREMENTS

Liquidity management policies

5.-(1) The board of directors of a bank or financial institution shall adopt sound and prudent liquidity management and funding policies which are consistent with the principles set out in the Risk Management Guidelines for Banks and Financial Institutions issued by the Bank.

(2) The policies referred to under subregulation (1) shall, at minimum, include-

(a) delegation of responsibility for management of overall liquidity of the bank or financial institution to a specifically identifiable group, which may be known as the Asset and Liability Management Committee;

(b) establishment and implementation of effective techniques and procedures to identify, measure, monitor and manage liquidity risk both in individual currencies and overall;

(c) requirement to conduct maturity mismatch analysis consistent with principles set forth in the Risk Management Guidelines for Banks and Financial Institutions issued by the Bank;

(d) analysis of net funding requirements under alternative scenarios; and

(e) contingent liquidity planning.

(3) The liquidity management and funding policies referred to under subregulation (1) shall be reviewed annually or more frequently as may be necessary to ensure appropriateness and prudence.

(4) The policies referred to under subregulation (3) shall be submitted to the Bank not later than thirty days after being approved by the Board:

Provided that, where any changes are made to the policies, the bank or financial institution shall clearly indicate areas of such changes.

Contingency plan

6.-(1) A bank or financial institution shall submit to the Bank, a copy of the contingency plan for dealing with liquidity stress scenarios approved by its board of directors.

(2) The contingency plan referred to under subregulation (1) shall, at minimum, include-

(a) identification of a crisis management team and provision to notify the Bank promptly of emerging liquidity problem;

(b) procedures to ensure that all necessary information is available to enable senior management to make quick decisions including mechanisms to facilitate constant monitoring and reporting of signals;

(c) procedures for funding cash flow shortfalls in crisis situations, including expected sources of funds, an assessment of the cost of alternative funding strategies and the impact on the capital of the bank or financial institution; and

(d) communication strategies to deal with staff, customers and the public, including the media.

Minimum liquid assets ratio

7. A bank or financial institution shall maintain minimum liquid assets amounting to not less than twenty percent of its demand liabilities.

Balances abroad

8. Balances with banks abroad may be included in liquid assets after netting any amounts owed to that bank:

Provided that they are-

(a) withdrawable on demand or mature within seven days; and

(b) denominated in a currency which is freely convertible and transferable in international exchange markets.

Liquidity coverage ratio

9.-(1) A bank or financial institution shall at all times maintains a stock of unencumbered high quality liquid assets amounting to not less than a hundred percentage of total net cash outflows.

(2) All banks and financial institutions existing prior to the commencement of these Regulations shall be given a moratorium of fifty-four months from the date of publication of these

Regulations to comply with the requirements provided under subregulation (1).

(3) During the moratorium period a bank or financial institution shall be required to maintain stock percentage of unencumbered high quality liquid assets of total net cash outflows as follows:

(a) seventy percent, eighteen months from the date of publication of these Regulations;
(b) eighty percent, thirty months from the date of publication of these Regulations;
(c) ninety percent, forty-two months from the date of publication of these Regulations; and
(d) hundred percent, fifty-four months from the date of publication of these Regulations.

Higher liquidity coverage ratio

10. The Bank may prescribe higher liquidity coverage ratio based on the risk profile or quality of liquidity risk management of a bank or financial institution.

Net and higher stable funding ratio

11.-(1) Every bank or financial institution shall, at all times, maintain its available stable funding at levels not less than a hundred percentage of its required stable funding.

(2) All banks and financial institutions existing prior to the commencement of these Regulations shall be given a moratorium of fifty-four months from the date of publication of these Regulations to comply with the requirements provided under subregulation (1).

(3) During the moratorium period, a bank or financial institution shall be required to maintain percentage levels of its required available stable funding as follows:

(a) seventy percent, eighteen months from the date of publications of these Regulations
(b) eighty percent, thirty months from the date of publications of these Regulations;
(c) ninety percent, forty-two months from the date of publications of these Regulations; and
(d) hundred percent, fifty-four months from the date of publications of these Regulations

(4). The Bank may prescribe higher net stable funding ratio based on the risk profile or quality of liquidity risk management of a bank or financial institution.

Liquidity reports and maturity profile

12. A bank or financial institution shall, in the format and frequency prescribed by the Bank-

(a) submit to the Bank liquidity reports; and
(b) prepare a maturity profile of its assets and liabilities.

Compliance on solo and consolidated basis

13. Where a bank or financial institution directly or indirectly controls another bank or financial institution, the requirements of these Regulations shall be met by each bank or financial institution on a solo basis, and the parent company shall comply on a solo and consolidated basis.

PART III
GENERAL PROVISIONS

Sanctions and Penalties

14.-(1) Without prejudice to penalties and actions prescribed by the Act, the Bank may impose on any bank or financial institution any of the following sanctions for non-compliance:

(a) a penalty of the amount to be determined by the Bank;
(b) prohibition from declaring or paying dividends;
(c) suspension of the privilege to issue letters of credit or guarantee;
(d) suspension of access to the credit facilities of the Bank;
(e) suspension of lending and investment operations;
(f) suspension of capital expenditure;
(g) suspension of the privilege to accept new deposits;
(h) revocation of banking licence;
(i) suspension from office of the defaulting director, officer or employee; and
(j) disqualification from holding any position or office in any bank or financial institution under the supervision of the Bank.

(2) The penalty referred to in subregulation (1)(a) may apply to directors, officers or employees of the bank or financial institution.

Revocation and

15.-(1) The Banking and Financial Institutions (Liquidity savings GN No. 293 of 2014

Management) Regulations, 2014 are hereby revoked.

(2). Notwithstanding the revocation of the Banking and Financial Institutions (Liquidity Management) Regulations of 2014, all rules, circulars, orders, directions, notices, notification or other administrative act issued or undertaken before the commencement of these Regulations and which are in force immediately before the date of coming into operation of these Regulations shall remain in force until they are revoked, cancelled or varied by rules, circulars, orders, directions, notices, notification or other administrative act issued or given under these Regulations.

Dodoma,
26th September, 2023

EMMANUEL MPAWE TUTUBA
Governor