GOVERNMENT NOTICE NO. 41

FINANCIAL SERVICES ACT, 2010

(NO. 26 OF 2010)

FINANCIAL SERVICES (PRUDENTIAL LIQUIDITY REQUIREMENTS FOR DEPOSIT TAKING MICROFINANCE INSTITUTIONS) DIRECTIVE, 2014

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IN EXERCISE of the powers conferred by section 34 (2) (*c*) of the Financial Services Act, 2010, I, CHARLES S. R. CHUKA, Registrar of Financial Institutions, issue the following Directive—

PART I— PRELIMINARY

Citation

1. This Directive may be cited as the Financial Services (Prudential Liquidity Requirements for Deposit Taking Microfinance Institutions) Directive, 2014.

Interpretation

2. In this Directive, unless the context otherwise requires—

"institution" means a deposit taking microfinance institution;

"liquid assets" means assets easily converted into cash and cash equivalents such as current accounts, commercial bank deposits, and any investment with a maturity of thirty (30) days or less which can be

easily converted into cash without suffering a penalty or loss;

"liquidity" means the ability to fund at reasonable cost all contractual obligations of an institution, notably lending and investment commitments, deposit withdrawals, and liability maturities, in the normal course of business;

"liquidity risk" means the risk that cash or cash equivalents provided by normal operations will be inadequate to meet day-to-day obligations and commitments; and

"Registrar" means the Registrar of Financial Institutions appointed under the Act.

PART II—OBJECTIVES

Objectives

3. The objectives of this Directive are to ensure that institutions—

(*a*) effectively manage their liquidity positions to enable them meet all known obligations and commitments;

(*b*) implement liquidity and funds management policies that conform to established international standards; and

(c) maintain an adequate level of unencumbered, high quality liquid assets that can be converted into cash to meet their on-going liquidity needs.

PART III—REGULATORY REQUIREMENTS

Responsibility of the board

4. The board of directors of an institution shall—

(*a*) adopt and implement sound and prudent liquidity risk management and funding policies;

(*b*) ensure that the policies in subparagraph (1)(*a*) are reviewed as and or when necessary or at least once every two years to ensure that they remain appropriate and prudent;

(*c*) ensure that the management staff of that institution adopts a consistent method for measuring and assessing the liquidity of the institutions; and

(*d*) have a liquidity contingent plan for dealing with unforeseen liquidity squeezes that takes into account stressful conditions, which plan shall include procedures—

(*i*) to ensure availability of necessary information that enables senior management staff to make timely decisions;

(ii) to ensure availability of mechanisms that facilitate constant monitoring and reporting of liquidity indicators;

(iii) for funding cash-flow shortfalls in crisis situations, expected sources of funds, assessment of the cost of alternative funding strategies and the impact on the capital of the institutions; and

(iv) ensure that a robust management information system is in place for effective monitoring of liquidity positions.

Minimum liquidity ratio

5.—(1) An institution shall maintain at least twenty per cent (20%) of all deposits liabilities as liquid assets.

(2) The liquidity ratio calculation shall be liquid assets minus liabilities due within thirty (30) days or less, divided by total savings deposits.

(3) The minimum liquidity shall be maintained as a simple weekly average.

Exemptions

6.—(1) Pursuant to his authority under the Act, the Registrar may exempt an institution from observing the required minimum liquidity, where the institution has shown good cause necessitating the exemption.

(2) The Registrar shall determine the duration of the exemption.

Reporting requirement

7.—(1) An institution shall submit a report of its liquidity ratio to the Registrar every Friday of each week, in the manner prescribed in the form in the Schedule to this Directive.

(2) Where the date of submission falls on a holiday, the deadline shall be the nearest working day before the holiday.

PART IV—ENFORCEMENT

Administrative sanctions

8.—(1) When an institution has reported liquidity ratios below the stipulated minimum for two consecutive months, the Registrar shall require an enforceable undertaking from the board of that institution stipulating specific measures that will be taken to improve the liquidity position within the timeframe as shall be prescribed by the Registrar.

(2) If after the undertaking stipulated in subparagraph (1), the institution does not improve its liquidity position, the Registrar may impose directions and administrative penalties as provided under the Act or the Microfinance Act, 2010.

Act No. 21 of 2010

THIRD SCHEDULE (para. 7(1))

FORM—LIQUIDITY STATEMENT

	Monday Amount (K000s)	*Tuesday Amount (K000s)*	*Wednesday Amount (K000s)*	*Thursday Amount (K000s)*	*Friday Amount (K000s)*	*Average Amount (K000s)*
1. AVAILABLE LIQUID ASSETS						
a. Notes and coin, Malawi currency						
b. Cheques in the course of collection						
c. Balances at Reserve Bank of Malawi						
d. Balances at other banks within Malawi						

	Monday Amount (K000s)	*Tuesday Amount (K000s)*	*Wednesday Amount (K000s)*	*Thursday Amount (K000s)*	*Friday Amount (K000s)*	*Average Amount (K000s)*
e. Short-term Investments						
f. Bills of exchange, eligible for discount						
g. Local Registered Stocks,maturing within 6 years issued or guaranteed by Malawi Government						
h. Other eligible liquid assets						
Total available liquid assets						
i. DEDUCT: Suspense Account						
Net liquid assets (*a*)						
j. DEDUCT: Cheques in course of collection						
Net liquid assets (*b*)						
2.DEPOSITS AND SHORT-TERM LIABILITIES						
a. Domestic deposits						
b. Other borrowings and debt due in one year						
Total deposits and short-term liabilities						
3. LIQUIDITY RATIO:						

Made this 21st day of July, 2014.

C. S. R. CHUKA
Registrar of Financial Institutions

(FILE NO. ST/2/120)