

BANK OF NAMIBIA

No. 198

2007

**DETERMINATIONS UNDER THE BANKING INSTITUTIONS ACT, 1998
(ACT NO 2 OF 1998): 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), read in conjunction with Section 31 of the aforementioned Act, I hereby issue **this Determination on Minimum Liquid Assets (BID-6)**. The Determinations on Minimum Liquid Assets (BID-6) published, as general notice No.281, in the Government Gazette No. 3078 of 30 October 2003, is hereby repealed.

**TOM K ALWEENDO
GOVERNOR**

WINDHOEK, 5 July 2007

Determination No. BID-6

MINIMUM LIQUID ASSETS

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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
- (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

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

2 Method 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.

bank or building society concerned is controlled directly or indirectly.

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**" – ability to accommodate decreases in liabilities and fund increases in assets promptly, including off-balance sheet commitments, and at a reasonable cost.

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.

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 funds.

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.

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.

7. **Responsibility** - The board of directors of each bank shall be responsible for establishing policies and procedures which are adequate to ensure that, as a minimum requirement, each bank has written policies and procedures for measuring and managing liquidity which ensure daily compliance with the statutory liquid assets requirement.

These policies, including procedures, should address the cash flow management of the bank to ensure the short-term matching of out-going commitments and inflow of funds, management of marketable assets to ensure adequate stock of liquid assets and the borrowing capacity of the bank to ensure its ability to borrow market funds at short notice.

The policies and procedures should also include a variety of “what if” scenarios to ensure that banks are able to measure the behaviour of cash flows under different conditions. These scenarios should take into account factors that are both internal (bank-specific) and external (market-related).

PART III: IMPLEMENTATION AND SPECIFIC REQUIREMENTS

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

8.1 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 12 of this Determination.

8.2 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.

8.3 For prudential purposes, banks shall be required to report their liquidity through the maturity mismatches approach and furnish the Bank a monthly return.

8.4 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.

8.5 The debt securities issued by a PSE and Corporates shall have a minimum public issue size of N\$200 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+	Baa1	BBB+	20%
	BBB	Baa2	BBB	
Short term issue ratings	F1	P-1	A-1	10%
	F2	P-2	A-2	20%
	F3	P-3	A-3	30%

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.

9. **Maintenance** – A bank shall maintain the minimum amounts contemplated in paragraph 8.1 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** – Unless specifically or generally approved by the Bank in writing, no liquid assets used for the fulfillment of the requirements of paragraph 8.1 of this Determination shall be pledged or otherwise encumbered. 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.

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 or building societies shall be netted out.

12. Reporting requirements

- 12.1 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.

- 12.2 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

- 13. 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

- 14. Effective date** - The effective date of this Determination shall be 17 July 2007.
- 15. Repeal of BID-6** - This Determination repeals and replaces the Determinations on Minimum Liquid Assets Requirements (BID-6) published, as general notice No. 281, in the Government Gazette No. 3078 of 30 October 2003.

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