

GOVERNMENT NOTICE NO. 5

BANKING ACT

(CAP. 41:02)

LIQUIDITY RESERVE DIRECTIVE, 2008
(NO. LRR 2-08 TREASURY)

ARRANGEMENT OF PARAGRAPHS

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IN EXERCISE of the powers conferred by section 38 of the Banking Act, the Reserve Bank of Malawi issues the following Directive—

1. This Directive may be cited as the Liquidity Reserve Requirement Directive, 2008, (No. LRR 2-08 TREASURY). Citation
2. In this Directive, unless the context otherwise requires— Interpretation
 - “depository institution” means any financial institution licensed under the Banking Act which accepts demand, savings, or time deposits, or any variation thereof or financial arrangement;
 - “eligible assets” means the balances on deposit with the Reserve Bank, vault cash and any other assets as the Reserve Bank may define from time to time;
 - “required reserves” means eligible assets held by a depository institution for the purpose of satisfying the Liquidity Reserve Requirement stipulated in this Directive.
3. This Directive shall apply to all depository institutions which— Application
 - (a) are operating in Malawi;
 - (b) are within the scope of the Banking Act; and
 - (c) accept demand, savings or time deposits or any substantial equivalent thereof.

Objective	4. The objective of this Directive is to strengthen the Liquidity Reserve Requirement (LRR) as an instrument of monetary policy while at the same time ensuring flexibility in liquidity management.
Minimum LRR	5.—(1) Each depository institution shall maintain required reserves in relation to the preceding week's total local currency deposit liabilities, including Government deposits, repurchase agreements and any other liabilities as the Reserve Bank may define from time to time. (2) The LRR ratio shall be fifteen point five per cent (15.5%).
Reserve maintenance period	6.—(1) The minimum LRR specified in paragraph 5 above shall be maintained as a simple one week (Monday–Sunday) average, that is to say, a depository institution can have eligible assets whose total can be less than the LRR on some days of the week: Provided that the simple average of the daily balances for the seven (7) days meets the LRR. (2) Monitoring of compliance shall be effective from the first business day of the week.
Deadline for meeting LRR	7. All depository institutions shall ensure that the LRR has been observed by close of business on the last working day of the week.
Penalty for non-compliance	8.—(1) Any depository institution, to which this Directive applies, which fails to maintain the weekly average minimum Reserve Requirement as specified in paragraph 5 violates this Directive and shall be liable to a penalty charge of zero point fifty per cent (0.50%) of the amount of violation multiplied by seven (7). (2) Notwithstanding sub-paragraph (1), the Reserve Bank may take additional measures specified in paragraphs 15 and 16 of this Directive.
Settlement of penalty charges	9.—(1) Any depository institution liable to pay penalty charges in respect of LRR violations, shall make the payment by 4.00 p.m. (1600 hrs) on the first day of the week immediately following the week for which the LRR was not complied with. (2) Where the depository institution has not settled the penalty charges in accordance with sub-paragraph (1), the Reserve Bank shall make a direct debit of the concerned depository institution's operating account with the Reserve Bank.
Use of funds maintained for LRR	10.—(1) A depository institution may use all deposits with the Reserve Bank for domestic cheque clearing. (2) Notwithstanding sub-paragraph (1), where a depository institution anticipates that the usage of funds for clearing purposes will result into a violation of the LRR by the end of the week, the depository institution shall provide additional funds to meet the anticipated shortfall.
Interest on required Liquidity Reserves	11. Funds maintained on deposit with the Reserve Bank for the purpose of satisfying the LRR shall not earn any interest.

- 12.—(1) The basis for computing the required reserve amount shall be the simple average of daily deposit liabilities specified in paragraph 5 above. Computing of required Liquidity Reserve amount
- (2) The averages shall be computed using totals as of the close of business for each working day of the week in accordance with appendix 1 attached hereto and each depository institution shall show the structural breakdown of the deposit liabilities.
- 13.—(1) Each depository institution shall submit to the Reserve Bank its daily deposit liabilities as stipulated in paragraph 12. above during the previous week's business days. Submission of data for computation of LRR
- (2) The position attained on the last business day shall be maintained for holidays and remaining days of the week.
- (3) The depository institution shall submit data by 11.30 a.m. on the first business day of the week in which the new LRR is to apply.
- (4) If a depository institution fails to send the returns to the Reserve Bank within the time limit specified, the depository institution shall be liable to a penalty charge at the rate of fifty thousand Kwacha (K50,000) per day.
- 14.—(1) The Reserve Bank may, where a depository institution has shown good cause, exempt the depository institution from observing the required cash reserve. Exemptions to LRR
- (2) The Reserve Bank shall determine the duration for the exemption granted under sub-paragraph (1).
- 15.—(1) Where the Reserve Bank determines that a depository institution is not in compliance with this Directive, it may impose on the depository institution the remedial measures specified under section 39 of the Banking Act. Remedial measures
- (2) If the non-compliance of a depository institution results or has the potential to result in an unsafe or unsound operating condition, then the Reserve Bank may impose on the depository institution remedial measures specified under section 32 of the Banking Act.
16. In addition to the remedial measures referred to in paragraph 15 above, the Reserve Bank may impose any or all of the following administrative sanctions upon a depository institution or its board of directors and managing executive officers for non-compliance with this Directive— Administrative sanctions
- (a) prohibition from declaring or paying dividends;
 - (b) prohibition from establishing new branches or facilities;
 - (c) prohibition from engaging in new services or activities or expanding existing services or activities;
 - (d) suspension of access to Reserve Bank standing facilities;
 - (e) suspension of lending, investment and credit extension operations;
 - (f) prohibition from acquiring additional fixed assets;
 - (g) prohibition from accepting further deposit liabilities; or

(h) prohibition from declaring or paying bonuses, salary incentives, severance packages, management fees, or other discretionary compensation schemes to directors or managing executive officers.

Revocation 17. Directive No. LRR1-08 is revoked.

APPENDIX 1

WORKSHEET FOR COMPUTING

LIQUIDITY RESERVE AMOUNT (para.12 (2))

Daily domestic deposit totals for the week ending

<i>Day</i>						<i>Total Applicable Deposit Liabilities</i>
1.	..	..	..	..	..	_____
2.	..	..	..	..	..	_____
3.	..	..	..	..	..	_____
4.	..	..	..	..	..	_____
5.	..	..	..	..	..	_____
6.	..	..	..	..	..	_____
7.	..	..	..	..	..	_____
TOTAL	<input style="width: 100%; height: 20px;" type="text"/>
Divided by No. of Days (7)	<input style="width: 100%; height: 20px;" type="text"/>
AVERAGE DAILY TOTAL	<input style="width: 100%; height: 20px;" type="text"/>
Multiplied by Reserve Percentage	..	..	..	..	..	15.5%
REQUIRED RESERVE AMOUNT	<input style="width: 100%; height: 20px;" type="text"/>

Date Submitted Chief Executive

Date Received by RBM Received by

Made this 9th day of May, 2008.

(FILE NO. ST/2/120)

VICTOR MBEWE
Governor