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Circular to all Chief Executives of Commercial Banks, Credit Institutions and Microfinance Deposit Taking Institutions

Draft Amendments to the Financial Institutions (Liquidity) Regulations, 2005 and Guidelines on Internal Liquidity Adequacy Assessment Process (ILAAP)

In a bid to enhance the resilience of Supervised Financial Institutions (SFIs) and the **regulatory framework**, Bank of Uganda (BOU) **embarked** on the review and **amendment** of the **Financial Institutions (Liquidity) Regulations, 2005**. The proposed amendments are intended to: enhance SFI resilience to heightening of liquidity risk given the evolution and growth of the financial system, increasing complexity of product offerings therein, and associated risks therefrom; ensure national compliance with the EAC Monetary **Affairs** Committee decisions on the **harmonization** and **convergence** of supervisory practices across the EAC; and to facilitate implementation of the Basel III regulatory framework for liquidity risk.

The proposed amendments contain three main enhancements:

1. Expansion of the list of eligible Liquid Assets given recent market developments.
2. Introduction of two new liquidity measures as prudential requirements, namely: The Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). The key objective of the LCR is to ensure that SFIs maintain an adequate stock of unencumbered high quality liquid assets to meet their liquidity needs over a 3- **calendar** day liquidity **stressed** period. With respect to the NSFR, it is a measure to assess SFI reliance on short-term wholesale funding, and one that enhances funding risk assessments across all on- and off-balance sheet items.
3. A prudential **requirement** for SFIs to periodically undertake an Internal Liquidity Adequacy Assessment Process (ILAAP) to clearly identify and manage risks to their liquidity.

This is to forward to you the draft amendments to the Financial Institutions (Liquidity) Regulations and the Guidelines for ILAAP, for your comments.

Comments should be forwarded to: JNansamba@bou.or.ug and pkahwa@bou.or.ug; by close of business on 3rd December 2021.



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