

BANK OF UGANDA



12 MAY 2022

GUIDELINES FOR BORROWING FROM THE EMERGENCY LIQUIDITY ASSISTANCE (ELA) FACILITY

The Bank of Uganda has approved the establishment of the Emergency Liquidity Assistance (ELA) facility at the BOU as the Lender of Last Resort (LoLR) window for Supervised Financial Institutions (SFIs). Under this facility, the central bank may provide funds to a solvent SFI that is facing idiosyncratic liquidity stress or to provide system-wide liquidity in order to mitigate a systemic liquidity/market shock. The central objective of this facility is to safeguard and ensure financial system stability.

The establishment of the ELA Facility is the last step in the reforms to the Lombard Window, which was split into two: a Standing Lending Facility (SLF) as a monetary policy tool; and this ELA as a financial stability tool. The SLF established in September 2020 is available to commercial banks that may face short-term liquidity needs, with a dual objective of supporting monetary policy operations and keeping interbank rates within the CBR band.

The following are the guidelines that govern access to the ELA facility:

1. Eligible SFIs shall be SOLVENT commercial banks and credit institutions supervised by BOU.
2. Access to the facility is at the initiative of SFIs; however, liquidity assistance is provided at the discretion of BOU - including setting the terms and limits on the amount that the SFI can access.
3. All applications should be addressed to the Executive Director Operations, copied to Executive Director Supervision and Director Financial Markets.
4. Applications should be received at BOU at least two (2) working days before the day ELA is to be provided.
5. The applying SFI must:
 - a) Demonstrate that it has exhausted or is likely to exhaust other available liquidity facilities including interbank channels/credit lines, and other BOU standing facilities.
 - b) Provide evidence that it has implemented its Liquidity Contingency Plan (LCP) but has failed to resolve the situation, as well as accurate and verifiable information regarding its liquidity condition and forecasts, and its funding gap.

- c) Be solvent and viable in line with the provisions of FIA 2004 (as amended). Viability is a forward-looking assessment and hence Liquidity Assistance may be declined if the SFI is either: (i) insolvent, or (ii) has no prospect of becoming viable in the future.
 - d) Submit a Liquidity Restoration Plan (LRP) that details a credible and viable exit strategy from the ELA under different but plausible scenarios. The LRP must include a weekly Liquidity Gap Analysis (LGA) spanning the period for which the ELA is being requested.
6. The facility will be priced at the **Bank Rate**. BOU reserves the right to extend ELA at a rate that is lower than the market or the bank rate during periods of systemic liquidity stress, with the rate applicable under the Standing Lending Facility (SLF) as the floor.
 7. The duration of the facility will start from 7 days (upper limit of the Standing Lending Facility) with a possibility of rollover for up to a maximum of 12 months, subject to BOU approval. The rate at the time of rollover shall be based on the prevailing Bank Rate.
 8. Liquidity Assistance requested for a period not exceeding three months will be provided as an Advance and will be secured by Government securities only. For periods exceeding three months, BOU will accept a wider set of collateral including Government securities. A haircut shall be applied to the collateral for accessing the facility.
 9. The list of eligible collateral is provided in Table 1.

Table 1: Collateral

COLLATERAL CATEGORY
Government securities (less than 91 days)
Government securities (more than 91 days) whose time to maturity shall not be more than twenty-five years
Unencumbered Balances with banks in Uganda and abroad
Corporate bonds
Fixed assets owned by the SFI
Residential mortgage loans (performing portfolio)
Other secured loans (performing portfolio)
Any other asset as may be approved by the BOU Board

10. All collateral shall be valued and encumbered, in line with best practice, before ELA is provided, as follows:
 - a) Government securities will be valued by BOU based on mark-to-market value, and encumbrance through a lien on the Central Security Depository (CSD) until the Global Master Repurchase Agreement (GMRA) is completed. Thereafter it shall be based on sale-buy back basis.
 - b) Deposits with other banks, and other marketable securities e.g. corporate bonds shall be valued by BOU based on mark-to-market value, and encumbered through a lien for bonds or through a tripartite contract with the borrowing institution and the bank where the fixed deposit is held giving BOU the first right over the pledged deposit.
 - c) Residential mortgages and other secured loans shall be valued by BOU based on the NPV of associated cash flows using a realistic discount factor, as well as by an

independent expert at the cost of the borrowing institution. Encumbrance shall be effected through a contract with the borrowing institution to ring-fence the loan portfolio pledged as security. The borrowing institution remains responsible for managing any loan portfolio pledged as collateral but BOU reserves the right to transfer these pledged assets to a third party for collection, should the need arise.

- d) Fixed assets will be valued by an independent valuer at the cost of the beneficiary institution. BOU shall register a charge on the title.
11. The borrowing institution shall be required to replace the collateral or provide additional collateral whenever due diligence indicates a negative divergence between the book value and the market value of the pledged collateral.
 12. To avoid delays and facilitate quick decision making in disbursing ELA, all eligible institutions will be allowed to pre-position collateral, subject to approval by BOU.
 13. The borrowing institution shall be subject to enhanced ongoing supervisory oversight and monitoring for the duration of ELA requested. This enhanced monitoring and supervisory oversight shall include higher frequency reporting and monitoring covering compliance with Liquidity Restoration Plan, as well as other supervisory requirements as BOU may determine from time to time until ELA is fully repaid.
 14. Where specific amounts are approved, the account of the borrowing bank at BOU (for commercial banks) or a designated account at the institution's bank (for Credit Institutions), shall be credited immediately. On the date of expiry of the facility (maturity date), the Commercial Bank Clearing Account at the BOU shall be debited with the principal amount borrowed and the interest accrued. For Credit Institutions, on the date of expiry of the loan (maturity date), the commercial bank holding the account where the ELA funds were credited shall be directed to debit the said account with the principal amount and interest accrued in full, and remit it to BOU.
 15. BOU will maintain confidentiality regarding provision of ELA and may only disclose any lending under the facility with a lag, mindful of the implications for financial system stability.
 16. If the request is rejected, the Executive Director Operations or a representative shall inform the applicant, by email or a formal letter.
 17. During periods of systemic liquidity stress or system wide market shock, BOU may set up exceptional liquidity facilities to provide liquidity assistance to all SFIs or group of SFIs, and shall announce to the eligible financial institutions, the terms and rules thereof.

The effective date for the ELA facility is **1st June 2022** and on the same date, the current rules for accessing the Lombard Window will cease. These guidelines may be changed by Bank of Uganda as and when deemed necessary, however, any changes shall be communicated to all eligible SFIs, immediately the change is made.