



BANK OF GHANA LIQUIDITY ASSISTANCE FRAMEWORK

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LIST OF ABBREVIATIONS

BOG	BANK OF GHANA
BSF	BANKS, SAVINGS & LOANS COMPANIES, AND FINANCE HOUSES
CAR	CAPITAL ADEQUACY RATIO
CSD	CENTRAL SECURITIES DEPOSITORY
ELA	EMERGENCY LIQUIDITY ASSISTANCE
GIS	GHANA INTERBANK SETTLEMENT
GMRA	GLOBAL MASTER REPURCHASE AGREEMENT
GOG	GOVERNMENT OF GHANA
IFRS	INTERNATIONAL FINANCIAL REPORTING STANDARDS
ILF	INTRADAY LIQUIDITY FACILITY
LCP	LIQUIDITY CONTINGENCY PLAN
LDD	LEGAL DUE DILIGENCE
LGA	LIQUIDITY GAP ANALYSIS

1.0 INTRODUCTION

In executing its policy objectives, the BOG undertakes a number of operations to meet liquidity needs of banks and certain Specialised Deposit-Taking Institutions and to reinforce its monetary policy stance. The BOG's objectives are specified in Section 3 of the BOG Act, 2002 (Act 612) as amended by the BOG Amendment Act, 2016 (Act 918) hereinafter referred to as the "BOG Act as amended". The Section mandates the BOG to maintain price stability, promote effective and efficient operation of the banking and credit system, and contribute to the maintenance of financial stability in Ghana.

Towards achieving its financial stability objective, the BOG has developed a clear and robust policy and operational framework for providing Intraday Liquidity Facility (ILF) and Emergency Liquidity Assistance (ELA). The ILF is to support efficient functioning of the payment and settlement systems and the ELA to provide liquidity support to eligible and solvent banks, savings and loans companies, and finance houses (BSFs) facing temporary liquidity challenges. These two liquidity instruments supplement the Global Master Repurchase Agreement (GMRA)-backed reverse repurchase facility that the BOG currently provides to banks as part of its monetary policy framework.

This document reflects the key elements of the BOG's new ILF and ELA. The framework has been designed to address weaknesses that were identified by the BOG during the recent banking sector crisis, and aims to promote transparency, allow better liquidity planning by BSFs while protecting the balance sheet of the BOG.

Chapter 2 of this document presents the ILF. Chapter 3 articulates modalities for the ELA facility and Chapter 4 concludes.

2.0 INTRADAY LIQUIDITY FACILITY

2.1 Introduction

Section 4(1)(e) of the BOG Act as amended mandates the BOG to regulate, supervise, and promote Ghana's payment and settlement systems. Towards fulfilling this mandate, the BOG has among others set up the Ghana Interbank Settlement (GIS) system¹ to settle high-value interbank payment obligations in real time. Participating banks are required to maintain

¹ The Ghana Interbank Settlement system is Ghana's Real Time Gross Settlement system.

sufficient positive balances in their settlement accounts to meet their obligations within the GIS system on real time basis. This will prevent settlement failures which could adversely impact financial stability and monetary policy transmission. To mitigate the probable risk of settlement failures resulting from insufficient balances, the BOG has made available an ILF to all participating banks in the GIS system on the terms and conditions summarized below.

2.2 Participation, Pricing, and Eligible Collateral

The ILF is interest free and available to all participating banks in the GIS system. The facility shall be secured with eligible collateral² that will be subject to haircut requirements.

2.3 Request for ILF, Repayment and Default

The request for and the repayment of an ILF shall be automated in the Central Securities Depository (CSD) and the GIS systems. Participants requiring ILF shall initiate the process by assigning acceptable securities to the BOG in the CSD system. Participants are required to repay their ILF before the initial cut-off time (4:00 pm on the same day the facility was granted) failing which the GIS system will automatically reverse all outstanding ILF just before the final cut-off time (5:00 pm on the same day the facility was granted).

An unpaid ILF after the final cut-off time will attract a one percent penalty on the due amount and shall be deemed to constitute a request for an overnight reverse repo that will attract the highest prevailing overnight reverse repo rate. The transaction shall be subject to the terms and conditions of the repo facility contained in the GMRA-backed *BOG Guidelines for Repos in Ghana*. The same collateral used to secure the ILF shall be used to secure the overnight reverse repo, although the BOG reserves the right to request for additional eligible collateral to secure the bank's obligations.

2.4 Suspension or Termination of Participation in ILF

The BOG shall suspend or terminate a participant's access to ILF under any of the following circumstance:

- a) the account of the participant in the GIS or the CSD system is suspended or closed;
- b) the participant fails to meet any of the ILF conditions set out in this document; or
- c) the operating license of the participant is withdrawn by the BOG.

² Eligible collateral for ILF are: Securities (Bills, Notes, and Bonds) issued by the GOG; Bonds guaranteed by the GOG; BOG Bills; and Eurobond issued by the GOG.

3.0 EMERGENCY LIQUIDITY ASSISTANCE

3.1 Introduction

Section 3(2) of the BOG Act as amended enjoins the BOG to promote effective and efficient operation of the banking and credit system, and contribute to the maintenance of financial stability in Ghana. Section 46A of the BOG Act as amended allows the BOG to provide ELA to a solvent BSF that is facing temporary liquidity challenges. Acknowledging that prolonged liquidity shortages could fuel solvency challenges with ramifications for financial stability, public confidence, and the economy, the BOG discretionarily exercises its Lender of Last Resort function subject to defined preconditions.

3.2 Use of ELA

The ELA accessed by a BSF shall be used solely for honouring customer withdrawals and meeting maturing non-capital-related debt obligations as shall be indicated in the request to the BOG. All other uses including payments to affiliates, insiders³, and related parties are prohibited.

3.3 Eligibility Criteria

For a BSF to qualify for ELA, the applicant institution must:

- a) be solvent, viable and meet the BOG's prescribed minimum capital adequacy ratio (CAR) in present terms and on a forward-looking basis;
- b) be experiencing temporary⁴ liquidity challenges;
- c) demonstrate that it has exhausted all avenues for addressing its temporary liquidity challenges, including from the interbank market, the BOG reverse repo facility, other monetary policy instruments the BOG may introduce, and from shareholders;
- d) provide clear evidence that it has implemented its Liquidity Contingency Plan (LCP) but has subsequently failed to remedy the situation;
- e) be of systemic importance such that being deprived of liquidity assistance would threaten the stability of the financial system;
- f) have eligible collateral to adequately secure the exposure; and
- g) provide evidence that significant shareholders, directors, and key management of the institution are fit and proper.

In addition, the BOG may apply other conditions as it deems necessary.

³ Affiliates and insiders are as defined in Section 156 of the Banks and Specialized Deposit-Taking Act, 2016 (Act 930).

⁴ Liquidity challenges are envisaged to be transient and not expected to persist for more than three months.

3.4 ELA Application Process and Requirements

A BSF shall apply for ELA in accordance with all of the following:

- a) submit a written application to the Governor of the BOG for ELA, signed by the institution's Board Chair or a duly appointed representative;
- b) the application shall be accompanied by signed Board minutes where the need for ELA was discussed and approved;
- c) include the list of all maturing debt obligations and customer deposits;
- d) demonstrate that it is currently solvent but experiencing temporary liquidity pressures;
- e) indicate the causes of the liquidity challenges, how long the situation has persisted, and how it intends to resolve the liquidity challenges going forward;
- f) include the applicant's Board-approved LCP and how it was activated to address the liquidity stress;
- g) include a weekly Liquidity Gap Analysis (LGA) spanning the period for which the ELA is being requested. The analysis must indicate a credible and viable exit strategy (liquidity restoration plan) under different plausible assumptions;
- h) include a detailed daily ELA utilization plan covering the duration of the liquidity assistance; and
- i) evidence of the applicant's attempts to raise liquidity from its parent or shareholder(s) and the inability of same to provide the liquidity.

3.5 Tenure, Amount, and Pricing of ELA

The tenure for ELA shall be up to three months. The maximum amount that may be approved by the BOG will be based on the liquidity gap identified, the applicant's ability to repay, the adequacy of eligible collateral made available, and the assessed impact of the ELA on financial stability and monetary policy objectives. ELA will be priced at all times to prevent moral hazard. The applicable interest rate shall, at a minimum, be at a margin above the BOG's prevailing highest reverse repo rate.

3.6 Eligible Collateral for ELA

Eligible collateral for ELA may be broader than and distinct from those eligible under the monetary policy window (reverse repo) and the ILF. Collateral valuation will be done by the BOG in line with the principles of IFRS 13. Valuation of marketable collateral will be on a mark-to-market basis. Where markets are thin or collateral non-marketable, the BOG may adopt mark-to-model techniques. To maintain the value of the collateral, the BOG will monitor the value of assigned securities at pre-determined frequencies and apply margin calls when the collateral value falls below a specified trigger level. To mitigate concentration risk, the BOG may

impose limits on collateral depending on the issuer, use of the collateral, currency denomination or on the share of total issuance of a particular security type submitted. The BOG will obtain valid first priority security interest in all collateral.

3.7 Pre-positioning of Collateral

To overcome the challenge of transferring and valuing collateral at short notice, the BOG may require counterparties to pre-position collateral outside the CSD system with it. Prepositioning is to help provide assurance on the availability, quality, value, and risks of the applicant's collateral in advance of a request for an ELA. In this respect, the applicant shall:

- a) engage an independent counsel acceptable to the BOG at the applicant's cost, to conduct legal due diligence (LDD). The LDD will, among others, establish the title/validity and enforceability of collateral documentation while ensuring the asset is free from encumbrances;
- b) procure the services of a third-party agreed with the BOG at the applicant's cost, to undertake an audit/financial review of qualifying assets to ascertain the existence, quality, and value of the assets; and
- c) submit the legal and audit/financial due diligence reports to the BOG for review and clearance.

Once the above three-stage process is completed, the BSF shall submit all required information including the signed documentation on these prospective collateral to the BOG.

3.8 Application of Haircuts

The BOG shall subject collateral to haircut requirements. The guiding principles for haircut application are:

- a) apply the same haircut to assets with similar risk characteristics; and
- b) apply add-on haircut to account for additional risk.

3.9 Provision of ELA to Subsidiaries of Foreign Banks

The BOG recognises the responsibility of a parent bank or holding company to meet liquidity needs of its subsidiary in Ghana. However, if the subsidiary is determined by the BOG to be systemically important to the Ghanaian financial system, the BOG may at its discretion grant a requested ELA if the parent bank or holding company provides a guarantee to the BOG to cover the full exposure, which guarantee shall be provided with a "no-objection" from the home regulator/supervisor of the parent bank or holding company. The other eligibility criteria under this framework will apply.

3.10 Rollover of ELA

Under exceptional circumstances, the BOG may allow a one-time rollover of the outstanding balance for up to a month under the following conditions:

- a) BOG receipt of a signed application for rollover from the Board Chair or a duly appointed representative which includes justification for the rollover;
- b) attached signed Board minutes or resolution authorizing the rollover;
- c) application reaching the BOG at least ten working days before maturity of the facility;
- d) entity staying solvent and keeping the regulatory minimum CAR on an on-going basis; and
- e) provision of adequate eligible collateral to cover the exposure.

3.11 ELA Monitoring

To effectively monitor ELA utilisation, the BOG will open and maintain an escrow account at its Banking Department for the applicant BSF which will be credited with the approved ELA amount. The BOG will disburse the ELA periodically in line with the approved schedule of usage; the funds so disbursed shall be used by the BSF strictly in line with Sub-Section 3.2 of this document. The BSF will be subject to enhanced BOG supervisory surveillance.

3.12 Disclosure Requirements (ex-post transparency)

To enhance transparency and accountability, the obligor BSF is required to fully disclose ELA accessed and its utilisation in its published audited financial statements. ELA accessed during the first half of the year shall be disclosed in the BSF's annual accounts for that year and that accessed in the second half of the year disclosed in its annual accounts for the ensuing year.

3.13 Default Situations

Failure to comply with the terms of the ELA would attract sanctions from the BOG. In addition, the BOG shall immediately foreclose the underlying collateral of the defaulting BSF. Where necessary, the BOG may initiate prompt corrective actions against the obligor as required under Act 930.

4.0 CONCLUSION

In pursuance of its objectives, the BOG among others provides liquidity backstop to eligible solvent financial institutions facing temporary liquidity stress. As such, the BOG provides ILF to banks for efficient functioning of the payment and settlement systems, and at its discretion and under exceptional liquidity stress conditions provides ELA to an applicant BSF to safeguard financial stability. This policy and operational framework will help promote financial stability while minimizing moral hazard as well as risks to the BOG's balance sheet.