

MALDIVES MONETARY AUTHORITY

PRUDENTIAL REGULATION

No. 06-2009

LIMITS ON INTER-BANK EXPOSURES

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PART I: PRELIMINARY

- 1: Short Title** – Inter-bank exposures.
- 2: Authorization** – The Maldives Monetary Authority (MMA) is authorized to issue regulations under Art. 36 read with Art. 29-34 of the MMA Act 1981 (MMA Act) in relation to prudential matters to be complied with by all banks and deposit-taking institutions (collectively 'banks'), or other persons as the regulation may specify.
- 3: Application** – All banks and deposit-taking institutions licensed by the MMA to conduct banking business in the Maldives.
- 4: Definitions** – Terms used within this regulation are as defined in the Act, as defined below, or as reasonably implied by contextual usage:
 - 1) "**bank**" – means all banks and deposit-taking institutions licensed by the MMA to conduct banking business in the Maldives.
 - 2) "**capital base**" – means Total Capital as defined in MMA Prudential Regulation No. 01-2008 Capital Adequacy.
 - 3) "**exposure**" – for purposes of this regulation includes the following:
 - (a) all deposits in another bank;
 - (b) all loans or advances to another bank;
 - (c) all purchases of securities or other assets from another bank that are subject to an agreement to repurchase;
 - (d) all guarantees, acceptances, or letters of credit issued on behalf of another bank;
 - (e) all purchases of or investments in securities issued by the other bank or institution;
 - (f) all securities issued by the other bank or institutions and accepted as collateral.
 - 4) "**inter-bank exposure**" – means any exposure, as defined above, between a bank in the Maldives and any other domestic or foreign bank or branch; may also be referred to as inter-bank placements.

PART II: STATEMENT OF POLICY

- 1: Purpose** - This regulation is intended to limit the potential for contagion risk to the aggregate banking system in the Maldives posed when one bank fails or is unable to repay its obligations to other banks in the Maldives as and when they are due.
- 2: Scope** – This regulation applies to all banks licensed and operating in the Maldives and to any inter-bank exposure between banks as defined above.
- 3: Responsibility** – It is the responsibility of the board of directors of each bank to adopt policies and establish procedures to ensure that all exposures resulting from inter-bank placements (a) give highest priority to the safety and soundness of the bank making the placement and incurring the exposure, (b) are made and administered according to prudent lending and investment practices, and (c) fully comply with the limitations set forth in this regulation. At a minimum, the policy shall set forth the terms and conditions for all inter-bank placements, including any internal limitations that may be equivalent to or more stringent than those specified in this regulation, and shall further establish the criteria for selecting which banks are acceptable for inter-bank placements and which are not.

PART III: IMPLEMENTATION AND SPECIFIC REQUIREMENTS

- 1: Limits and Requirements** – The following limits and requirements shall apply:
- (a) Any inter-bank exposure having a term or settlement period more than 7 calendar days shall not exceed 30% of a bank's capital base. Further, any amount of such exposure that exceeds 15% of a bank's capital base must be fully secured at all times as defined paragraph 2 below.
- (b) For any inter-bank exposure having a term or settlement period of 7 calendar days or less, the 30% exposure limitation and security requirement above shall not apply. However, if such exposure is renewed, rolled-over or extended and the MMA determines that such renewal, roll-over or extension results in an exposure that has, in substance, a settlement period of more than 7 days, then the exposure will be treated as provided in (a) above and be subject to the requirements therein.
- (c) No bank shall hold, at any time, bankers' acceptances issued (i.e. 'accepted') by another bank which, in the aggregate, exceed 200% of the capital base of the bank holding such acceptances.
- 2: Security** - For purposes of paragraph 1 above, eligible security shall include bills, notes, bonds, or other similar evidences of indebtedness issued by the national government of the Republic of the Maldives, or which an agency or instrumentality of the Republic of the Maldives has unconditionally agreed to purchase or has unconditionally guaranteed as to payment of both principal and interest.
- 3: Nonconforming exposures** – (a) If an inter-bank exposure complies with the limits in paragraph 1 when made but later fails to comply because (i) the exposed bank's capital base declines, or (ii) the other bank merges with another bank to which this bank is also exposed, or (iii) the lending limit or capital base rules change, or (iv) the collateral securing the exposure fails to qualify, then the exposure will be treated as 'nonconforming'.
- (b) if an inter-bank exposure becomes 'nonconforming' for reasons (i-iii) above, then the bank must promptly take all reasonable actions to bring the exposure into compliance unless doing so would be inconsistent with safe and sound banking practices.
- (c) if an exposure becomes 'nonconforming' for reason (iv), then the bank is required to act promptly to bring the exposure into compliance within 10 calendar days, unless judicial proceedings, regulatory actions, or other circumstances beyond the bank's reasonable control prevent taking action.
- 4: Reporting Requirements** – Each bank shall submit returns in respect of exposures in the form and frequency as the MMA may prescribe.

PART IV: CORRECTIVE MEASURES

- 1: Remedial measures and sanctions** – If a bank, its directors or managers violate any provision of this regulation in a willful, negligent or flagrant manner which results, or threatens to result, in an unsafe or unsound condition of the bank or that threatens the interests of depositors, creditors or the general public, or if the bank, its directors or managers fail to comply with the instructions and reporting requirements in this regulation, the MMA may take any one or more of the corrective measures or impose

any administrative penalties as provided in the MMA Act. Such measures and penalties may include, but are not limited to, any or all following –

- (a) Issue a warning to the bank;
- (b) Enter into an informal agreement with the bank for correcting violations and any unsafe and unsound practices and conditions;
- (c) Issue an order to the bank requiring it to cease and desist from particular actions and further to take affirmative actions to correct violations and any unsafe & unsound practices and conditions;
- (d) Require the board of directors to inject additional capital funds;
- (e) Restrict the scope of activities of the bank including imposing limitations on any foreign exchange activities, granting of credit, making of investments, acceptance of deposits, borrowing of money, or other activities as the MMA may deem appropriate;
- (f) Suspend access to the credit facilities of the MMA;
- (g) Suspend or require the removal of any directors, executive officers or managers;
- (h) Appoint an advisor or a conservator;
- (i) Impose an administrative penalty on the bank or any of its directors, executive officers or managers; or
- (j) Hold personally liable and seek restitution from, as the law allows, any directors, executive officers or major shareholders of the bank; or
- (k) Suspend or revoke the bank's license.

PART V: EFFECTIVE DATE

1: **Effective date** – This regulation shall come into effect on 18th May 2009.

Questions relating to this regulation should be addressed to the Senior Executive Director, Financial Sector Division, Maldives Monetary Authority.