THE

LIBERIA OFFICIAL

GAZETTE

PUBLISHED BY AUTHORITY

VOL. XX WEDNESDAY, JANUARY 8, 2020 NO.06

EXTRAORDINARY

The Government of the Republic of Liberia announces that the Central Bank of Liberia (CBL), pursuant to its mandate under the Central Bank of Liberia Act of 1999 and its authority under the Financial Institution Act of 1999, and specifically consistent with Section 55 of the said Central Bank of Liberia Act of 1999 and Section 39 of the Financial Institution Act of 1999, hereby revising Regulation No. CBL/RSD/004/2012 as issued on January 8, 2020, its Prudential Regulation N0. CBL/RSD/002/2020 herein under:

PRUDENTIAL REGULATIONS CONCERNING MICROFINANCE DEPOSIT TAKING INSTITUTIONS (MDIs)

BY ORDER OF THE PRESIDENT

GBEHZONGAR M. FINDLEY
MINISTER OF FOREIGN AFFAIRS

MINISTRY OF FOREIGN AFFAIRS
MONROVIA, LIBERIA

Part 1: GENERAL

INTRODUCTION

Pursuant to the provisions of Part II, Section 3, of the New Financial Institutions Act of 1999 and the Microfinance Regulatory and Supervisory Framework for Liberia, the Central Bank of Liberia (hereinafter referred to as "the Central Bank") hereby promulgates and issues these amended regulations regulating the establishment, operations and business conduct of microfinance deposit-taking institutions (MDIs) that seek to take deposits from the public and engage in microfinance lending.

1.0 TITLE

These regulations shall be cited as ***Prudential Regulations for Micro-Finance Deposit-taking Institutions, Regulation No. CBL/RSD/002/2019.***

2.0 DEFINITIONS AND INTERPRETATIONS

In these Regulations, unless the context otherwise requires:

i) "A ***Microfinance Deposit-taking Institution***" (MDI) shall mean a deposit-taking non-bank credit institution in the business of microfinance deposit taking, extending microcredit and provision of other related additional services;

ii) ***"extension of microcredit"*** means extension of unsecured loans, lines of credit, purchase and/or discount of accounts receivable (factoring) with or without recourse and financial and operating leasing to microfinance clients up to the maximum amount as permited by the Prudential Regulations on Asset Classification, Provisions for Loan Losses & Suspension of Interest on Non-Perfroming Loans & Advances for microfinance credit accomodations or 5% of the networth of the MDI;

iii) ***'microfinance deposit taking"*** means accepting deposits as defined in New FIA from microfinance clients;

iv) "***microfinance clients***" shall refer to natural persons, households, groups of natural persons, small holder farmers, co-operatives and small and micro enterprises in rural and urban communities and lower income earners as specified in applicable legal acts.

v) "***deposit-taking non-bank credit institution***" means a non-bank credit financial institution that is licensed to accept deposits;

vi) "***non-bank credit financial institution***" means any person or institution whose activities and transactions are in the form of non-bank credit financial services;

vii) "***non-bank financial institution***" means any person or institution whose activities and transactions are in the form of non-bank financial services;

viii) "***Net worth***" means the paid-in-capital of a financial institution plus any reserves held by the institution, including those required by law or regulation, and any undivided profits;

ix) "***New FIA***" means the New Financial Institutions Act of 1999;

x) "***Central Bank***" means Central Bank of Liberia (CBL);

xi) "**Person**" means and includes any natural person, company, partnership, association or body of persons, corporate or unincorporated, NGO;

xii) "***Related persons to a MDI***" are (i) any officer or director of the MDI or any person who alone or together with one or more other has the authority to enter into commitments for the account of the MDI, (ii) any principal shareholder of the MDI and (iii) any persons who is related to such officer, director or principal shareholder by marriage, consanguinity to the second degree or business interest;

xiii) "***Related person to any officer, director or principal shareholder of a MDI***" means any person who is related to such person by marriage, consanguinity to the second degree or business interest;

xiv) "***Officer***" means the Chief Executive Officer (CEO), the Principal Officer (PO), any person (s) in a management role who reports directly to the CEO or PO, the internal auditor and the risk manager;

xv) "***Significant shareholding***" is a holding of or control over five percent or more of the voting shares of a MDI; and

xvi) ***Non-bank credit financial services" means***:

i. the business of thrift operation and loan association (credit unions) in accordance with the applicable regulations;
ii. financial services for the rural population and supporting the rural economy (rural community financial institutions) in accordance with the applicable regulations;
iii. microfinance deposit taking in accordance with the applicable regulations;
iv. extension of credit;
v. extension of microcredit in accordance with the applicable regulations;
vi. mortgage and housing finance in accordance with the applicable regulations;
vii. marketplace finance in accordance with the applicable regulations;

Part 2: LICENSING

3.0 REQUIREMENT TO OBTAIN A LICENSE

3.01 No person shall carry on the business of a MDI without first obtaining license from the Central Bank.

3.03 An applicant for a license to conduct MDI business shall meet all the requirements of section 4 (1) of the New FIA and any other requirements set out in these or any other applicable regulations.

4.0 LICENSING REQUIREMENTS IN RELATION TO MDIs IN EXISTENCE BEFORE THIS REGULATION WAS PROMULGATED

4.01 Except otherwise suspended, prevented, incapacitated or not permitted, any person who, immediately before the coming in force this Regulation, was offering services prescribed by this Regulation as services of MDIs in Liberia and who intends to continue to do such business, shall, within ninety (90) days, apply to the Central Bank for a license in a form and on terms and conditions to be prescribed by the Central Bank.

4.02 The Central Bank shall issue to a person from paragraph 4.01 a provisional license for a term of 6 months inclusive of the 90 days as specified in Section 4.01 from the date these Regulations comes into force and operation.

4.03 During the 6-month period such person can continue offering MDI services unless the Central Bank determines that such continuation of MDI services offering causes or threatens to cause serious harm to financial consumers, stability of financial system, justice or presents a threat related to money laundering or financing of terrorism activities.

4.04 If in the opinion of the Central Bank a person granted a provisional license has successfully met the requirements for the granting of a final license, the Central Bank shall issue a final license in replacement of the provisional license.

4.05 Any person intending to offer MDI services after coming into force of these Regulations shall, before commencing such business, apply for a license under the provisions of this Regulation.

5.0 APPLICATION FOR A MDI LICENCE

An application for license shall be made to the Central Bank in the form to be provided by the Central Bank of Liberia.

In order to obtain an MDI license, the applicant shall apply in writing to the Central Bank and provide all the information specified in Section 4 (1) of the New FIA including but are not limited to the following:

i) Resolution of the Board of Directors of the proposed MDI authorizing the investment;

ii) A letter of interest to engage in MDI business addressed to the Executive Governor of the Central Bank;

iii) A non-refundable application fee of US$100.00 in bank draft or by cheque, payable to the Central Bank;

iv) A feasibility report including a business plan and financial projections for the first three (3) years. The feasibility report shall disclose the following:

(a) Precise nature of the business;

(b) Description of activities;

(c) Name, address and contact information of promoters and/or significant shareholdings of at least 5%, directly or indirectly and the names and addresses of bankers (not post office addresses);

(d) Ownership structure and organizational structure and management of the institution; and

(e) Most recent financial statements (where applicable) of the applicant;

v) The business plan should incorporate the proposed market segment, corporate governance, risk management analysis, financial statements and projections for a period of atleast three years. It should also include a copy of the accounting policies to be adopted by the proposed MDI and the underlying assumptions;

vi) A copy of the draft Certificate or Articles of Incorporation;

vii) A statement of location and address in Liberia; information on the prospective place of business, indicating the head office and branches;

viii) Name and address of registered agent in Liberia (if applicable);

ix) Names and Curriculum Vitae (CVs) of the proposed members of the Board of Directors and officers including their background, financial position, business interests and particulars of other business concerns under their control or management. The CVs must be personally signed and dated by each of proposed Board members or officer;

x) Undertaking by the organizers/ promoters that the proposed MDI will be adequately capitalized at all times and will comply with all national laws and regulations;

xi) Technical Management Agreement with the parent company or significant shareholders (where applicable);

xii) The balance sheet (a declaration of the assets, liabilities and capital) for existing unlicensed MDIs; or proforma balance sheet for new MDIs with evidence of initial capital;

xiii) A letter of intent signed by each shareholder indicating his/her commitment to subscribe to the shares allotted to each shareholder of the proposed MDI;

xiv) The deposit of the statutory minimum capital requirement of US$1 million (or as may be determined by the Central Bank from time to time) in an escrow account in favor of the subject MDI in a bank acceptable to the Central Bank prior to undertaking any organizational work. The deposit held in escrow shall be released to the MDI for use in its business if a final license is granted or returned to the applicant if the application is unsuccessful or is withdrawn; and

xv) Any other information or document that may be required by the Central Bank.

6.0 ASSESSMENT OF LICENSE APPLICATIONS

In determining an application, the Central Bank shall take into account all the requirements in Part II Section 4 of the New FIA of 1999, and in particular, matters relating to:

i) Character and fitness of the directors and officers of proposed directors and officers of the applicant who shall conform to the standards set up in the CBL Fit and Proper Regulaions for Financial Institutions.

ii) The adequacy of the applicant's capital structure in relation to the nature and scale of its proposed business;

iii) The financial position and financial history of the applicant; and

iv) Whether the interest of potential customers will, as far as can reasonably be ascertained, be detrimentally affected by the manner in which the applicant proposes to conduct its business.

The Central Bank, may, where necessary invite an applicant for an interview in order to verify and assess its application, and any such invitation shall be in writing, stating specific objectives of the interview.

7.0 PROVISIONAL LICENSE

7.1 Upon fulfillment of the requirements in section 5.0 of these regulations, the Central Bank may grant a provisional license to the applicant for a period of six months during which time the organizational process shall be completed.

7.2 Failure on the part of an applicant to satisfy the requirements of the provisional license shall lead to automatic revocation of the provisional license upon expiration.

7.3 The MDI shall not perform or conduct any financial services during the provisional period. The provisional license may be extended by the Central Bank for justifiable reason as it may deem necessary.

8.0 CONDITIONS OF A PROVISIONAL LICENSE

A provisional license shall be issued to applicant who satisfy the following requirements with full evidence of compliance submitted to and verified by the Central Bank:

i) Deposit of the statutory minimum capital requirement in an escrow account in favor of the applicant in a bank licensed by the Central Bank, prior to undertaking any organizational work. The deposit held in escrow shall be released to the MDI for use in its business upon granting of a final license, or returned to the applicant if the application is unsuccessful or is withdrawn; and

ii) Commit to ensure compliance with the minimum capital requirement at all times.

Upon the issuance of provisional license the organizers or promoters of the proposed MDI shall satisfy the following requirements:-

i) Undertake to ensure that organizational costs or preoperational expenses shall not exceed 25% of the statutory minimum capital;

ii) Submit a plan of utilization of the portion of statutory minimum capital covering the organization cost or pre-operating expenses;

iii) Submit to the Central Bank regular monthly progress reports on organizational set-up;

iv) Recruit other key staff for the MDI; and

v) Ensure that the proposed MDI will not advertise or display its name until a final license is issued.

9.0 MINIMUM REQUIREMENTS FOR PREMISES

The premises where a MDI is licensed to operate shall meet the following minimum requirements:

i) Evidence of a lease agreement where the premises are on lease or a Certificate of Title where the premises are owned by the MDI;
ii) Adequate security measures in keeping with the relevant Central Bank's directives and rules on security and safety requirements;
iii) Display the name of the MDI prominently on the premises; and
iv) Any other requirements as may be advised by the Central Bank.

10.0 USE OF NAME

10.1 An MDI shall use the name specified in the license issued by Central Bank of Liberia.

10.2 A MDI shall not used a name if such name it is already used or if it closely resembles the name of the holder of an existing licensed financial institution as would likely mislead the public.

10.3 Only a person that has obtained the license for the MDI may use the term "MDI", "Microfinance Deposit Taking Institution", and its derivative terms as part of its name, marketing materials or for any other public purposes. No MDI shall alter or change its licensed name without the prior approval of the Central Bank.

11.0 GRANTING OF FINAL LICENSE

11.1 An applicant for a MDI license shall be required to meet all of the applicable requirements stated in these regulations, plus the raising of a minimum capital requirement of US$1 million and payment of a license fee of US$5,000 (or such other amount as may be determined from time to time by the Central Bank,) before obtaining a final license.

11.2 The Central Bank shall, where an application is approved, grant a license within sixty (60) working days from the date of receipt of a complete application and fulfilling of all licensing requirements, or notify the applicant of rejection of its application and the reason thereof.

12.0 CONDITIONS ON A LICENSE AND VALIDITY OF A LICENSE

12.1 When a license is granted, it is subject to a number of conditions as may be imposed by the Central Bank and is valid until revoked by the Central Bank or surrendered by the MDI.

12.2 A license issued to a MDI, may not be transferred, assigned or encumbered in any way except in the event of a merger or similar corporate restructuring transactions, on such terms and conditions as the Central Bank shall approve.

12.3 A license shall expire if the licensee fails to commence the business within a period of six (6) months following the granting of the license.

12.4 The approval of the Central Bank shall be obtained for any subsequent changes to the contents of the documents submitted at the time of seeking the license.

13.0 GROUNDS ON WHICH THE CENTRAL BANK MAY SUSPEND OR REVOKE A LICENSE

In the case of suspension, where a MDI receives a compliance warning, and a follow up oral communication from the Central Bank, but fails to comply with such warning, the MDI shall have its license suspended for up to six (6) months by the Central Bank.

The affected MDI shall, from the date of the notice of the suspension cease to provide financial services.

During the suspension period the MDI shall be allowed to continue to collect re-payments of its existing portfolio and shall be subject to all applicable financial consumer protection rules.

For the grounds and process for revoking a license, Sections 11 and 12 of the New FIA shall apply to MDIs.

In addition to Sections 11 and 12, grounds for revoking a license granted to a MDI may be any or all of the following:

i) Where the MDI has failed to fulfill or comply with the terms and conditions stipulated in the license;

ii) Submission of false information/data during and/or after the processing of the application for license;

iii) Engaging in functions/activities outside the scope of its license;

iv) Failure to comply with requests for information/data in the form required/specified by Central Bank;

v) Engaging in any activity involving money laundering, financing terrorist activity or any other financial crime;

vi) Failure to commence business within 6 months of being granted a final license;

vii) Failure to redeem matured obligations to customer

viii) Failure to comply with any directives, regulations or guidelines issued by Central Bank;

ix) Where the MDI becomes insolvent;

x) It is prohibited by a court decision from engaging in provision of NBFI services or banking activities;

xi) It has engaged in deception regarding the financial condition, ownership, management, operations or other facts material to its business;

xii) It has transferred or assigned its license; and/or

xiii) Any other act(s) which in the opinion of Central Bank constitute(s) a violation or serious infringement of the law or regulation.

The Central Bank shall, before revoking a license, give the affected MDI notice of at least fourteen (14) days in writing of its intention.

In case the Central Bank revokes a license:

i) It shall cause notice of the revocation to be published in the Official Gazette and in at least one newspaper of wide circulation in Liberia, or other forms of publications as Central Bank deems appropriate.; and

ii) The affected MDI shall, from the date of the notice, cease to provide financial services.

14.0 DECISION TO REFUSE OR RECONSIDER A LICENSE

The Central Bank may refuse to issue a license to an applicant in case of nonfulfillment of any of the licensing requirements, on the following grounds:

i) Non-submission of required documents;
ii) Non-payment of statutory minimum capital;
iii) Submission of misleading information;
iv) If the provisions of the by-laws or articles of association are contrary to these regulations;
v) If it is evident from the documentation and from other available information that the applicant fails to meet the personnel, organizational and technical requirements for the provision of services in the manner and scope envisaged in its business plan;
vi) If it is evident from the application and the accompanying documentation that the applicant fails to meet other requirements for the provision of the services covered by the license; and
vii) Any of the applicants are participating in illegal activities or there is a court decision prohibiting the applicant or one of its owners, directors or managers from engaging in MDI activities.

In the case of refusal of a license application, the Central Bank shall, within sixty (60) working days of receipt of the full application, provide a written statement of the reasons for refusal and shall return all submitted documents..

The applicant, as the case may be, may apply to the Central Bank in writing seeking a review of the decision. Any application for review must address the reasons given by the Central Bank in its initial decision. The Central Bank may uphold or reconsider its initial decision.

The applicant may resubmit the application at any time, provided that the reason for refusal has been addressed.

The Central Bank shall, within sixty (60) working days upon receipt of the file, issue its decision in writing as specified in these Regulations.

15.0 DISPLAY OF LICENSE

A MDI must display at a conspicuous or prominent place in its premises the license obtained from the Central Bank and the registration certificate(s) from the appropriate government entity (ies).

Part 3: ONGOING REQUIREMENTS

16.0 OPENING/CLOSING OF BRANCHES OF MDI

16.1 Unless the conditions of a license limit or restrict an MDI to one or more specific sites or locations, a MDI may conduct business at any place or places in Liberia subject to the requirements of Central Bank guidelines concerning the expansion and closure of branches and/or window and has given notice of its intention to the Central Bank not less than thirty (30) days prior to opening a new branch.

16.2 A MDI intending to close a place of business shall at least within sixty (60) days before closing such place, notify the Central Bank of its intention and seek its approval before notifying its clients of its decision.

16.3 Any MDI that fails to fulfill requirements of Central Bank guidelines concerning the expansion and closure of branches and/or window shall be in breach of the regulations and shall be subjected to appropriate supervisory sanction (s), including but not limited to closing of such branches.

17.0 ANNUAL OPERATING LEVY

A MDI shall pay an annual operating levy of US$5,000.00 or such other amount as may be determined by the Central Bank from time to time. Failure to pay the operating levy shall lead to the revocation of a license.

18.0 CONSUMER PROTECTION

MDIs are required to adhere to consumer protection standards defined in the applicable Central Bank's regulations on:

i) consumer protection and market conduct;

ii) rules on determination and display of interest rates and charges, and computation of lending rates; and

iii) any other applicable consumer protection rules as may be decided from time to time by Central Bank.

Part 4: CORPORATE GOVERNANCE

19.0 PROVISIONS RELATING TO CORPORATE GOVERNANCE

19.1 COMPOSITION OF BOARD AND ELIGIBILITY OF DIRECTORS

Each MDI shall have a Board of Directors which is responsible for the sound and proper functioning of the MDI and is accountable for its actions and activities to the shareholders and the Central Bank.

The maximum number of directors on the Board of a MDI shall be seven (7) while the minimum shall be five (5). At least two of the directors should have experience in the core business of microfinance and NBFI of which one shall be the Chief Executive Officer and atleast one must be a non-executive director.

The Chief Executive Officer shall possess one of the following qualifications and the relevant number of years of experience:

i) master's degree in business, accounting or finance, or any other relevant field and 3 years of experience in the financial sector;

ii) bachelor's degree in business, accounting or finance, or any other relevant field and 5 years of experience in the financial sector;

To qualify for the position of a director in a MDI, the person(s) must not be a current employee(s) or a director(s) of any bank or financial institution, except the MDI is promoted by a bank or other financial institution and that the would-be board member is representing the

interest of such institution (s), in keeping with Section 9 (g) of the new FIA of 1999.

19.2 APPROVAL OF DIRECTORS AND OFFICERS

Appointment of directors of a MDI shall be done in keeping with Section 74 of the new FIA of 1999 which requires the Central Bank's written approval of such appointment.

19.3 CORPORATE GOVERNANCE STANDARD TO BE APPLIED TO DIRECTORS AND OFFICERS

Directors and officers are required to adhere to the corporate governance standards defined in the applicable Central Bank's corporate governance regulation for Financial Institutions.

19.4 DEALING WITH CONFLICTS OF INTEREST

Every Director or Officer of an MDI that holds any office or possesses any property whereby, whether directly or indirectly, such duties or interests might create conflict with his duties or interest as a Director or Officer of the MDI, shall declare to the full Board, the fact and the nature, character and extent of such interests. Any Director or Officer who has a conflict of interest shall not be present at any meeting at which the matter that has created the conflict is discussed or voted upon. Any Director or Officer who contravenes this provision shall be liable to a fine up to L$200,000 and/or be removed from office.

19.5 LIMIT ON LOANS TO DIRECTORS, OFFICERS AND EMPLOYEES OR RELATED PARTIES

A MDI may grant to any director or any related party or relation a loan or credit facility whether directly or indirectly, provided that the total indebtedness to the MDI of the Director or any related party does not exceed 1% of the net worth of the MDI.

A MDI may grant to an Officer or employee a loan or credit facility whether directly or indirectly, provided that the total indebtedness of

the officer or employee to the MDI does not exceed the annual renumeration of such officer or employee.

19.6 THE POWER OF THE CENTRAL BANK TO REMOVE DIRECTORS AND OFFICERS

The Central Bank may, for reasonable cause-

a) suspend or remove a director of a MDI; and

b) suspend or remove the entire board of directors of a MDI;

For the purpose of these regulations, "reasonable cause" shall include:

(i) failure to exercise fiduciary responsibility;
(ii) exhibiting any act detrimental to the reputation of the MDI or its customers; and
(iii) failure to comply with or ensure compliance of the MDI with supervisory directives.

Part 5: CAPITAL REQUIREMENTS, ACTIVITIES, AND OPERATIONS

20. STATUTORY MINIMUM CAPITAL REQUIREMENTS

20.1 All MDIs shall be incorporated as a company according to the applicable rules with a minimum share capital of USD 1,000,000 (or its equivalent in Liberian dollars).

20.2 The capital of a MDI may be mobilized by Government grants or donations, non-government organizations, international organizations, the private sector, investors, and others.

21. PERMISSIBLE ACTIVITIES

A MDI shall be permitted to carry on only activities of:

i) microfinance deposit taking;

ii) extension of microcredit; and

A MDI may offer following additional services which are complementary to extension of micro-credit and accepting deposits upon fulfilment of licensing condition for such services where applicable:

i) Mobile money agent services;
ii) Banking agent services;
iii) Encash / discount checks;
iv) Spot Foreign exchange services;
v) Domestic money transfer (payments) services;
vi) Provide financial advice to its clients and conduct financial education activities;
vii) Provide social support programs and activities as approved by relevant government authorities; and
viii) Perform any other financial services as may be approved by the Central Bank.

A MDI may offer services only to microfinance clients.

Regardless of the maximum amount of finance allowed for a microcredit product in relevant Central Bank's prudential regulation for microfinance activities, the exposure of a MDI shall not exceed:

i) **Five percent of the MDI's Net worth** for loans to one natural person or a group of related borrowers which are natural persons;

ii) **Seven percent of the MDI's** Net worth for loans to microbusinesses and cooperatives.

The amounts and percentage above shall be calculated based on the latest audited financial statements of the MDI certified without reserves and less than two years old.

An MDI is allowed to collect deposits from an individual client limited to up to 1% of assets held by the MDI as per its latest audited financial statements. An MDI can also apply to the Central Bank to increase individual member savings in excess of the limit provided by these Regulations. The Central Bank of Liberia shall decide at its own discretion the new limit after considering liquidity implication [other

criteria to be added as needed] and such decision and its motives shall be published.

Any contravention of this requirement will attract a supervisory sanction on the MDI and/or, on the directors/officers who fail to comply with this provision.

22. PROHIBITED ACTIVITIES

22.1 A MDI must not under any circumstances:

i) Offer Mortgage Finance;
ii) Act as a surety for the obligations of the shareholders / equity holders of the MDI or third parties;
iii) Provide collateral for its management, employees or third parties;
iv) Engage in international commercial papers or corporate finance;
v) Engage in any other unauthorized business activity for which it didn't receive prior approval from the Central Bank or a letter of no objection.

22.2 No MDI shall engage in or finance any activity in any way related to gambling, betting or any other speculative venture or any other socially or economically undesirable activities.

22.3 Any contravention of this requirement shall attract a supervisory sanction on the MDI and/or, on the directors/officers who fail to comply with this provision.

23.0 CREDIT RISK MANAGEMENT

23.1 MDI's shall be required to maintain sound and acceptable policies and practices to prudently manage and control their credit portfolio and exposure to credit risks. The credit risk management should provide, at minimum, a credit policy and credit review process.

23.2 MDIs shall have a credit risk department or credit officer which should ensure that its operations conform to the law as well as, to its internal credit policy, rules and regulations.

24.0 SOURCE OF FUNDS

The sources of funds of a MDI shall consist of the following:

i) Shareholders' funds – paid up share capital and reserves;

ii) Deposits by customers;

iii) Debenture/qualifying medium to long-term loans; and

iii) Grants/donations from individuals, organizations, national government, and international sources.

25.0 CAPITAL ADEQUACY REQUIREMENTS

25.1 A MDI shall maintain a minimum capital ratio of not less than 10% of risk-weighted assets or such other ratio as may be determined from time to time by the Central Bank. The items that are eligible to be included as capital, the risk weights attached to different classes of assets and the method of calculation are prescribed in CBL's Regulation Concerning Capital Adequacy. When the ratio falls below the prescribed level, the MDI shall not do any of the following without the approval of the Central Bank until the required ratio is restored:

i) Grant credits and make further investment;
ii) Pay dividend to shareholders; and
iii) Borrow from the investing public or take deposits.
iv) Undertake any other action deemed so necessary by the CBL.

25.2 In addition to the above-mentioned measures, the MDI shall be required to submit within a specified period to be determined by the Central Bank, a recapitalization plan acceptable to the Central Bank.

25.3 Failure to comply with any or all of the above may constitute grounds for the revocation of the license of the MDI or require such other penalties as may be deemed appropriate by the Central Bank.

26. TRANSFERS TO STATUTORY RESERVE

26.1 A MDI will be required to maintain a statutory reserve account in its financials. Transfer to Statutory Reserve from profit after tax shall be at a minimum of 25% until the Statutory Reserve equals the paid-up capital and a minimum of 15% thereafter until the balance of the Statutory Reserve equals twice the paid up share capital of the MDI. The transfer will occur annually at the conclusion of the annual audit and the net profit will be that determined after the conclusion of the audit. The Central Bank may vary from time to time the proportion of net profit transferable to Statutory Reserves. The Central Bank mandates that no accretion shall be made to the Statutory Reserve or any other reserves of the MDI until the MDI satisfies the following conditions:

i) All preliminary and pre-operational expenses have been amortized in accordance with the CBL Manual of Accounting Guidelines and International Financial Reporting Standards;

ii) All preliminary losses have been made for loans/assets deterioration; and

iii) All identifiable losses have been fully provided for.

27.0 MINIMUM LIQUIDITY

27.1 A MDI shall be required to maintain a minimum liquidity ratio of ten per cent (10%) (or such other ratio that the Central Bank may determine from time to time) of specified liquid assets against deposit liabilities including accrued interest. Specified liquid assets shall include cash, treasury bills and domestic short-term investments with NOT more than 180 days to maturity.

27.2 A MDI which has breached the minimum liquidity requirement shall notify the Central Bank immediately it has discovered the breach and must cease making loans until the liquidity ratio is restored to the minimum required, unless authorized by the Central Bank to do otherwise.

27.3 A MDI will be required to maintain both a reserve requirement account in accordance with CBL's Regulation on the Computation and

Maintenance of Reserve Requirement and also a current account at Central Bank.

Part 6: ACCOUNTING, REPORTING AND AUDIT REQUIREMENTS

28.0 ASSEST CLASSIFICATION

Each MDI shall review at least once every thirty days, its loans and advances and other investments and make appropriate provisions for loan losses or asset deterioration.

Proper provisioning falls under the responsibility of the Board of Directors, who is responsible for determining and approving the amount of specific provisions for loan losses taking into consideration the recommendations of managers and internal and independent auditors. At a minimum, provisions shall be as specified below:

a. When scheduled to be paid in monthly or longer installments, loans and advances shall be classified as follows:

No. of days past due:	Classification:	Provisions:
Current	Normal risk	2%
Up to 30 days	Specially mentioned	5%
31 to 60 days	Substandard	20%
61 to 90 days	Doubtful	50%
Equal and more than 91 days	Loss	100%

When scheduled to be paid in installments of less than one month or for one single payment (bullet loans), the below classification shall be applied:

No. of days past due:	Classification:	Provisions:
Current	Normal risk	2%
Up to 15 days	Specially mentioned	5%
16 to 30 days	Substandard	20%
31 to 45 days	Doubtful	50%
Equal and more than 46 days	Loss	100%

Once loans and advances are classified as Substandard, Doubtful or Loss, they shall be placed on a non-accrual status. Loans and advances classified as Substandard, Doubtful or Loss, shall be renewed, rolled over or returned to accrual status on a case-by-case basis, to allow greater flexibility in loan restructuring.

Every MDI shall separately disclose in its audited financial statements the specific and general loan loss provisions made for loans.

30.0 INCOME ACCRUAL

Accrual of interest for extension of microcredit shall be suspended 31 days after a customer falls behind in principal or interest amortization payment when the loan is scheduled to be paid in monthly or longer installments. Accrual of interest for microfinance credit accommodations shall be suspended 16 days after a customer falls behind in principal or interest amortization payment when scheduled to be paid in installments of less than one month or on one single payment. At these times the loan is considered to be non-accrual and it should be reported to the CBL. Interest suspended shall be reversed only after the loan is returned to a performing status.

31.0 INVESTMENTS

Unless specifically provided otherwise in a grant or a loan agreement for specific funds, an MDI may invest funds not immediately required for its use in the following classes of assets:

i) Securities issued by or guaranteed by the Government of Liberia with a maturity within 180 days;
ii) Deposits with banks licensed by the Central Bank with a maturity within 180 days;
iii) Real estate for own use; provided that the total value of real estate does not exceed 25% of the net worth of the MDI.

32.0 PAYMENT OF DIVIDENDS

A MDI shall not pay dividend until it satisfies the following conditions which are subject to verification by the Central Bank:

i) All accumulated losses have been fully absorbed and written off;

ii) All preliminary and pre-operational expenses have been amortized in accordance with the MDI's accounting policies and International Financial Reporting Standards;

iii) Capital Adequacy ratio has been met;

iv) All maturing obligations have been met; and

v) The transfers to the Statutory Reserve as required by Section 24.0 have been made.

33.0 ACCOUNTING

The management of a MDI shall ensure that proper accounting records and systems are maintained, sound operational procedures formulated and implemented and adequate internal controls put in place. The management should particularly ensure:

i) The accuracy and reliability of the accounting system in keeping with the general acceptable standards;
ii) The establishment of an adequate and effective management information system; and
iii) The accuracy and reliability of the operational reports and prudential returns submitted to the Central Bank.

34.0 INTERNAL AUDIT

Every MDI shall have an Internal Audit system (i.e. Unit, Section or Department) which shall ensure that its operations conform to the law as well as, to its internal rules and regulations. Every fraud or attempted fraud must be promptly reported to the Regulation & Supervision Department of the Central Bank.

35.0 REPORTING AND DISCLOSURE TO SHAREHOLDERS

The Board of Directors shall ensure the preparation of annual audited financial annual accounts for disclosure to the shareholders in accordance with the constitution or rules of the MDI and the Central Bank.

The annual audited financial accounts to be submitted to the shareholders shall be accompanied by a report of the Directors detailing the following:

i) Method used to determine specific and general provisions and key assumptions used;

ii) The risk management and control policies and practices adopted by the MDI, relating to the credit risk of the loan portfolio and other risks entailed in its operations;

iii) Balances of advances, impaired loans and past due loans by major categories of borrowers and the amounts of specific and general provisions established against each category;

iv) Balances of loans where accrual of interest in accordance with the terms of the original loan agreement has ceased because of the deterioration of credit quality;

v) Balances of advances and other information about the loans that have been rescheduled or renegotiated during the year;

vi) Information about significant concentrations of credit risk; and

vii) Contractual obligations with respect to recourse arrangement and the expected losses under these arrangements.

The Management of a MDI shall include in their comments on the audited financial accounts, the following:

i) The performance of the MDI during the period under review with particular reference to:-
    a. The reliability and composition of reported earnings;

b. The breakdown and analysis of operating costs; and
c. Key prudential ratios including liquidity and capital adequacy ratios.

ii) The accounting policies and valuation criteria applied in the preparation of the accounts;

iii) The adequacy of provisions made against the loan portfolio, investments and other assets;

iv) Reclassifications and other adjustments made by the auditor to the accounts originally submitted for audit; and

v) Details of any areas where generally accepted accounting principles have not been complied with or disagreement exists between the management and the external auditor.

36.0 PUBLICATION OF AUDITED ACCOUNTS

In accordance with Section 21 of the New FIA of 1999 and Central Bank Regulations Concerning Audit of Financial Institutions and Publication of Financial Statements, every MDI shall submit copy of its audited financial statements to the Central Bank for review and approval not later than three months after the end of the institution's financial year.

After approval, the MDI shall publish the abridged version of the accounts in at least two (2) national daily newspapers. Every published account shall disclose in detail the penalties imposed by the Central Bank, if any.

37.0 APPOINTMENT OF EXTERNAL AUDITOR

In keeping with Section 21 of the New FIA of 1999, every MDI shall appoint an external auditing firm to conduct a full review of its financial condition, internal controls and risk management system for each year end. For each annual audit, the appointment of the external

auditor shall require the prior approval of the Central Bank, before the commencement of any such audit.

The appointment of an auditor shall satisfy the minimum requirements stated in the Regulations Concerning Corporate Governance for Financial Institutions and Audit of Banks and the Publication of Financial Statements.

38.0 REPORTING TO THE CENTRAL BANK

38.1 Every MDI shall be required to submit to the Central Bank at such intervals and in such form, returns, documents, statistics and such other information as the Central Bank may specify from time to time and in keeping with Section 24 of the New FIA.

39.1 Notwithstanding the general requirements stated above, a MDI shall provide:

i) Annual report (annual audited financials);
ii) Quarterly Returns (management financial - balance sheet and income statement);
iii) Monthly returns (balance sheet, income statement, outreach statistics)
iv) Weekly returns on liquidity.

39.2 All reports shall be duly signed by 2 (two) senior officers including Chief Executive Officer of the institution.

39.3 The weekly Returns shall be submitted not later than the Wednesday following the week of reporting.

39.4 Monthly returns will include:

i) A monthly return detailing its lending rates in a form prescribed by the Central Bank;

ii) A monthly report on frauds and forgeries affecting the institution and any default in meeting any obligation to lenders or investors; where no frauds/forgeries and defaults occurred during the quarter, a Nil return shall be forwarded.

iii) A monthly schedule of loans/investments, showing the provisions made for losses or deterioration in the quality of its loans.

iv) A monthly schedule of all investments, including details of the counterparty, the term to maturity, the purchase price and the current market value where appropriate

Monthly returns shall be submitted on the 10th day after the month has ended.

Annual reports shall be submitted to the Central Bank within three months after the end of a financial year. All quarterly returns shall be submitted not later than fifteen calendar days after the quarter of reporting. All reports shall be duly prepared in accordance with International Accounting Standards.

The Central Bank may from time to time review and update such requirements.

Part 7: SUPERVISION

39.0 ONGOING EXAMINATION

The provisions of Section 22, 23, 26, 27, 28 and any other applicable provision of the New FIA relating to examination shall apply in entirety to MDIs.

40.0 RESTRUCTURING AND RE-ORGANIZATION OF MDI

Except with the prior consent of the Central Bank, no MDI shall enter into an agreement or arrangement:

i) which results in a change in the control of the MDI;
ii) for the sale, disposal or transfer of the whole or any part of the business of the MDI;
iii) for the amalgamation or merger of the MDI with any other company;
iv) for the restructuring of the MDI; and/or

v) to employ a management agent or to transfer its business to any such agent.

41.0 VOLUNTARY LIQUIDATION

A MDI shall not voluntarily cease from carrying on business without the approval of the Central Bank and following the procedure for voluntary liquidation set in New FIA, in particular Section 41 to 46.

42.0 PUBLICATION OF LICENSED MDIs

The Central Bank shall develop a list of licensed MDIs to be published on its website, and once every year in the Official Gazette and at least one newspaper of wide circulation in Liberia or other forms of publications as the Central Bank deems appropriate.

Part 8: REMEDIAL ACTIONS

43.0 PENALTIES FOR LATE OR FALSE/INACCURATE RETURNS OR OTHER INFORMATION

An MDI which fails to submit a report required under these Regulations commits an offence and shall be liable to a penalty of USD 50.00 (or its equivalent in Liberian Dollars) for each day of such non-compliance.

In addition, the Central Bank may impose administrative penalties and enforcement actions as provided under the New FIA.

Persistent failure/refusal to render returns in the prescribed format and on time shall be a ground for the suspension and/or revocation of license.

Where the Central Bank considers it necessary, it may appoint a certified accounting firm to prepare proper books of account or render accurate returns, as the case may be, for the MDI concerned and the cost of preparing the account or rendering the returns shall be borne by the MDI.

If any director or officer of a MDI fails to take all reasonable steps to ensure that proper books of accounts are kept with respect to all transactions of the MDI or at its head office and/or branches, the Central Bank may impose on such director or officer a fine not exceeding L$200,000.00. If any default in this respect is caused by the willful act of any director or officer of the MDI, the Central Bank may impose on him a fine not exceeding L$200,000.00 or cause the removal of such director or officer in order to protect the integrity of the institution. In addition, the Central Bank may impose on the MDI such other penalties as it may deem appropriate.

If any return/information is not supplied accurately or is misleading/false, the MDI shall pay a fine of L$200,000.00 in respect of each day during which such violation occur. The Central Bank may revoke the license of such MDI for refusal to correct the default or failure to pay the fine or failure to submit the report.

44.0 PREVENTIVE AND CORRECTIVE MEASURES

If in the opinion of the Central Bank an MDI is conducting its business in an unlawful or unsound manner or that its capital is impaired or that it is otherwise in an unsound condition, the Central Bank shall have recourse to its enforcement powers and act according to it powers in New FIA, in particular Section 24, 40, 47 and other relevant provisions of New FIA.

45.0 AMENDMENTS

The Central Bank reserves the right to amend or revise these rules and regulations from time to time as the need arises.

46.0 EFFECTIVE DATE

These regulations shall take effect upon publication in Official Gazette and shall remain in force until otherwise advised by the Central Bank.