

CENTRAL BANK OF LIBERIA
GUIDELINE ON STANDING CREDIT FACILITY, STANDING
DEPOSIT FACILITY AND INTRADAY LIQUIDITY FACILITY FOR
COMMERCIAL BANKS
CBL/FMD/GUIDELINE/001/2019



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1. Introduction

- 1.1 This guideline sets out the Central Bank of Liberia (CBL) rules on the Standing Credit Facility (SCF), Standing Deposit Facility (SDF) as well as on the Intra-Day Liquidity facility (ILF). The SCF and the SDF will serve as an additional monetary policy instruments for the CBL to steer short-term interest rates and enhance the interest rate channel of monetary policy transmission. The ILF will serve payment purposes to facilitate the timely and seamless execution of intra-day interbank payments.
- 1.2 The SCF is different from the Emergency Liquidity Assistance (ELA) which applies to cases in which counterparties do not fulfill the criteria for accessing the SCF, or may require liquidity support with a tenor beyond the overnight duration of the SCF and is consequently provided at a penalty rate above the SCF and is accompanied when granted upon the Central Bank's discretion by increasing supervisory intrusion and conditionality.
- 1.3 This guideline replaces the *Guideline on Standing Credit Facility for Commercial Banks CBL/RSD/GUIDELINE/001/2016*.
- 1.4 The SCF is an overnight secured lending facility for banks at a predetermined rate as regularly set and communicated by the Monetary Policy Committee (MPC) above the Standing Deposit Facility rate.
- 1.5 It is intended to serve banks end-of-day liquidity shortfall that may arise in the daily settlement of payments and/or when required reserve balance fall below the floor.
- 1.6 The SDF is an overnight deposit facility that allows commercial banks to deposit surplus Liberian Dollar with the CBL at a pre-determined rate as regularly set and communicated by the MPC below the SCF rate.
- 1.7 The ILF is a cost-free intraday secured lending facility which allows commercial banks to receive intra-day secured credit from the Central Bank within the limit of their unencumbered eligible collateral.

2. Objectives

- 2.1 The main objective of the standing facilities is to promote consistency and stability in the overnight interbank market interest rates. The lending rate and the deposit rate normally provide a ceiling and a floor, respectively, for the overnight interest rate's in the money market.
- 2.2 They are also meant to steer other short-term market rates, such as the rate for short-term banks' deposits and signal together with any other policy rate set by the Monetary Policy Committee (MPC) which reflects the monetary policy stance of the Central Bank of Liberia (CBL).
- 2.3 Intra-day Liquidity Facility (ILF) will facilitate the timely and seamless execution of interbank payments.

3.0 Accessing and Reimbursing ILF and Standard Facilities Eligibility Criteria

- 3.1 Banks with adequate securities held at the CBL can pledge their securities by an authorized staff as collateral for the use of the ILF.
- 3.2 The Financial Markets Department (FMD) of the CBL shall provide for each commercial bank the value, net of haircut, of all commercial banks unencumbered eligible collaterals held by the CBL to the Banking Department at the start of each business day to determine the maximum amount of ILF to be offered to each commercial bank. The haircut requirements indicated in 9.3 shall apply to all ILFs, since unpaid ILFs are converted to SCF at the end of the business day.
- 3.3 The ILF shall be available only on business days.
- 3.4 The amount of the ILF shall not exceed the value of eligible collateral net of haircut held by the CBL.
- 3.5 The ILF shall be provided free of interest to all eligible banks as long as the full amount of the ILF provided thereof is reimbursed to the CBL by 3:30 p.m. on the same day it was granted.

- 3.6 Failure by any bank to reimburse the ILF by 3:30 p.m. on the same day in which it was granted shall automatically be considered as a request by such bank for recourse to the SCF and all rules and regulations governing the SCF shall apply.

Standing Facility Eligibility Criteria

- 3.7 Banks can access the SCF for any amount within the limit of their unencumbered eligible collateral net of haircut.
- 3.8 Banks can deposit any amount on the SDF without any restriction.

4.0 Conditions for Accessing the Standing Facilities

- 4.1 The standing facilities shall be available to all commercial banks in keeping with sections 3.7 and 3.8 above based on a formal request to the CBL on official working days (Mondays to Fridays) with the exception of national holidays.
- 4.2 Formal request for the standing facilities shall be made after the interbank market closing time of 3:30 p.m. and before 4:30 p.m. on the business day specified in section 4.1 to be eligible for processing. All standing facilities requested after 4:30 p.m. SHALL NOT be granted.
- 4.3 All eligible and approved SCF requests shall be granted on the same business day of the application and must be settled by 12:00 p.m. on the next business day.

5.0 Facility Period

- 5.1 The duration for both the SCF and SDF shall be overnight (one business day).

6.0 Application for the Standing Facilities

- 6.1 Banks are to request for each SCF or SDF through the Director of FMD.
- 6.2 The request must be signed by the authorized staff of the requesting bank whose signature specimen **MUST** be submitted to the FMD and the Banking Departments of the CBL.
- 6.3 Submission may be done by email or hand delivered.
- 6.4 In the event of submission via e-mail, the scanned request to the Director of FMD shall be emailed to the Director and Deputy Director of the FMD. Only requests with a bank's mail extensions shall accepted. Furthermore, requests must be confirmed by telephone by the authorized signatory of the bank with the Director or Deputy Director of FMD.
- 6.5 Submissions must contain:

A. In the case of the SCF

- i. The amount of the SCF requested;
- ii. The applicable collateral as per section 9.0 below; and
- iii. A commitment of the requesting bank to have sufficient cash in its operating account by 12:00 p.m. on the maturity date for full settlement of the SCF to be made.

B. In the case of the SDF

The amount to be deposited.

7.0 Approval, Rejection and Settlement of the SCF/SDF

A. In the case of the SCF

- i. The FMD shall verify that the requesting commercial bank pledged collateral is sufficient to cover the amount requested in accordance with sections 9.3 and 9.4 below.

- ii. Once all conditions are met, the CBL Management shall approve access to the facility and advise the relevant departments (FMD and Banking Department) within the bank to effect the transaction.
- iii. The collateral pledged for an approved SCF shall be fully assigned to the CBL for the duration of the SCF and shall be returned to the commercial banks securities portfolio held at the CBL upon settlement.
- iv. The borrowing bank's assigned operational account will be debited with the SCF and interest amount by the CBL by 12:00 p.m. on the maturity date for full settlement of the SCF.
- v. If a SCF request is rejected by the CBL, the FMD will notify the requesting commercial bank on the same day and provide the reason (s) of the rejection through an email and/or telephone.

B. In the case of the SDF

- i. Upon approval by Management, the FMD will advise Banking Department to debit the requesting bank's aligned account with the value of the SDF on the transaction date.
- ii. FMD shall verify that the SDF request has been submitted by an authorized officer by the 4:30 p.m. deadline.
- iii. The SDF and appropriate interest rate shall be credited to the requesting bank's account with the CBL by 12:00 p.m. on the maturity date of the facility.

8.0 Standing Facilities Rates

- 8.1 The interest rates applied on the SDF and on the SCF shall be regularly decided by the MPC.
- 8.2 The applicable interest rates determined by the CBL during its MPC meetings and the dates of the meetings shall be published on the CBL's website and through other public media.

9.0 Eligible Collaterals for the SCF

- 9.1 The SCF shall be collateralized by unencumbered Treasury securities, CBL securities and other securities issued by reputable domestic and foreign institutions that are registered with the Central Securities Depository at the CBL.
- 9.2 The CBL shall have the right to request replacement of the collateral where due diligence reveals insufficiency in the collateral.
- 9.3 Other than Treasury and CBL securities, a 10 percent haircut will be applied to securities which have a time to maturity up to 3 months; and 25 percent haircut on securities which have a time to maturity of more than 3 months.
- 9.4 Notwithstanding the haircut defined in 9.3, the maximum value of the SCF loan shall not be more than:
 - i. 90% of the market value of the securities which have a time to maturity of less than 3 months, and
 - ii. 75% of the market value of the securities which have a time to maturity of more than 3 months.

10.0 Conversion of SCF into Emergency Liquidity Assistance (ELA)

- 10.1 The settlement of the SCF shall be made through an automatic debit to the operating account of the bank held by the CBL by 12:00 p.m. on the maturity date. Where the automatic settlement of the SCF may leave the reserve requirement balance of a bank below the daily floor, the bank may prior to the maturity of the SCF request for another SCF based on the available limits or an ELA through a formal application to the Executive Governor. Absolutely, no SCF shall be allowed to go beyond the five working days.

11.0 Penalties for Violation or Non-compliance

- 11.1 If the bank fails to apply for the ELA before the expiration of the maturity of the SCF, it may be subjected to the appropriate penalties for non-compliance with the Reserve Requirement until the SCF/ELA can be granted.

11.2 In the case of an ELA request, all conditions of the ELA shall be met and applied.

12.0 Effective Date

These guidelines shall take effect immediately upon issuance and shall remain in force until otherwise advised by the CBL.

ALL INQUIRIES AND/CLARIFICATIONS REGARDING THIS GUIDLEINE SHALL BE DIRECTED TO:

**DIRECTOR
FINANCIAL MARKETS DEPARTMENT
CENTRAL BANK OF LIBERIA**