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*The Governor*

**INTRADAY LIQUIDITY FACILITY POLICY**

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*Handwritten signature/initials*

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## INTRODUCTION

In light with the Supervisory powers of the National Bank of Rwanda, the Board of Directors in its session of 29 December, 2015 approved the Intraday Liquidity Facility Policy or “the Policy” hereunder since there was a need of extending intraday credit to financial institutions which participate in the payment and settlement systems operated by National Bank of Rwanda.

The Board of Directors of the National Bank of Rwanda approved the Policy especially within the framework of implementation of the existing law concerning the payment systems as highlighted below:

Indeed, the Law N° 03/2010 of 26/02/2010 concerning payment systems, especially articles 7, (3) (a), (d) and 11 (1), (3) provide respectively:

- The powers of the National Bank of Rwanda to operate payment and securities settlement systems;
- Authorization of the National Bank of Rwanda to extend intraday credit against the financial collateral, in the form of cash or securities as determined by the National Bank of Rwanda to banks and other financial institutions or entities that are participating in settlement, clearing and securities settlement systems;
- The payment between participants in a clearing system be done through their accounts opened with the National Bank of Rwanda;
- Finality and irrevocability of the payment obligations that have entered the clearing system.

Besides, the Board of Directors noticed that, while extending the intraday credit, the National Bank of Rwanda aims at effectively minimizing the potential gridlock due to intraday liquidity constraints to ensure that the payment system has enough liquidity throughout the day.

### I. DEFINITIONS AND INTERPRETATION OF TERMS OR EXPRESSIONS

For the purpose of this Policy, unless the subject or context otherwise requires, the following words and expressions shall have the following meanings respectively ascribed to them:

1. **ATS or Automated Transfer System:** a payment system operated by the National Bank of Rwanda that comprises of the Real Time Gross Settlement (RTGS) functionality and the Automated Clearing House (ACH);
2. **“Business day”:** any day from Monday to Friday except a recognized public holiday in Rwanda, the other days which the National Bank of Rwanda may consider to be business days and which days will be communicated by National Bank of Rwanda to the eligible participants;
3. **Collateral:** a financial instrument provided under a security financial collateral arrangement, title to which is evidenced in entries on account maintained in CSD;



4. **Central Securities Depository or CSD:** a system operated by the National Bank of Rwanda to provide the custody and settlement services of the securities;
5. **Financial Collateral:** financial collateral with a title transfer financial arrangement, under which a collateral provider provides financial collateral by way of security in favour of a collateral taker;
6. **“Haircut”:** refers to risk control measure, which is applied to assets, according to which these assets are valued at their market value, less a given percentage (haircut). These haircuts or discounts are applied as a protection to face the losses that are generated by the drops in the market value of an instrument in the event that said collaterals need to be settled;
7. **“Intraday Liquidity Facility” or “ILF”:** refers to a funding that is provided by the National Bank of Rwanda to a participant in its capacity as a member of Real to be able to make payments in real time. The ILF is accessed during the business hours and the reimbursement of the funds requested shall happen before the end of the business hours;
8. **“Liquidity reversal”:** is in relation to an intraday liquidity transaction between the National Bank of Rwanda and a Participant where the opening leg has been processed in Central Securities Depository (CSD) and means an instruction that is issued by the National Bank of Rwanda through CSD to the RTGS to process the closing leg of that transaction;
9. **“Participant”:** refers to a financial institution, except the National Bank of Rwanda, that is a direct member of the system of real-time gross settlement and CSD and maintains settlement accounts in those systems;
10. **Standing Lending Facility:** refers to a standing facility which counterparties in monetary policy operations may use to receive overnight credit from National Bank of Rwanda at a pre-specified interest rate against eligible assets.

## II. OBJECTIVE OF THE FACILITY

This Facility aims at establishing the framework for the National Bank of Rwanda to:

- a. Provide an intraday credit hereinafter referred to as “Intraday Liquidity Facility”;
- b. Ensure that all interbank transactions are facilitated to settle; and
- c. Enhance stability of the market.

## III. SCOPE OF THE FACILITY

The Policy provides guidelines for the provision of the Intraday Liquidity Facility, the definition of eligibility of security subject to collateralization.

The Policy shall be applicable to eligible entities which participate in the RTGS and CSD.

## **IV. GUIDING PRINCIPLES**

### **4.1 Eligible participants**

The National Bank of Rwanda shall provide the ILF to the participants that satisfy the following requirements:

- a) Having signed ATS participation agreement, which defines rules and procedures for obtaining the ILF;
- b) Complying with ATS procedural rules as established by the National Bank of Rwanda from time to time;
- c) Being direct participant whose participation is not suspended or terminated in ATS and CSD by the National Bank of Rwanda;
- d) Being direct Participants in the ATS and CSD, and are eligible counterparties for monetary policy operations and have access to the Standing Lending Facility; and
- e) Being subject to supervision and/or oversight of the National Bank of Rwanda.

No Intraday Liquidity Facility may be provided to entities that are subject to sanctions adopted by the National Bank of Rwanda, which may impact on its participation in RTGS or CSD.

### **4.2 Conditions for granting an ILF**

The ILF shall be available only on the business days or on those other days which the National Bank of Rwanda may consider to be business days.

The ILF shall be provided free of interest to eligible participants as long as the full amount of the ILF thereof provided is reimbursed to the National Bank of Rwanda before the cut-off time for liquidity reversal.

The amount of ILF shall not exceed the shortfall of participant to settle its transactions in the RTGS and shall not be more than the value of its related collateral.

The eligible participants shall comply with the ATS rules and procedures when requesting for the ILF.

The National Bank of Rwanda may apply penalties, in case the eligible participants fail to request for ILF due to lack of required collaterals, resulting in the cancelation of queued transactions.

### **4.3 Reimbursement and defaulting to reimburse**

Participant shall repay funds borrowed under ILF in full during the same Business day in compliance with the Reimbursement procedures as established by the National Bank of Rwanda from time to time.



The reversal (reimbursement) of ILF will be done at the original price and original transaction value.

The failure by a participant to reimburse the ILF at the end of the day shall automatically be considered as a request by such participant for recourse to the Standing Lending Facility and all Rules and Regulations governing this facility shall apply.

Without prejudice to the rules governing the Standing Lending Facility specified in this section, the failure by a participant to reimburse the ILF at the end of the day for whatever reason shall render that entity liable to the following penalties:

- (a) if the entity in question has a debit balance on its account at the end of the day for the first time within any twelve month period, then this entity shall incur a penalty of interest calculated at a rate of five percentage points above the applicable Standing Lending Facility rate on the amount of such debit balance;
- (b) if the entity in question has a debit balance on its account at the end of the day for at least the second time within the same twelve month period, then the penalty interest mentioned in subparagraph (a) shall be increased by two and a half (2.5%) percentage points. The same penalty shall be applicable in case of any additional debit position which occurred within this twelve month period.

#### **4.4 Eligible Collaterals**

The National Bank of Rwanda shall grant the ILF based on eligible collateral and by means of collateralized intraday repurchase transactions in compliance with the minimum requirements as specified by BNR with respect to monetary policy operations.

Eligible collaterals shall be the same assets and instruments as those prescribed for monetary policy operations and shall be subject to the same valuation, calculation of the haircut and risk control rules.

The eligible collateral mentioned in paragraph (1) shall be free from any forfeiture, collateralization to other person and should not be subject to any dispute.

The National Bank of Rwanda at its discretion, reserves the right to limit the eligibility of a security for the reason of mitigation of the liquidity, credit and concentration risks.

#### **4.5 Suspension, limitation or termination of the access to ILF**

The National Bank of Rwanda may suspend for a period of 3 months or terminate access to Intraday Liquidity Facility if one of the following events occurs:



- a. The account of the participant held in RTGS or CSD is suspended or closed;
- b. The participant concerned ceases to meet any of the requirements laid down in this Policy for the provision of ILF;
- c. A decision is made by a competent judicial or other authority to implement a procedure for the winding-up of the participant;
- d. The participant becomes subject to the freezing of funds and/or other measures imposed by the National Bank of Rwanda restricting the participant's ability to use its funds;
- e. The participant's eligibility as a counterparty for monetary policy operations has been suspended or terminated;
- f. The participant is deemed to pose risks on the grounds of prudence; and
- g. In the event of repeated default specified in Section 4.3 (3) up to maximum of 3 times within a month.

## V. IMPLEMENTATION OF THE FACILITY

This Policy shall serve as a guide to any legal instrument governing the Intraday Liquidity Facility including rules, procedures, instructions and decisions.

Any prior provision contrary to this Policy is hereby repealed.

This Policy shall come into force on the date of its signature.

Done at Kigali, 23/03/2016

RWANGOMBWA John  
Governor

