NRB Unified Directives for Class A, B and C Licensed Institutions

Directive 07

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Contents

Directive 07: Provisions Relating to the Implementation Schedule for Supervisory Directives

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Translation Status: Nearest-faithful controlled English translation; no paraphrase, elaboration or summary intended.

Legal Status: Original Nepali source text prevails. English is a controlled facilitative translation.

Controlled English translation

Provisions Relating to the Implementation Schedule for Supervisory Directives

Preamble

Controlled English translation

In exercise of the authority conferred by Section 79 of the Nepal Rastra Bank Act, 2058, the following directives are issued for implementing/causing implementation, in the manner set out below, of the directions given in the course of inspection and supervision of Class “A”, “B” and “C” licensed institutions.

Source Page: 74

1 Response to the Inspection Report

Controlled English translation

Within a maximum of 30 days from the date of receipt of the on-site inspection report, the licensed institution shall, through its Board of Directors, rectify the observations stated in the report, comply with the directions given, and send to the concerned Supervision Department of this Bank its response on the points raised in the inspection report together with the status of rectification. If it is not possible to make the necessary rectification and send the response within the prescribed time, the licensed institution shall obtain approval of the concerned Supervision Department and submit its remarks on the report within the extended period.

2 Loan-Loss Provision

Controlled English translation

Where a direction to make additional loan-loss provision is received through the inspection report, the additional loan-loss provision shall be made in the current quarterly accounts and information thereof shall be provided to this Bank. Provided that, if the latest quarterly and/or annual financial statements of the bank or financial institution have not been published at the time the direction is received, the financial statements shall be published only after making the provision in accordance with the direction.

3 Loan Portfolio Improvement Plan

Controlled English translation

Within 30 days of receiving a direction through the inspection report, a plan for improving the status of all loans overdue by three months, amounting to NPR 10 million or more in the case of a Class “A” licensed institution and NPR 5 million or more in the case of licensed institutions of the other classes, shall be prepared and submitted to the concerned Supervision Department of this Bank. If, within that period, an inspection is conducted by this Bank and additional directions are received, a revised plan incorporating the amount of classified loans and changes in classification shall be submitted to the concerned Supervision Department of this Bank within 30 days.

4 Capital Fund Adequacy

Controlled English translation

Within a maximum of 35 days from the date of receiving a direction through the inspection report, the licensed institution shall submit to the concerned Supervision Department of this Bank a written capital plan for maintaining an adequate capital fund, including, in addition to other matters, the following:
(a) details of the capital required at present and in the future for maintaining an adequate capital fund;
(b) details of classified and reclassified assets;
(c) the estimated amount of retained profit; and
(d) the additional sources arranged, and the timetable, for meeting future capital requirements in accordance with the provisions of the directive relating thereto.

5 Asset/Liability Management

Controlled English translation

Within a maximum of 30 days from the date of receiving a direction through the inspection report, the licensed institution shall make the necessary improvement/amendment to its asset/liability management policy and procedures for maintaining adequate liquidity and submit the following matters to the concerned Supervision Department of this Bank. In addition to other matters, the amendment shall give attention to the following:
(a) the cost and use of Borrowed Funds;
(b) the amount of liquid assets required to meet contingencies;
(c) arrangements for short-term financial sources to maintain adequate liquidity for possible fluctuations in deposits;
(d) matching between the amount of loans and the funds required for investment in off-balance-sheet transactions, and the sources of such investment; and
(e) arrangements for the management of the licensed institution to submit regular reports relating to assets/liabilities to the Board of Directors.

6 Internal Audit and Control

Controlled English translation

A licensed institution shall develop procedures so that, by carrying out its functions within the scope of the existing policies, rules and legal provisions, effectiveness may be brought to the internal control system. Such procedures shall include at least the following matters:
(a) procedures for reviewing the management and accounting control system of the licensed institution so as to present the true condition of the institution and safeguard its assets;
(b) procedures for checking the reliability of data;
(c) procedures for examining transactions relating to loan disbursement, Treasury Operation, foreign-exchange management, liquidity management, capital-fund adequacy, personnel, management information systems, as well as compliance with banking rules and laws;
(d) procedures for reviewing asset quality; and
(e) procedures for reviewing financial risk management (liquidity, assets/liabilities and foreign-currency management).

7 Implementation of Plans, Policies and Procedures

Controlled English translation

The plans, policies and procedures required by the inspection report as stated in Clauses 3 to 6 shall be submitted to the concerned Supervision Department of this Bank for review.

8 Monitoring of Progress Statements

Controlled English translation

This Bank shall continuously monitor the transactions and progress statements of banks and financial institutions. The concerned institution shall implement or cause to be implemented the suggestions given by this Bank after monitoring, every three months, the activities, plans, policies and implementation of the directions given by this Bank in respect of the concerned licensed institution. In addition, where this Bank so directs, the quarterly progress statement and a report on the status of implementation of the directions shall also be made available within the prescribed period.

9 Repeal and Saving

Controlled English translation

(1) The following directives previously issued by this Bank are hereby repealed:
the directive issued as Licensed Institution Directive No. 7/081 under the provisions relating to the implementation schedule for supervisory directives in the Unified Directives, 2081, and all circulars relating to the same subject issued thereafter up to Magh 2, 2082.
(2) Any acts or actions done or taken pursuant to the directives and circulars repealed under sub-clause (1) shall be deemed to have been done or taken pursuant to this Directive.

Supplemental compilation status

Controlled English translation

Review of Class A, B and C circulars issued to date in FY 2082/83 and 2083/84 found no amendment to Directive No. 7.

Note: This status note is from the supplied bilingual compilation and is not part of the reproduced official Directive pages 74-76.

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