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

Directive 13

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Directive 13: Provisions Relating to Compulsory Reserve / Statutory Liquidity

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Controlled English translation

Provisions Relating to Compulsory Reserve / Statutory Liquidity

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 in relation to the compulsory reserve and liquid-asset requirements to be maintained by Class “A”, “B” and “C” licensed institutions on the basis of their deposit and borrowing liabilities.

Source Page: 114

१ Provisions Relating to Compulsory Reserve

Controlled English translation

(1) Class “A”, “B” and “C” institutions licensed by this Bank shall maintain with this Bank, as compulsory cash reserve, 4 (four) percent of their total deposit liabilities. At least 90 percent of the compulsory cash reserve required under this provision shall, from 2082/02/18, be maintained with this Bank on a daily basis.

(2) Where a Class “B” or Class “C” licensed institution, at a place where this Bank has no office, opens a current account with the nearest Class “A” licensed institution for this purpose and deposits the required amount, such amount shall also be counted toward compulsory reserve.
However, an amount deposited with a Class “A” licensed institution so as to earn interest shall not be counted toward compulsory reserve. Information relating to such account shall be provided to the concerned Supervision Department of this Bank.
An account opened for compulsory-reserve purposes shall be opened only at the place where the central office of the concerned financial institution is situated.
Where there is no office of Nepal Rastra Bank at the place where the central office of the concerned financial institution is situated, only the amount deposited with one nearest Class “A” bank shall be counted toward compulsory reserve.
Amounts deposited with more than one bank/branch, other than an office of this Bank, shall not qualify for this purpose.
For purposes of compulsory-reserve calculation, the concerned financial institution shall not use any non-fund-based borrowing/facility from the bank with which such account is opened. However, nothing in this Directive shall prevent providing/causing provision of deprived-sector credit.

(3) Where the reserve required under sub-clause (1) is deficient, a fine shall be imposed as follows:
(a) for the first instance of deficiency in compulsory reserve, on the deficient amount at the prevailing Bank Rate;
(b) for the second instance of deficiency, on the deficient amount at the prevailing Bank Rate plus two percent;
(c) for the third and every subsequent instance of deficiency, on the deficient amount at twice the prevailing Bank Rate.
However, where an institution has been declared problematic and restricted from accepting deposits and extending credit, imposition of such fine on that bank or financial institution shall not be mandatory.

(4) For purposes of counting instances under paragraphs (a), (b) and (c) of sub-clause (3), each fiscal year shall be counted separately. For determining the number of instances of fine, the 14-day (two-week) reserve-calculation period shall be treated as one instance.

(5) A fine shall be imposed on the deficient amount in compulsory reserve, calculated for two weeks at the prevailing Bank Rate; for this purpose the deficient amount shall be multiplied by the Bank Rate percentage and divided by one reserve-calculation period (two weeks) of the relevant fiscal year. Where, within the same two-week period, both the minimum daily reserve and the compulsory reserve are deficient, only the higher of the applicable fines shall be imposed.

(6) The following procedure shall be followed for purposes of compulsory-reserve calculation:
(a) compulsory reserve shall be calculated on the basis of the weekly average deposit balance;
(b) in calculating the reserve, after the period referred to in paragraph (a), an interval of one week shall be maintained and the average cash balance maintained during the following two weeks (from Sunday to the fourteenth day, Saturday) shall be taken;
(c) for purposes of compulsory-reserve calculation, in respect of total deposit liabilities, the sum of total deposits from Sunday to Saturday on a weekly basis shall be divided by seven to determine the daily average. In calculating the cash balance so derived, the total of the daily balances from Sunday to the fourteenth day, Saturday, shall be divided by fourteen to determine the daily average;
(d) at least 90 percent of the compulsory reserve required under this Directive shall be maintained on a daily basis.

(7) For this purpose, all offices of a licensed institution shall be treated as one unit.

(8) Domestic-currency amounts that are in transit in the course of a fund transfer for deposit into an account maintained with this Bank shall be included in the balance with this Bank. The bank or financial institution shall submit evidence of the domestic-currency amount in transit.

१ — प्रष्टीकरण Explanation

Controlled English translation

(1) For the purpose of this clause, "total deposits" means amounts deposited in current, call, savings and fixed accounts of a licensed institution, and includes amounts accepted by a licensed institution through various financial instruments as prescribed by this Bank.
(2) Only the balance in the ordinary account maintained with this Bank shall be counted toward compulsory reserve. Amounts held in special-purpose accounts and foreign-currency accounts maintained with this Bank shall not be counted for this purpose.
(3) For compulsory-reserve calculation, convertible foreign-currency deposits, employee security deposits and amounts in margin accounts shall not be included in total deposits.
(4) "Current account" means an account recording amounts kept with a bank or financial institution that may be withdrawn at any time on demand.
(5) "Savings account" means an account recording amounts kept with a bank or financial institution for saving purposes.
(6) "Fixed account" means an account recording amounts kept with a bank or financial institution for a specified period.
(7) For compulsory-reserve calculation, cash in transit to the note chest located in a place where Nepal Rastra Bank has no office may also be included. When such amount in transit is included, evidence relating to the amount deposited into and returned from the note chest shall also be submitted.

२ Other Provisions Relating to Compulsory Reserve

Controlled English translation

In order to make the offices of licensed institutions more extensive, convenient and accessible, institutions licensed by this Bank other than market makers may also make payment of principal and interest on Government securities and obtain reimbursement thereof from this Bank. Accordingly, until reimbursement of the principal amount of Government securities is received, such amount may also be included in calculating the compulsory-reserve ratio. Likewise, where due to a public holiday the principal amount cannot be paid to the concerned bank or financial institution, the reimbursable amount relating to that day's compulsory reserve may be included in calculating the compulsory-reserve ratio.

३ Provisions Relating to Statutory Liquidity Ratio

Controlled English translation

From the end of Poush 2079, Class “A” banks shall maintain a Statutory Liquidity Ratio of 12 percent of total domestic deposits, and Class “B” development banks and Class “C” finance companies shall maintain 10 percent. For this purpose, the following liquid assets of banks and financial institutions shall be counted:
(a) investment in Government of Nepal securities;
(b) amounts maintained with Nepal Rastra Bank for compulsory-reserve purposes;
(c) cash balance held in own vault;
(d) in the case of Class “B” and “C” institutions, amounts maintained with commercial banks for compulsory-reserve purposes;
(e) amounts maintained by provincial-level financial institutions with other banks and financial institutions, receivable on demand;
(f) investment in debentures issued in Nepali currency by international financial institutions;
(g) deposits collected by this Bank from licensed institutions under open-market operations.
However, when calculating liquid assets, where credit has been taken against the above securities or debentures through repo, Standing Liquidity Facility (SLF) or from banks/financial institutions, the amount of such credit shall be deducted and only the net investment shall be included as liquid assets.

The following arrangements apply to calculation of the Statutory Liquidity Ratio:
(1) in calculating the Statutory Liquidity Ratio, domestic deposit liabilities as at the end of the immediately preceding month shall be taken as the basis;
(2) where the required balance is deficient, a fine shall be imposed subject to Section 99(1) of the Nepal Rastra Bank Act, 2058 as follows:
(a) for the first instance of deficiency, on the deficient amount at the prevailing Bank Rate;
(b) for the second instance, on the deficient amount at twice the prevailing Bank Rate;
(c) for the third and every subsequent instance, on the deficient amount at three times the prevailing Bank Rate.
However, where an institution has been declared problematic and restricted from accepting deposits and extending credit, imposition of such fine shall not be mandatory.
(3) for purposes of counting instances under paragraphs (a), (b) and (c) of sub-clause (2), each fiscal year shall be counted separately; the number of instances shall be determined on a monthly basis;
(4) a fine shall be imposed monthly on the deficient amount at the prevailing Bank Rate by multiplying the deficient amount by the Bank Rate percentage and dividing by 12;
(5) for purposes of the fine for deficiency in the Statutory Liquidity Ratio, the Bank Rate published as prescribed by this Bank shall be used.

Explanation:
(1) For the purpose of this clause, Government securities mean savings certificates, development bonds, Treasury Bills issued by the Government of Nepal and other securities specified by this Bank.
However, Government securities held in a Special Account under the Public Debt Management Department of Nepal Rastra Bank by banks and financial institutions acting as Market Makers, for Trading purposes, shall not be counted as Government securities for Statutory Liquidity Ratio (SLR) purposes because such securities are held solely for Trading purposes.

४ Repeal and Saving

Controlled English translation

(1) The following directives previously issued by this Bank are hereby repealed:
Directive No. 13/081 issued under the provisions relating to compulsory reserve/statutory liquidity 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

On rechecking Circular Nos. 11–19 of FY 2082/83 and Class A, B and C circulars issued to date in FY 2083/84, no amendment to Directive No. 13 was found.

Note: Status note from supplied bilingual compilation; not part of official pages 114-117.

Source and disclaimer

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