



NOTICE TO BANKS

NOTICE NO. BU/N-14/2017/49

NOTICE ON MINIMUM CASH BALANCE REQUIREMENT

1. INTRODUCTION

- 1.1. This Notice is issued pursuant to Section 66 of the Banking Order, 2006 and applies to all banks.
- 1.2. This Notice shall take effect from 1st December 2017.

2. DEFINITIONS

- 2.1. For the purposes of this Notice—

“Authority” means the Autoriti Monetari Brunei Darussalam established under the Autoriti Monetari Brunei Darussalam Order, 2010 (S103/2010);

“Averaging” means the provision to comply with the MCB requirement on average over a period;

“Balance sheet data” means the data used for calculating the MCB requirement;

“Bank holiday” means any day which is not a business day;

“Business day” means any day on which the RTGS is operational and the bank is not closed;

“Conventional bank” means a bank that is not an Islamic bank;

“Eligible liabilities” means the liabilities for which data must be used in the calculation of the MCB requirement;

“End-of-day” means the time of the business day following the closure of the RTGS at which the payments processed by the RTGS are finalized for the day;

“Islamic bank” means a bank falling within the scope of and regulated by the Islamic Banking Order, 2008;

“Reporting deadline” means the deadline by which the banks must submit their reports on the balance sheet data;



“RTGS” means the real time gross settlement system established and operated by the Authority

- 2.2 Any expression used in this Notice shall, except where expressly defined in this Notice or where the context requires, have the same meaning as in the Banking Order, 2006.

3. OBJECTIVE

- 3.1. The Minimum Cash Balance (MCB) is a monetary policy and financial stability instrument of the Authority.
- 3.2. The MCB serves 2 main purposes:
- 3.2.1. Through its averaging provision, aims to contribute to the stabilization of money market interest rates by giving subjected banks an incentive to smooth the effects of temporary liquidity fluctuations.
- 3.2.2. Serves as a liquidity buffer which the Authority may free up in times of market turmoil by reducing the rate of the MCB to ease liquidity conditions and support banks’ liquidity management.

4. MCB BASE

- 4.1. The banks shall hold MCB with the Authority in respect of the liabilities stated in paragraph 4.2 (hereinafter: “eligible liabilities”). This requirement does not apply to liabilities stated in paragraph 4.3 and liabilities for any of the bank’s branches abroad.-
- 4.2. The MCB shall be kept in respect of the following liability categories, denominated in both local and foreign currencies:
- 4.2.1. deposits with an agreed maturity,
- 4.2.2. deposits redeemable at notice,
- 4.2.3. borrowing with an original maturity below 2 years,
- 4.2.4. debt securities issued with an original maturity below 2 years,
- 4.2.5. reverse repos (financing through repo).
- 4.3. No MCB shall be kept in respect of the following liability categories:
- 4.3.1. liabilities owed to other banks required to hold MCB pursuant to this Notice,



4.3.2. liabilities owed to Islamic banks and Finance companies,

4.3.3. liabilities owed to the Authority.

4.4. The MCB base is defined as the sum of the liabilities in paragraph 4.2 less the sum of liabilities in paragraph 4.3.

5. **MCB RATE**

5.1. The MCB rate is determined by the Authority and may be altered as it deems necessary.

5.2. The current MCB rate is 6 per cent.

6. **CALCULATION AND REPORTING OF THE MCB**

MCB reference period

6.1. The MCB requirement is calculated in the MCB reference period.

6.2. The MCB reference period is the calendar month, where the first day is the first day of the calendar month and its last day is the last day of the same calendar month.

Reporting

6.3. The banks shall supply information according to the reporting template specified in Appendix 1, on eligible liabilities specified in paragraph 4.2 (hereinafter: "balance sheet data") and listed in detail in Appendix 2. The reports shall contain data for all calendar days within the MCB reference period (the previous month). For bank holidays, the reports may use the data available on the last business day.

6.4. The balance sheet data denominated in foreign currencies shall be given in local currency using the daily exchange rates provided by the Authority (no later than 3 p.m.) via email. If the Authority fails to provide the exchange rates by the stipulated time, the banks may use the last available exchange rates sent by the Authority.

6.5. The banks shall submit the reports in an Excel file once a month, until the 7th day of the month (hereinafter: "reporting deadline") following the MCB reference period, via email to the Monetary Management Unit of the Authority (monetary.management@ambd.gov.bn).

6.6. The Authority shall calculate the MCB requirement, as specified in paragraphs 6.8 and 6.9 and shall notify the bank via email the determined MCB requirement, together with the aggregate information about the overall holding of the bank's own securities by other reporting banks within two working days after the reporting deadline. The bank may only on one occasion



request the Authority to modify the determined MCB requirement, outlining its reasons and the proposed alternative figure. The request must be made in writing and up to the COB of the third working day after the reporting deadline. If a request for modification is submitted beyond the deadline, then the initial determined MCB requirement shall apply.

- 6.7. In the event of a request for modification being made within the stipulated period, the Authority shall determine the final MCB requirement of the bank, and shall notify it in writing within four working days after the reporting deadline.

Calculating the MCB

- 6.8. The MCB requirement shall be calculated by multiplying the arithmetic average of the daily MCB bases during the MCB reference period and the corresponding MCB rate.
- 6.9. If the bank fails to provide the balance sheet data, the Authority shall estimate its MCB requirement, taking into consideration the balance sheet data provided earlier as well as other available information.

7. MAINTENANCE OF THE MCB

Maintenance period

- 7.1. The Minimum Cash Balance must be maintained over the maintenance period.
- 7.2. Each maintenance period is linked to the MCB reference period of the previous calendar month.
- 7.3. The first day of the maintenance period is the third Thursday of the month following the MCB reference period (fully lagged base and maintenance periods) and the last day is the third Wednesday of the following month.

Maintaining the MCB

- 7.4. The utilization rate is 30 percent. The daily MCB limit is a fraction, calculated as 100 percent minus the utilization rate, of the MCB requirement.
- 7.5. A bank shall comply with the MCB requirement by holding sufficient balances on its RTGS account kept with the Authority.
- 7.6. With regard to the compliance with the MCB requirement, the end-of-day balance on the RTGS account will be used in calculations. For the purpose of this Notice, the end-of-day balance on the RTGS account on bank holidays shall be the closing balance from the previous business day.
- 7.7. Balances on the RTGS account, up to the utilization rate, may be used for intraday settlement purposes. Banks must keep their RTGS balances above the daily MCB limit at all times.



- 7.8. The MCB must be held in Brunei Dollars regardless of the denomination of the eligible liabilities.
- 7.9. The banks subject to the MCB requirement shall comply during the maintenance period on average (hereinafter: “averaging”). The averaging provision implies that compliance with the MCB is determined on the basis of the arithmetic average of the end-of-day RTGS account balances over the maintenance period. Therefore, on any given day of the maintenance period, the end-of-day RTGS account balance may exceed or fall short of the MCB requirement. A bank can offset a daily surplus (shortfall) by maintaining lower (higher) balances on other days in the maintenance period. However, the balance in the RTGS account at the end of the day must be above the daily MCB limit, as set out at paragraph 7.4. When applying averaging, all calendar days of the maintenance period shall be taken into account, including business days and bank holidays.

Remuneration of the MCB

- 7.10. The rate of remuneration is zero.

8. NON-COMPLIANCE AND INSPECTIONS

- 8.1. The Authority may perform on-site and off-site inspections of the MCB requirement the bank is required to comply with, as well as the balance sheet data provided by the bank for the calculation of the MCB.
- 8.2. Non-compliance of a bank with the MCB requirement may arise in two forms:
- 8.2.1. If the average of the end-of-day RTGS account balances of a bank over the maintenance period is less than its MCB requirement for the corresponding maintenance period.
- 8.2.2. If the end-of-day RTGS account balance of a bank is lower than 70 percent of the MCB requirement.
- 8.3. Beyond the grace period referred to in paragraph 11.3, where a bank fails to comply with the MCB requirement (referred to as the defaulting bank), the Authority may direct the defaulting bank to make good the deficiency in accordance to section 45(4) and section 45(5) of the Banking Order, 2006. The Authority may impose a penalty on such defaulting bank at the rate prescribed under section 45(7) of the Banking Order, 2006 and any failure or refusal to adhere to such penalty shall be an offence under section 45(8) of the same.
- 8.4. The Authority shall inform the defaulting bank of the amount of penalty to be imposed under section 45(7).



9. FINAL AND EXCEPTIONAL PROVISIONS

Circumvention of the Directive

- 9.1. When the Authority concludes that a bank instigated or was party to a transaction which was aimed at undermining, circumventing or defeating the objective of this Notice, the Authority, after providing due justification, may disregard the provisions of this Notice and may determine the MCB requirement of that bank in a discretionary manner.

Communication

- 9.2. The Authority shall have the right to adjust or change the MCB base and the eligible liabilities, the MCB reference and maintenance periods, the daily MCB limit, and the calculation of the MCB requirement which shall only take effect before the expiry of 30 days of such adjustments or changes through amendments of this Notice.

10. PROVISIONS REPEALED

- 10.1. Notice to Banks – Emergency (Banking Act) (Amendment) Order, 1995 on Minimum Cash Balances issued to banks on 23 November 1995 is hereby repealed.
- 10.2. Directive No. BS/N-1/2016/3 – Arrangement for the use of Minimum Cash Balances for Intraday Liquidity Maintenance in the RTGS System dated 11 March 2016 is hereby repealed.
- 10.3. Directive No. BS/N-2/2016/4 - Extension on the Arrangement for the use of Minimum Cash Balances for Intraday Liquidity Maintenance in the RTGS System dated 28 September 2016 is hereby repealed.
- 10.4. The provisions of any other notices, directives and policy documents issued by Authority prior to this Notice and which are inconsistent with it are hereby repealed.

11. TRANSITIONAL PROVISIONS

- 11.1. The first maintenance period pursuant to this Notice will commence on 21st December 2017. The first MCB reference period is November 2017.
- 11.2. Prior to 21st December 2017, all banks shall maintain their MCB requirement in accordance to any of the provisions repealed in paragraph 10 above.
- 11.3. The grace period will be applicable to the first three MCB reference period and the first three corresponding MCB maintenance period from the effective date of this Notice. Under the grace period, the last MCB reference period will be January 2018 with the last corresponding maintenance period from the 15th February 2018 to the 21st March 2018. Thereafter all banks shall comply with this Notice.



MANAGING DIRECTOR

AUTORITI MONETARI BRUNEI DARUSSALAM

Issue Date: Safar 1439 / November 2017



APPENDIX 2

The list of eligible liabilities and determining the MCB liability base

Table 1 below shows the list of liabilities that are needed to calculate the items in the reporting template in Appendix 1. The liabilities are identified, where possible, by referring to the monthly financial returns reports of the banks and finance companies.

Some of the required items do not have the necessary counterpart in the financial returns reports. The typical reasons for this are:

- (i) the lack of breakdown between liabilities to non-banks and liabilities to banks and finance companies,
- (ii) the inclusion of accrued interest/profit
- (iii) the lack of breakdown between liabilities with a maturity of less than 2 years and above.

The banks are responsible to report the data in the reporting template accurately. In doing so, they must produce the data for the missing items. The Authority will apply the necessary calculus on the value of the items defined in the reporting template to derive the MCB base. If the reporting bank found it impossible to produce (some of) the items that are not in the financial returns report then the Authority will calculate the MCB base using the principle that the resulting MCB base cannot be lower than the actual one assuming all data are known.

This principle, in practice, means that the bank must report the next available broader data category for liabilities to be included and the next available narrower data category for liabilities to be excluded from the MCB base and the Authority will use these in its calculation. The paragraphs below show a few examples for the use of the principle.

- (i) If there were no data for liabilities to banks and finance companies in a certain liability category then the bank must report zero for the respective liability category and the Authority will use the total liabilities for that category to be included in the MCB base.
- (ii) If there were data only for liabilities to financial institutions (a broader category than banks and finance companies) but not specifically to banks and finance companies then the bank must report zero for this category as the Authority will not exclude the liabilities to financial institutions from the MCB base.
- (iii) If there were data for both liabilities to financial institutions and liabilities to banks then the bank must report the liabilities to banks and the Authority will exclude liabilities to banks from the MCB liability base



Table 1: The list of eligible liabilities and determining the MCB liability base for banks

Title in MCB template	Line codes in Financial Returns monthly report, (where applicable)	Comments
Total deposits	1.1.1.2.1.0.0 + 1.1.1.2.2.0.0	
Total deposits of institutions subject to MCB regulation	1.1.1.2.2.1.0 + 1.1.1.2.2.2.0 + deposits of finance companies	
Total borrowing, with an original maturity below 2 years, w/o repo	1.1.1.2.3.0.0 – 1.1.1.2.3.1.5 – 1.1.1.2.3.2.5 – 1.1.1.2.3.3.7	Only items with an original maturity below 2 years must be considered here. There is no breakdown for this in the monthly Financial Returns report.
Total borrowing from institutions subject to MCB regulation, with an original maturity below 2 years, w/o repo	1.1.1.2.3.1.2 + 1.1.1.2.3.1.3 (see comments) + 1.1.1.2.3.1.4 + 1.1.1.2.3.2.2 + 1.1.1.2.3.2.3 (see comments) + 1.1.1.2.3.2.4	In the case of items 1.1.1.2.3.1.3 and 1.1.1.2.3.2.3, consider only the items from local banks and finance companies. Only items with an original maturity below 2 years must be considered here. There are no breakdowns for these in the monthly Financial Returns report.
Debt securities issued by the reporting bank, with an original maturity below 2 years	debt securities issued by the reporting institution at notional value	No appropriate lines exist for this entry in the monthly Financial Returns report. Only items with an original maturity below 2 years must be considered here. There is no breakdown for this in the monthly Financial Returns report. At nominal value.
Debt securities, held by the reporting bank with an original maturity below 2 years, of each of the other banks and the finance companies	1.1.1.1.2.1.5 + 1.1.1.1.2.2.5 + 1.1.1.1.3.1.5 + 1.1.1.1.3.2.5	Only the debt securities issued by MCB reporting institutions must be considered. Only items with an original maturity below 2 years must be considered here. There are no breakdowns for these in the monthly Financial Returns report.



		At nominal value.
Total stock of reverse repo	1.1.1.2.3.1.5 + 1.1.1.2.3.2.5 + 1.1.1.2.3.3.7	
Total stock of reverse repo, with institutions subject to MCB regulation	1.1.1.2.3.1.5 + 1.1.1.2.3.2.5 + 1.1.1.2.3.3.7	The line codes are the same as above but only items with local banks and finance companies must be considered here. There is no breakdown for this in the Financial Returns report.