

PRUDENTIAL REGULATIONS NO. CBL/SD/05/2000

PRUDENTIAL REGULATIONS FOR RELATED PERSONS TRANSACTIONS

1.0 INTRODUCTION

Related persons shall be subjected to the same tests of creditworthiness as other customers in obtaining loans and advances. All credit facilities should be granted at an arm's-length basis. The terms and conditions of such credits should not be more favorable than credit extended to non-related borrowers under similar circumstances and must be supported by current financial data.

In order to effectively monitor, control and/or mitigate the risks arising from related persons transactions, all licensed banks are required to adhere to the regulations prescribed in this circular and the provisions of Section 15 (1)(d), Section 20 (2) (b,c,d,e, & h) and Section 29 of the New Financial Institutions Act of 1999 (FIA) in respect of the extension of credit facilities to board members, officers or employees as well as to their close family members, firms and corporations in which they are interested whether directly or indirectly and individuals for whom they are guarantors.

Licensed banks are requested to identify related persons, to maintain records regarding related persons and to report quarterly to the Central Bank of Liberia all transactions with related persons as provided herein..

2.0 DEFINITIONS

- [1] "Related persons" to a bank are:
- [i] any officer or director of bank or any person who alone or together with one or more others has the authority to enter into commitments for the account of the bank;
 - [ii] any principal shareholder of the bank; and
 - [iii] any person who is related to such officer, director or principal shareholder by marriage, consanguinity to the second degree, or business interest.
- [2] "Related person" to any officer, director or principal shareholder of a bank means any person who is related to such person by marriage, consanguinity to the second degree, or business interest.
- [3] "Principal shareholder" means any shareholder of a bank or other person owning five (5%) percent of any class of shares of the bank.

- 4] “Director” means any person who is a member of the board of directors by whatever name he may be called, carrying out or empowered to carry out substantially the same functions in relation to the direction of the bank as those carried out by a member of the board of directors of a corporation organized under the Associations Law of Liberia, Title 5 of the Liberian Code of Laws Revised.
- [5] “Person” means and includes any company, partnership, association or body of persons, corporate or unincorporated.
- [6] For the purpose of this regulation, a related person will also include any of the following:
 - [i] the non-Liberian head office of a Liberian branch banking office;
 - [ii] any corporate parent or organization owning a majority of shares or otherwise controlling the policies of the Liberian bank;
 - [iii] any affiliate, subsidiary or associated company evolving through stock-ownership, a common parent or head office relationship or through an interlock of a majority of directors or executive officers;
 - [iv] any interest of any director or executive officer (an interest in any incorporated or unincorporated company, partnership, business venture or similar association in which the director or officer, alone or with family members, owns 5% or more or is otherwise in a position to exercise control).

3.0 COVERED TRANSACTIONS

Transactions subject to this regulation are all transactions where the related person receives from the bank a benefit, directly or indirectly, in the form of credit facilities, payments, or services. These include, but are not limited to:

- [1] Loans and advances & other credit facilities to, or for the benefit of a related person.
- [2] Fees and expenses for
 - [a] management services
 - [b] loan/credit review
 - [c] audit services
 - [d] data processing services
 - [e] insurance
 - [f] confirming/advising letters of credit
- [3] sales/exchanges of assets

4.0 EXEMPTIONS

The following transactions are specifically exempted from this regulation.

- [1] Payments to directors for Board and Committee meeting attendance;
- [2] Salaries and standard benefits provided to executive officers under terms of their employment;
- [3] Loans to executive directors, bank officers and employees which are provided under the bank's scheme of service. The bank shall obtain written prior approval of the CBL where the limit on advances established by the provisions of Section (2e) is exceeded ;
- [4] Business travel expense reimbursements to directors or executive officers, provided that such are justifiable and supported by detailed claims and explanations signed by the director or officer;
- [5] Loans to public sector corporations, both incorporated as private and public companies, where the banks' directors, whether executive or non-executive, sit on the boards of these companies. The exemptions will apply only to those corporations in which the Government of Liberia and related agencies have a direct shareholding interest of 100 per cent.

Where banks are unsure of exemptions under this regulation, or in cases of doubt, the Central Bank of Liberia should be contacted for clarification. In other cases not specified, banks shall submit specific applications for exemptions to the Central Bank and these will be considered on the merits of each case.

5.0 RESTRICTIONS ON LENDING TO DIRECTORS

Consistent with the provisions of Section 20 (c) and (d) of the FIA, no licensed bank shall, directly or indirectly, except with the approval of the Central Bank on such terms and conditions as the Central Bank may prescribe:

- [1] grant or permit to be outstanding unsecured advances unless such have been unanimously approved by all of the members of its board and the institution has notified the Central Bank in advance:
 - [i] to the members of its board, whether such advances are obtained by them jointly or severally;
 - [ii] to any person in whom it or any one or more of the members of its board has any interest as a director, partner, manager, agent or member or otherwise.
- [2] grant or permit to be outstanding secured or unsecured advances or credit to the members of its board of directors unless such advance or credit are, in addition to the securities that may be required, guaranteed by all members of the board, jointly and severally; provided that the aggregate amount of such advances and credit made to all members of the board shall **at no time exceed thirty (30%) percent of the net worth of the bank.**

6.0 RESTRICTION ON LENDING TO OFFICERS & EMPLOYEES

As required by the provisions of Section 20(2)(e) of the FIA, no licensed bank shall, directly, or indirectly, except with the approval of the Central Bank of Liberia on such terms and conditions as the Central Bank may prescribe, grant or permit to be outstanding to its officers and employees unsecured advances, which in aggregate amount for any one officer or employee **exceed the annual remuneration of such officer or employee.**

7.0 DECLARATION OF INTEREST

In accordance with the provisions of Section 29 of the FIA, the following declaration shall be made by all directors, officers or employees of a licensed bank.

- [1] Every director, officer, or employee of a bank who is in any manner whatsoever, whether directly or indirectly, interested in an advance from that bank shall, as soon as possible, declare the nature of his interest to the board of directors or other body responsible for the management of that bank and shall cause such declaration to be circulated forthwith to all members of its board.
- [2] The requirement of the preceding paragraph is not applicable where the interest of the member of the board consists only of being a creditor to or holder of an ownership interest in a concern which is interested in an advance from that institution if, in either case, the interest of the member of the board may properly be regarded by the Central Bank as not being a substantial interest.
- [3] A declaration by a member of the board of a bank to the effect that he is to be regarded as interested in any advance, which may, after the date of the notice, be made by that bank shall be deemed to be sufficient declaration of interest in relation to any advance so made if:
 - [i] it specifies the nature and extent of his interest, and
 - [ii] his interest shall not be different in nature from or greater in extent than the nature and extent so specified in such notice at the time any advance is made.
- [4] Every director, officer, or employee of a bank who possesses any property or holds office in connection therewith, whether directly or indirectly, or who may have a family member with interest in such property, whereby such interest might be in conflict with his duties to the bank, shall declare at a meeting of the board of the bank the fact, nature, character and extent of the conflict.
- [5] The declaration referred to above shall be made at the first meeting of the members of the board held:

- [i] after he becomes a member of the board or an officer or employee of the bank; or
 - [ii] if already a member of the board, officer, or employee of the bank, after he commences to hold office related to the property, or comes into possession of the property.
- [6] Every member of the board and every officer or employee of a bank who qualifies as an interested party under the provisions of Section 29 of the FIA shall cause to be brought up and read any declaration made at the next meeting of the board of the bank, and shall cause to be recorded any declaration made in the minutes of the meeting at which it was made or at which it was brought up and read.
- [7] Every director, officer, or employee of a bank shall be required, upon request of the Central Bank, to disclose any interest that they and members of their family have in such bank, whether directly or indirectly.

8.0 DEBT OWED BY RELATED PERSONS

Consistent with the provisions of Section 20(2)h0, no bank, shall, directly or indirectly, except with the approval of the Central Bank of Liberia on such terms and conditions as the CBL may prescribe, remit, either in whole or in part, the debts owed to it by any of the bank's related party or person.

9.0 REPORTING REQUIREMENTS

Each bank will maintain records in sufficient detail to enable data regarding related persons transactions to be provided upon request by the CBL, and to accurately complete the Quarterly Related Persons Transactions Report (**See Format attached**).

For those institutions that are branches of a foreign owned bank or subsidiaries of a parent holding company, the institution will maintain a copy of the most recent annual financial statements for the bank or holding company for review by the CBL examiners during any examination.

10.0 TRANSITIONAL ARRANGEMENT

Any bank which , prior to the effective date of these regulations, entered into any transactions that are not consistent with the regulations shall submit a statement thereof to the Central Bank and shall liquidate all such transactions within a period of time, as may be determined by the Central Bank.

11.0 PENALTIES FOR NON - COMPLIANCE

Any director or officer or employee of a bank who acts in contravention of Section 29 (1) or Section29 (4) – (7) of the FIA, is in violation of the law and

shall be liable to pay a fine of up to Two Hundred Thousand (L\$200,000) Liberian Dollars, or be imprisoned for a term of not less than two years or to both fine and imprisonment. In addition, any board member, officer, or employee of a licensed bank acting in contravention of any of the provisions of these regulations is guilty of a felony and shall be liable to imprisonment for a term of not less than three years and to a fine of not less than One Million (L\$1,000,000.00) Liberian Dollars. Each such individual shall make restitution of the amount of money lost as a result of the violation and he/ she shall be removed from office.

**SUPERVISION DEPARTMENT
CENTRAL BANK OF LIBERIA
APRIL, 2000**

Prudential Regulations For Related Persons Transactions

APPENDIX 1

FORM SD

SCHEDULE OF CREDIT FACILITIES GRANTED TO THE REPORTING BANK'S DIRECTORS

MAJOR SHAREHOLDERS AND OTHER RELATED PERSON'S (SECTION 20 (1) (2) (3) OF THE NEW FINANCIAL INSTITUTIONS ACT, 1999

S/N0	Borrower	Relationship with Bank	AMOUNT FACILITY			Rate of Interest	Nature & Value of Security	Type of Credit Facility	Date of Approval	Date Granted	Date Expiry	Present Balance	
			Secured	Unsecured	Guaranteed							Current	Non-Performance

Prudential Regulations For Related Persons Transactions

APPENDIX 2

FORM SD

**SCHEDULE OF LOANS, OVERDRAFTS AND OTHER CREDIT FACILITIES TO OFFICERS AND OTHER EMPLOYEES OF THE REPORTING BANK
SECTION 20 (2E) OF THE NEW FINANCIAL INSTITUTIONS ACT, 1999**

A. To Officers Group 1 Group 2 Group, etc. Group, etc.	Housing Loans		Vehicles Loans		Other Secured		Unsecured Advance & credit Facilities		Total	
	No.	Amount	No.	Amount	No.	Amount			No.	Amount
B. To Other Employees Group 1 Group 2 Group 3, etc.										
C. Total (for all staff including members of Senior Management)										
D. Certificate by CEO: 1. Certify that the information above is complete and correct and that no official or employee of the bank has granted advances or credit facilities in excess of in aggregate his/her one year salary (CHIEF EXECUTIVE OFFICER)										

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