BANK OF UGANDA

Remarks

By

Professor Emmanuel Tumusiime-Mutebile,

Governor, Bank of Uganda

at the

Uganda Bankers' Association (UBA) Informal Dinner

Held at the Residence of the Managing Director, KCB Bank Uganda Limited, Kololo, Kampala

Friday November 09, 2018

Our host, The Managing Director, KCB Uganda Limited,
Chairman of Uganda Bankers' Association,
Chief Executive Officers of Financial Institutions,
Executive Director of Uganda Bankers Association,
Senior Managers and Staff from Bank of Uganda,
Invited Guests,
Ladies and Gentlemen

Good evening,

It is a pleasure to be with you this evening for yet another informal Uganda Bankers' Association Dinner.

Mark Twain once remarked that "*a man's character may be learned from the adjectives which he habitually uses in conversation*". You can tell from the last couple of informal dinners that I am happy with the progress we have made as the Supervised Financial Institutions (SFIs) sector over the last quarter.

But before I reveal the reasons for my happiness, I thank the Managing Director of KCB Bank Uganda Limited for hosting us this evening. I am grateful to the organisers of this informal dinner for the wonderful experience.

Tonight, I would like to focus on the significant events that the Supervised Financial Services Sector has had to deal with since July 2018 when we last interacted.

I thank the Uganda Bankers' Association for supplementing the Bank of Uganda (BoU) efforts in promoting the implementation of the International Financial Reporting Standards (IFRS) 9. I have been informed that the UBA successfully organised the Chief Financial Officers' (CFO's) symposium on IFRS 9 on September 13, 2018 in which BoU fully participated.

I am happy to note that the symposium was very fruitful as it provided valuable insights and sharing of practical experiences in the implementation of the IFRS 9 in other jurisdictions. I recognize the efforts and distinction of UBA in identifying a resourceful facilitator who is a member of the International Accounting Standards Board Implementation Task Force for IFRS 9.

Bank of Uganda continued its efforts to enhance the supervisory and regulatory environment through the publication of the Financial Institutions (Capital Adequacy) Regulations, 2018 in the Gazette. The new Capital Adequacy Regulations will now require Commercial Banks and Credit Institutions to take into account the capital charge for market risk in addition to the existing credit risk capital charge.

Accordingly, effective September 30, 2018 the minimum on-going core capital requirements was enhanced from 8 percent to 10 percent of the total risk adjusted assets plus risk adjusted off balance sheet items for Commercial Banks and Credit Institutions. The achievement of this milestone marks the point of full implementation of Basel I Capital Accord by BoU.

In furtherance of the implementation of the Basel standards in the Supervisory framework, the Bank of Uganda will now focus on enhancing the implementation of the Basel II Capital Accord. The BoU has implemented some of the pre-conditions for Pillar II of the Basel II Capital Accord, which is enshrined in the legal and supervisory framework.

The BoU embraced the Risk Based Methodology, which mandates the Board with the responsibility to ensure that a sound risk management framework is in place. While these form good foundation for determination of the adequacy of the capital position based on the risk profile, the body of work is not yet complete. For example, there is considerable work to be done in the implementation of Pillar II requirements for Internal Capital Adequacy Assessment Program (ICAAP) as well as capital charge for operational risk based on the standardised approach.

With regard to market discipline, there exists a rigorous information disclosure requirement stipulated in the Financial Institutions Act (FIA) 2004 as amended and implementing regulation on the requirements for disclosure in final annual accounts, risk management policies, publication of bank charges, financial consumer protection. However, full implementation of market discipline requires adoption of Pillar I of Basel II Accord.

As part of the financial markets development plan, the Bank of Uganda recently approved the proposal to make Deposit Auctions marketable and gave a no-objection to the introduction of Covered Sale Buy Back Bonds (CSBBB). The BoU approved the marketability of the Deposit Auction Facility as well as its issuance at a discount. As a result, the financial institutions can now ably trade the Deposit Auction facility in the secondary market.

Stakeholder impact is critical for the long-term survival of Supervised Financial Institutions (SFIs). SFIs ought to proactively assess the power and influence of each of their stakeholders as well as the legitimacy of stakeholder claims on financial institutions and design effective strategies to respond to each of the stakeholder claims. Specifically, the power and influence exhibited by the general public and depositors places them as key players in the management of financial institution's liquidity.

Therefore, unnecessary “noise” perceived by depositors relating to the uncertainty of the long term survival of a financial institution can spark off liquidity crises and bank runs. Financial institutions must therefore invest appropriately in developing effective corporate communication strategies as a new liquidity management tool.

Last but not least, I would like to congratulate Mr. Matthias Katamba on his appointment as the new Managing Director of dfcu Bank. But also thank Mr. Juma Kisaame for serving dfcu Bank diligently. Mr. Michael Mugabi, allow me to congratulate you in your new assignment as Acting Managing Director of Housing Finance Bank. And I hope that the Board of Directors shall find it fitting to confirm you in that position.

Once again, I thank you for the continued support to the economic development of Uganda through your financial intermediation role.

Thank you for listening.

Professor Emmanuel Tumusiime-Mutebile

GOVERNOR, BANK OF UGANDA