



EXPLANATORY NOTES ON THE REVISED SUPERVISORY GUIDANCE UNDER SECTION 62 OF ACT 930 – ELIGIBLE COLLATERALS

*FOR BANKS, SAVINGS AND LOANS COMPANIES, FINANCE HOUSES AND FINANCIAL
HOLDING COMPANIES*

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INTRODUCTION

Pursuant to Sections 62(8) and (9) and 92(1) of the Banks and Specialised Deposit-Taking Institutions Act, 2016 (Act 930), the Bank of Ghana (BOG) issued the Supervisory Guidance under Section 62 of Act 930 – Eligible Collaterals – July 2022 following consultations with the banking industry (herein called “the industry”) as well as our development partners, mainly technical assistance missions from the IMF/ AFRITAC West 2.

The Supervisory Guidance under Section 62 of Act 930 – Eligible Collaterals is aimed at broadening the scope of eligible instruments that may be considered for collateral purposes as outlined under Section 62 subsections (8) and (9) of Act 930. This Directive seeks to provide guidance and to outline the eligible financial instruments that may be held as collateral for deduction for the purposes of computing financial exposure to a single counterparty as well as other collaterals for prudential purposes within the banking sector. It also sets out BOG’s supervisory expectations relative to the principles that should underpin each Regulated Financial Institution’s (RFI’s) approach to the management of these collaterals.

The BOG has since carefully considered the Supervisory Guidance under Section 62 of Act 930 – Eligible Collaterals in the light of feedback, comments and contributions received during the public consultation.. This has culminated in a revised Directive dated July 2022 which on-boards material contribution made on the Exposure Draft of the Supervisory Guidance under Section 62 of Act 930 – Eligible Collaterals.

This document, therefore, explains the significant revisions reflected in the final version of the Directive titled “Supervisory Guidance under Section 62 of Act 930 – Eligible Collaterals, 2022”.

NOTES EXPLAINING REVISIONS REFLECTED IN THE 2022 SUPERVISORY GUIDANCE UNDER SECTION 62 OF ACT 930 – ELIGIBLE COLLATERALS

Section 2.2: Credit Risk Mitigation Techniques

- “Appropriate supervisory haircuts” is qualified with “at a minimum” to indicate that RFIs may apply higher haircuts relative to the supervisory haircuts provided in this Directive.

Section 3.2: Acceptable Collaterals for the Determination of SOL

- The title of the section which was originally cited as Eligible Collaterals for Prudential/ Impairment Purposes is now cited as Acceptable Collateral for the Determination of SOL, to provide clarity.
- List of eligible collateral is broadened to include “Other Fixed Income Securities issued by PSEs with revenue raising powers, listed on the Ghana Fixed Income Market (GFIM) but not guaranteed by the Government of Ghana. ”. Similar securities guaranteed by the Government of Ghana fall under the eligible collaterals under Section 62(8) of Act 930. In light of this, the list of eligible collaterals under Section 62(9) of Act 930 is broadened to incorporate similar securities without Government guarantee. This is reflected in Appendix 2.

Section 4.1i: Haircuts for all the proposed instruments

- “Supervisory haircuts is qualified with “minimum” to indicate that RFIs may apply higher haircuts relative to the supervisory haircuts provided in this Directive.

Appendix 1: Additional Eligible Financial Collaterals for Computing Financial Exposure for SOL purposes

- Heading is changed to reflect the use of these collaterals in this section.
- “Other Fixed Income Securities listed on the Ghana Fixed Income Market (GFIM)” is amended to read “Other Fixed Income Securities issued by PSEs with revenue raising powers, listed on the Ghana Fixed Income Market (GFIM), and guaranteed by the Government of Ghana ” to provide clarity on the description of this collateral.

Appendix 2: Acceptable Collateral for Determination of SOL

- Heading is changed to reflect the purpose of these collaterals in this section.
- “RFIs shall seek prior approval from BOG before accepting this instrument” is deleted. RFI’s risk management framework should address acceptable collaterals as part of the credit administration process.
- **Landed Property**
Valuation Report from an independent certified valuer is added to the “Required Documentations in respect of the Collateral” as additional requirement.
- **Plant and Equipment**
Some characteristics are added to indicate the required state of Plant and Equipment that shall be acceptable as collateral.
- Valuation Report from an independent certified valuer is added to the “Required Documentations in respect of the Collateral” as additional requirement.
- **Stocks/Inventories/Commodities (Floating Charge):**
Inventories/Commodities are added to provide clarity on the description of this collateral.

Haircut for Stocks/Inventories/Commodities (Floating Charge) is revised to 50% to reflect the minimum supervisory haircut to be applied.

- “Stocks must be from Government-approved bonded warehouses or Certified warehouses by Ghana Grains Council (GGC) or Ghana Commodity Exchange (GCX) as well as Other Certified warehouses” is deleted to expand the scope of eligible assets that can be used with a Collateral Manager ultimately responsible for the oversight and control.
- Additional characteristic is added: “The collateral manager shall provide regular reports to the RFI (per the RFI’s risk management framework). The ultimate responsibility for the oversight and control

administration, among others, shall rest with the Collateral Manager in accordance with the RFI's risk management framework." This is to provide guidance on the minimum requirements of the Collateral Manager.

- **Securities issued by Multilateral Development Banks (MDBs) in convertible currency (USD, GBP, EUR, JPY) e.g. IFC, AfDB, etc.**

Haircut for this instrument is revised to 0% to reflect the minimum haircut to be applied.

- **Guarantees from Multilateral Development Banks (MDBs) e.g. IFC, AfDB, etc**

Haircut for this instrument is revised to 0% to reflect the minimum haircut to be applied.

- **Other Fixed Income Securities issued by PSEs, with revenue raising powers, listed on the Ghana Fixed Income Market (GFIM) but not guaranteed by the Government of Ghana.** This is an instrument introduced under Section 62 (9) which is similar to financial assets under Section 62 (8), but are not guaranteed by the Government of Ghana.

- **Debt securities issued by a listed bank in Ghana other than the lender.** Haircut for this instrument is revised to 30% to reflect the minimum haircut to be applied.

- **Debt securities issued by listed non-financial corporates (other than affiliates of the corporates) domiciled in Ghana (GHS)**

Haircut for this instrument is revised to 40% to reflect the minimum haircut to be applied.

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