

Rwanda

Regulation on Discount House Activities Regulation 13 of 2011

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Regulation on Discount House Activities

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Pursuant to Law n° 55/2007 of 30/11/2007 governing the Central Bank of Rwanda, especially in articles 6, 55, 56, 57 and 58;

Pursuant to Law n° 007/2008 of 08/04/2008 concerning organization of banking, especially in articles 3, 65, 68 and 69;

The National Bank of Rwanda hereinafter referred to as the “Central Bank”, decrees:

Chapter One General provisions

Article One – Purpose

This Regulation aims at:

- a) Ensuring that discount houses adhere to prudential and mandatory requirements for the business to be conducted in safe and sound manner in the interest of clients and other stakeholders;
- b) Establishing a consistent and uniform monitoring mechanism for discount house operations in Rwanda;
- c) Making sure that the discount houses take an active part in the success of the Treasury bills and other tradable securities auction;

Article 2 – Definitions

In this Regulation, unless the context requires otherwise, the following words and expressions shall mean:

1. **“Discount House”**: any financial institution whose main business consists of trading in (selling and buying) and holding of, for itself or on behalf of third parties, treasury bills, commercial bills and other eligible financial securities as defined by this Regulation;
2. **“Government Securities”**: sovereign securities such as Treasury bills and bonds, issued by the National Bank of Rwanda on behalf of the Government;
3. **“Primary Market”**: a financial market where newly issued securities are offered to investors e.g. auctions of Treasury bills by the Central Bank;
4. **“Secondary Market”**: financial market where the buyer acquires a security originally issued on the primary market. Trades might be on REPO or outright basis;
5. **“Interbank Market”**: an exclusive financial market where licensed banks borrow or lend short term funds from each other with or without asking for collaterals.
6. **“Discounting”**: a process of estimating the present value of an income stream by reducing the expected cash flow to reflect Time Value of Money.

7. **“Time Value of Money”**: financial concept stipulating that money received sooner has a better value than one received later since you can immediately use it for consumption or investment.
8. **“Coupon”**: a periodic interest payment that a bondholder receives for purchasing a bond.
9. **“Collateral”**: a borrower’s pledge of financial security to a lender to secure payment of a loan.
10. **“Liquid Assets”**: accounts or financial securities which can be easily converted into cash at little or no loss of value. These include cash balances, deposits, and negotiable instruments like Treasury Bills.
11. **“Short Term Asset”**: an asset with a maturity of less than one year such as the following: Treasury Bills, Bankers Acceptance (BA), Negotiable Certificate of Deposit (NCD), Commercial Paper (CP), Cash balances with commercial banks, cash balances deposited with the Central Bank as part of complying with the Liquidity Reserve Requirement (LRR).
12. **“Treasury Bill”**: a short-term debt instrument of less than one year issued by the Government Treasury through the Central Bank or issued by the Central Bank with financial institutions or the general public
13. **“Call Money”**: interest-earning money market deposit which does not require collateral, repayable at short notice.
14. **“Negotiable Promissory Note”**: a contract where the maker or issuer makes unconditional promise in writing to pay a sum of funds to the holder either at a fixed or determinable future time or on demand of the payee under specific terms.
15. **“Repurchase Agreement (REPO)”**: a temporary sell or purchase contract between a buyer or investor, a seller or issuer in which the issuer sells securities to an investor with a simultaneous agreement to buy back the securities from the investor on a future date.

REPO transactions occur in three forms:

- a) Specified Delivery: requires delivery of pre-specified security at the onset and at the maturity of the contractual period;
 - b) Tri-party: utilizes services of the Central Depository System (CSD) which acts as an intermediary between two parties to the REPO.
 - c) Held in Custody: collateral pledged is not actually delivered to the investor rather it is placed in custody of the issuer.
16. **“Reverse REPO”**: an arrangement where a securities dealer agrees to buy a predefined security and sell it back to an investor at a higher price on a specified date. The transaction is essentially a finance facility from the dealer to an investor strictly collateralized by a short term financial security.
 17. **“Outright sell or purchase of financial securities”**: a transaction where a security is bought to maturity and calls for change of ownership and delivery of the security to the buyer.
 18. **“Bankers’ Acceptance (BA)”**: a short-term credit instrument created by a non-financial firm and guaranteed by a bank as to payment upon maturity. The BA is traded at discount from face value in the secondary market on the basis of credit quality of the guaranteeing bank.
 19. **“Certificate of Deposit (CD)”**: a receipt issued by a financial institution for a deposit of funds that permits the holder to receive interest plus the sum deposited at maturity. The certificate indicates that the investor has deposited a sum of money for a specified period of time and at a specified rate of interest. CD rates, terms and amounts vary from one institution to another. The certificate is a publicly traded financial instrument.
 20. **“Commercial Paper”**: unsecured short-term debt instrument issued by a big corporation, with high credit rating, registered and resident in Rwanda. The paper generally matures within 270 days. The paper is occasionally issued as an interest bearing but it is typically traded on a discount to its face value.
 21. **“Person”**: a natural person or a company.

Article 3 – Objectives and duties of a discount house

The objectives and principal duties of a discount house shall be:

1. To promote rapid growth and efficiency in the financial markets;
2. To play a key role on Rwanda secondary market;
3. To provide discount or re-discount facilities for acceptable securities and other eligible financial instruments.
4. To facilitate issuance and sale of short-term government securities and other eligible short term financial instruments.

Chapter II Licensing conditions

Article 4 – Application

No person can carry on activities of “discount houses” if she/he has not been licensed by the Central Bank.

A person seeking a license to establish a discount house in Rwanda shall apply in writing to the Central Bank. Apart from the minimum capital requirement, all other licensing requirements applicable to banks as set out in the Regulation n° 03/2008 on licensing conditions of banks will apply to Discount Houses.

A non-refundable application fee of Rwanda francs three hundred thousand (RWF300,000) shall accompany each application for a license.

Article 5 – Licensing

The applicant shall submit an application file in accordance with the requirements stipulated in the article 7 of the Regulation n° 03/2008 on licensing conditions of banks.

Any modifications in the initial conditions of licensing of the “discount house” shall be notified to the Central Bank in accordance with article 12 of the Regulation above mentioned and its subsequent modifications.

Article 6 – Required capital

The applicant proposing to transact a discount house business shall have a minimum paid up cash capital of not less than one billion five hundred million Rwanda Francs (RWF 1,500,000,000).

Other requirements related to capital adequacy ratios applicable to Discount Houses, shall be those applicable to banks as stipulated in the Regulation n° 11/2009 on capital adequacy requirements.

Article 7 – Ownership structure

In order to diversify the ownership of a discount house for the purpose of prudent management, a natural person including his or her related party or a company including its related party owned or controlled by one natural person other than a reputable financial institution or a reputable public company approved by the central bank shall not directly or indirectly own or acquire more than 25% of the shares of a discount house.

Chapter III

Permissible and prohibited activities

Article 8 – Permissible activities

Unless authorized by the Central Bank, the “discount house” shall restrict itself to the following activities:

- a) Carry out day to day interbank (overnight loan accounts) money market placements and borrowing with domestic banks;
- b) Trading (Buying and selling) of approved financial securities;
- c) Trading Repo and reverse Repo with financial and non-financial institutions, of both public and private sector including individuals;
- d) Carry out call money operations with banks and other financial and non-financial institutions;
- e) Provide discount and re-discounting facilities for Treasury securities and other eligible financial instruments;
- f) Provide advice and assistance related to issue and sale of eligible financial securities;
- g) Undertake fund and portfolio management and other financial advisory services as may be specified by the relevant regulations;
- h) Engage in capital market activities as issuing houses, underwriters and brokers subject to meeting the supervisory requirements and the statutory capital as may be specified by the relevant regulatory bodies;
- i) Accept collateralized investments and placements on an intermediary basis.
- j) Any other activity approved by the Central Bank;

Article 9 – Prohibited activities

A discount house shall not engage in the following activities:

- a) Any form of unsecured lending to the corporate sector and individuals.
- b) Grant loan facilities to its directors or general public.
- c) Dealing in Foreign Exchange including letters of credit.
- d) Operating current and saving accounts on behalf of customers.
- e) Dealing in gold or open letters of credit.
- f) Engage in any business other than those for which it is licensed.

Article 10 – Primary auctions and open market operations

A discount house may participate through a competitive bidding in primary auctions of securities issued by the Central Bank.

In case of under subscription in an auction of Debt Securities Instruments, a discount house may be authorized to buy issued securities at the counter of the Central Bank at a negotiated rate.

In surplus, a discount house shall be allowed to purchase on tap securities available at the Central Bank’s open market operations dealing desk.

Chapter IV

Prudential rules and other requirements

Article 11 – Prudential rules

The capital base of a discount house shall consist of paid up capital and retained earnings. A discount house shall avoid over exposure by maintaining a borrowing ratio not exceeding 30 times, which shall be defined as borrowings over capital base.

The short-term nature of liabilities of a discount house shall require that its assets be very liquid. In this regard, a discount house shall be required to have 60 percent or more of its adjusted total assets in short term securities and cash balances.

To this end, the short term assets shall be composed of:

1. Treasury bills issued by the Government or Central Bank.
2. Bank acceptances.
3. Net deposit with banks.
4. Negotiable Certificate of deposit.
5. Commercial Paper and
6. Other transferable securities (Stock and equities) and promissory notes as determined by the Central bank.

The long-term securities and other fixed assets shall not exceed 40 percent of its adjusted total assets.

A discount house shall not grant to any single borrower, a facility of more than 25% of its capital base without the prior approval of the Central Bank. In aggregate, a discount house shall not grant facilities to borrowers exceeding 8 times its Capital base.

A discount house shall classify and make provision for its risk assets in line with related prudential rules for banks.

Every discount house shall display its daily rates or interest in a conspicuous position in all its offices.

Article 12 – Other acts or transactions requiring prior approval of the Central Bank

A discount house desiring to open or close any office shall seek prior approval in writing from the Central Bank.

Every discount house shall seek and obtain the approval from the Central Bank in writing for any proposed:

1. Sale of its shares or business;
2. Restructuring; and
3. Merging with any other company.

With the approval of the Central Bank, a discount house may acquire or hold part of the equity of any financial institution subject to the following conditions:

1. The shareholding by the discount house in the equity of any financial institution shall not exceed 10% of its paid up capital and statutory reserves.
2. The aggregate equity investment of a discount house at any time shall not exceed 40% of its paid up capital and statutory reserves.

Article 13 – Sources of funding

Sources of funding shall consist of one or all of the following:

1. Equity-paid up capital and reserves.
2. Call money and short-term borrowings of not more than one year.
3. A discount house that is short of funds may:
 - a) Discount securities with the Central Bank on outright basis and ownership changes. The Central Bank shall provide rediscounting facilities for Government and Central Bank debt securities.
 - b) Enter into Repurchase transactions with the Central Bank using eligible securities.
 - c) REPO with the commercial banks, corporate sectors and the general public.

Article 14 – Structure of assets

The assets of a discount house shall consist of the following:

- a) Government securities;
- b) Negotiable Certificates of Deposit (NCDs);
- c) Bankers' Acceptances and placements;
- d) Commercial Papers (eligible);
- e) Asset-backed Securities;
- f) Corporate Bonds;
- g) Equities quoted on the Rwanda Stock Exchange (RSE);
- h) Any other securities that may from time to time be approved by the Central Bank.

Article 15 – Collateral management

REPO shall be collateralized by:

- a) Treasury bills;
- b) Treasury bonds;
- c) Approved corporate bonds;
- d) Commercial paper;
- e) Other liquid approved securities

Article 16 – Risk management

A discount house shall appoint an external auditor accredited by the Central Bank.

Article 17 – Books of accounts

A discount house shall maintain proper books of accounts.

Article 18 – Settlement of trades

A discount house shall not accept cash from the general public or the corporate sector for settlement of trade and transactions. In the interest of anti-money laundering principles, all settlements shall be through clients' account maintained at a bank.

Article 19 – Management

Changes in discount house's senior management, board of directors and shareholding shall be subject to prior approval of the Central Bank.

No person who has been director or been directly involved in the management of a failed discount house, a bank or any other financial institution within and/or outside Rwanda, shall, without written approval of the Central Bank, act or continue to act as a director, or be directly involved in the management of any other licensed discount house.

Unless approved by the Central Bank, a discount house shall not appoint a director or any person who is serving as a director and or audit committee member of another licensed financial institution.

Any person who, being director or manager of a licensed discount house shall be guilty of an offence if she or he:

- a) Fails to take reasonable measures to secure compliance by the licensed discount house with the provisions of the Banking Law, the Central Bank's Law and any other law, that affects the general and specific businesses of discount houses;
- b) Fails to take reasonable steps to ensure accuracy of any statement or information submitted to the Central Bank in accordance with this regulation.

No discount house shall be managed by a person who is:

- a) A director of any other company not being a subsidiary of a discount houses;
- b) Engaged in any other business.

Any director who is involved in the management of a licensed discount house shall cease to hold office if:

- a) He is declared bankrupt by a competent court;
- b) He is convicted of any offence involving fraud or dishonesty;
- c) He is of unsound mind.

Other requirements related to governance as applicable to banks in accordance with the Regulation n° 06/2008 on corporate governance of banks shall also apply to Discount Houses.

Chapter V Information and supervision

Article 20 – Reporting requirements

To ensure compliance with controlling ratios and also monitor its activities in the money market, a discount house shall submit to the Central Bank daily, weekly, monthly, and quarterly returns in the format prescribed by the Central Bank.

The returns shall be submitted to the Central Bank in respect of the following deadlines:

- a) Daily returns by 10:00 am of the following day;
- b) Weekly returns by the 3rd working day of the following week;

- c) Monthly returns within five (5) working days of the following month;
- d) Quarterly returns by the 20th of the first month of the following quarter.

Failure to comply with the above reporting requirement shall attract sanctions as determined by this Regulation.

Article 21 – On-site inspection

The Central bank shall use its supervisory power under Law n° 007/2008 of 08/04/2008 concerning organization of banking to ensure discount houses comply with laws and regulations in conducting their activities.

The Central Bank shall especially conduct on-site inspection at any time to ensure that submitted information is in conformity with the transactions carried out and evaluate the safety and solidity of the discount house in order to protect the investors and other creditors.

Chapter VI Sanctions and final provisions

Article 22 – Pecuniary sanctions

The Central Bank may impose pecuniary sanctions on a discount house as set out in the Regulation n° 03/2011 on pecuniary sanctions applicable to banks.

Article 23 – Administrative sanctions

The Central Bank may impose any or all of the following administrative sanctions upon a discount house or its board of directors and managing executive officers for non compliance with this Regulation:

- a) Prohibition from declaring or paying dividend;
- b) Prohibition from establishing new branches or facilities;
- c) Prohibition from engaging in new services or activities or expanding existing services or activities;
- d) Suspension of access to the Central Bank stranding facilities;
- e) Prohibition from acquiring additional fixed assets;
- f) Prohibition from paying bonuses, salary incentives, severance packages, management fees, or other discretionally compensation schemes to directors or managing executive officers;
- g) Any other administrative sanctions as determined by the Central Bank

Article 24 – Sanctions applicable to Board members and managers

Should the Central Bank determine that persons involved in the Board of Directors, supervision, or management of a Discount House have violated the provisions of this regulation, the said persons shall be liable, depending on the seriousness of violation, to the following disciplinary measures:

- a) Warning;
- b) Temporary suspension;
- c) Automatic dismissal;
- d) Any other sanction as determined by the Central Bank.

Article 25 – Other regulations applicable to a Discount House

Any other aspect which is not provided for in this regulation shall be governed by other Central Bank regulations where applicable.

Article 26 – Deadline for compliance with the provisions of this Regulation

All the existing Discount Houses shall have one (1) year from the entry into force of this regulation to comply with the provisions of this Regulation.

Article 27 – Repealing of inconsistent provisions

All prior provisions contrary to this Regulation are hereby repealed.

Article 28 – Commencement

This Regulation shall come into force on the date of its publication in the Official *Gazette* of the Republic of Rwanda.