

Rwanda

Regulation on Consolidated Supervision for Banks

Regulation 29 of 2019

Legislation as at 18 November 2019

FRBR URI: /akn/rw/act/reg/2019/29/eng@2019-11-18

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PDF created on 21 February 2024 at 15:28.

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Regulation on Consolidated Supervision for Banks

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Published in Official Gazette 45 on 18 November 2019

Assented to on 9 September 2019

Commenced on 18 November 2019

[This is the version of this document from 18 November 2019.]

Pursuant to the Law N° 48/2017 of 23/09/2017 governing the National Bank of Rwanda, especially in articles 5, 6, 8, 9, 10, and 15;

Pursuant to the Law N° 47/2017 of 23/9/2017 governing the organization of banking, especially in articles 53, 57, and 63;

Having reviewed the Regulation N° 12/2011 on consolidated supervision;

The National Bank of Rwanda, hereinafter referred to as the « Central Bank», decides the following:

Chapter One

General provisions

Article One – Purpose

The purpose of this Regulation is:

- 1° to enable the Central Bank to evaluate the entire banking group to which a bank belongs, taking into account all risks which may affect the institution, regardless of whether the risks arise in the bank or a parent undertaking, a subsidiary company, affiliates, associates or other undertakings in which it has a relationship;
- 2° to establish reporting requirements for banks and their subsidiaries, the entities within financial groups and conglomerate groups, in order to provide the Central Bank with a full understanding of the structure of the banking or financial group, as well as the business conducted by each entity of the group, and the risk of environment in which they operate;
- 3° to prevent abuses by financial institutions using group structures to evade prudential limits or make multiple uses of capital;
- 4° to enable the Central Bank to monitor risks that arise outside the bank - such as the financial risk on intragroup lending, and reputational risk due to losses - or other problems that may arise in the group;

Article 2 – Definition

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

- 1° **Affiliate:** any entity, incorporated or unincorporated, where five per cent (5%) or more of any class of its voting shares or other voting participation is directly or indirectly owned by the bank or controlled by the bank or is held by it with power to vote;
- 2° **Consolidated supervision:** an overall evaluation to ensure that all risk exposures of a bank and its subsidiaries, or a bank belonging to a financial or conglomerate group, are taken into account, whether the risks arise in the bank itself, or in a parent institution, subsidiary, affiliate or associate;

- 3° **Financial conglomerate:** A group of entities whose primary business is financial and whose regulated entities engage to a significant extent in at least two of the activities of banking, insurance and securities;
- 4° **Holding company:** A company that completely or partly owns other companies.
- 5° **“Mixed conglomerate”:** A group of entities with significant financial and non-financial businesses including regulated entities engaging in the business of banking and may also engage in insurance and securities;
- 6° **Subsidiary:** A company of another company where:
- a) that other company or corporation, referred to as parent;
 - b) controls the Board of the company;
 - c) controls more than half of the number of shares whose right to vote may be exercised at any meeting of the company;
 - d) holds more than half of the number of issued shares minus those shares giving right to profits or capital of the company;
 - e) is entitled to receive more than one-half of every dividend paid on shares issued by the company, minus shares with no right to an amount higher than that specified amount in a distribution of either profits or capital;
 - f) that other company is a subsidiary of a subsidiary company.
- 7° **“Banking group”:** holding company, the bank and its offices, subsidiaries, affiliates and joint ventures as well as Special Purpose Vehicle (SPV), both domestic and foreign. It shall also mean a group of companies that includes one or more banks;
- 8° **Bank related party:** an entity in which a bank holds five per cent (5%) of the core capital; or any entity other than the Government that holds in a bank five per cent (5%) of the shareholding.

Chapter II Regulatory requirements

Article 3 – Prudential limits

A bank with subsidiaries or part of a banking group, financial group or mixed conglomerate, shall, on consolidated and solo basis, comply with:

- 1° minimum capital requirements established by the regulation on capital requirements on a consolidated basis;
- 2° limits on credit concentration and other exposure limits established by the regulation on transactions with bank related parties and management of credit concentration risk;
- 3° limits on bank related parties transactions established by the Regulation on transactions with bank related parties and management of credit concentration risk;
- 4° liquidity requirements;
- 5° any other prudential limits as the Central Bank may prescribe.

Article 4 – Consequences for non-compliance with prudential limits

Where a bank, with subsidiaries or part of a banking group, financial group or mixed conglomerate is not in compliance with the consolidated prudential limits specified in this regulation, the Central Bank shall, pursuant to provisions of the law governing the organisation of banking and in recognition of the risks, prescribe such

higher capital adequacy requirements, for that bank as may be required to ensure compliance with the prudential limits on a consolidated basis.

Article 5 – Information to be submitted to the Central Bank

Banks are required to provide to the Central Bank on annual basis information, set out in Appendix to this Regulation.

The information specified in paragraph one of this article shall be submitted not later than 31st March of the following year.

Article 6 – Submission of the annual financial statements of bank related parties and affiliates

Banks shall submit to the Central Bank a copy of the latest annual audited financial statements of bank-related parties and affiliates of a bank, within a period of four months (4) following the financial year to which such audited financial statements refer.

Article 7 – Duty for submission of information by bank related parties and affiliates

The Central Bank may require any bank-related parties and affiliates to submit an information sheet and personal declaration in the form set out in Appendixes 3 and 4 of the Regulation on licensing conditions of banks.

In addition to the stipulation of the preceding paragraph, a bank shall inform the Central Bank any key change that may occur in its holding, subsidiaries, affiliates or related party.

The key changes shall include the following:

- 1° changes in the shareholding including the beneficial ownership;
- 2° changes in governance (board and senior management);
- 3° any other change that may directly or indirectly have impact on the bank.

Article 8 – Submission of the consolidated and audited financial statements of the bank subsidiary

A bank having subsidiaries shall submit to the Central Bank a copy of the consolidated and audited financial statements within four (4) months from the end of the concerned financial year.

Article 9 – Submission of reports on both solo and consolidated basis

A bank having any subsidiaries or part of a banking group, financial group or mixed conglomerate shall submit to the Central Bank, on quarterly basis, the report of financial returns on both a solo and consolidated basis including:

- 1° Returns on Capital Adequacy, in determining the adequacy of its capital as required by Regulation on capital requirements. A bank must deduct the aggregate amount of its outstanding equity investments from both total capital and risk weighted assets;
- 2° Returns on Credit Concentration and Large Exposures;
- 3° Returns on transactions with bank related parties;
- 4° Returns on liquidity requirements (LCR and NSFR).

Article 10 – Scope of consolidated supervision

Further to the reporting specified in articles 5 to 9 of this Regulation, the Central Bank may require the submission of any information, from bank-related parties and affiliates of a bank to ensure that the operations and affairs of such entities or persons are not detrimental to the safety and soundness of the concerned bank and are made in compliance with the law governing the organisation of banking.

The Central Bank may, for purposes of meeting the requirements of this Regulation, determine which entities have to be included in the consolidated supervision.

The Central Bank may also, for supervisory purposes, require the consolidated financial information of the bank related parties and its affiliates, within or outside Rwanda, which may differ from the consolidation required under International Financial Reporting Standards.

Article 11 – Increasing of the capital adequacy ratios

When the Central Bank determines that a bank has insufficient capital to shield against the risks arising from its group relationships, it shall direct the bank to increase its capital above the minimum requirements to such level as the Central Bank may determine.

Chapter III Control and supervision

Article 12 – Approaches to conduct consolidated supervision

The Central Bank shall use two broad approaches to conduct Consolidated Supervision namely, “Qualitative Consolidated Supervision” and “Quantitative Consolidated Supervision”.

The “Qualitative Consolidated Supervision” will be used to assess the overall strength of the whole group to which a bank belongs, based on the information provided relating notably to corporate structure, risk management, board and management oversight, and internal control.

The “Quantitative Consolidated Supervision” shall be extended to all relevant financial entities within a consolidated group including the parent, subsidiaries and entities in which the group has at least five percent (5%) participation. This shall encompass capital adequacy, intra group transactions, earnings, liquidity, risk concentration or any other information deemed necessary.

Article 13 – Collaboration with other Supervisory Authorities

The Central Bank, as part of supervisors of banking groups subject to consolidated supervision cooperates and exchanges with other supervisory authorities, and provide them with necessary information for the purposes of consolidated supervision.

Article 14 – Special inspection

When it deems necessary, the Central Bank may undertake an inspection of the operations and affairs of a bank-related party or an affiliate of a bank in order to ensure that the operations and affairs of such bank-related party or affiliate of the bank are not detrimental to the safety and soundness of the bank concerned.

Article 15 – Joint inspection

Where it deems necessary, an inspection conducted under Article 14 of this regulation may be done in collaboration with the relevant authority or body which exercises supervision or regulation over such bank-related party or its affiliate.

Chapter IV

Miscellaneous and final provisions

Article 16 – Corrective measures and sanctions

A bank that is in violation of the requirements of this Regulation shall be subject to corrective actions and sanctions as provided by the law governing the organisation of banking law and the regulation on administrative pecuniary sanctions applicable to banks.

Article 17 – Repealing provisions

Any prior provision contrary to this Regulation, and the Regulation N° 12/2011 on consolidated supervision, are hereby repealed.

Article 18 – Commencement

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

Appendix

Forms

[Editorial note: The forms have not been reproduced]