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ROYAL MONETARY AUTHORITY OF BHUTAN

RMA/FISD/03-2008/ 5377

January 28, 2008

Managing Director
Bank of Bhutan Ltd
Phuentsholing

Managing Director
Bhutan National Bank Ltd
Thimphu

Managing Director
Bhutan Development Finance Corporation Ltd
Thimphu

Managing Director
Royal Insurance Corporation of Bhutan Ltd
Phuentsholing

Director
National Pension and Provident Fund
Thimphu

Sir(s),

Subject: **Imposition of Penalties**

This is to notify all financial institutions that as empowered by Article 58 of Financial Institutions Act, 1992, RMA shall start imposing fines for infractions of provisions given under attached penalty matrix with immediate effect. This decision has been taken to ensure discipline and safety in the industry in view of continuous violations to provisions under Prudential Regulations 2002 by some of the financial institutions.

This letter is issued for strict compliance.

Yours Sincerely,

(Daw Tenzin)
Managing Director

Cc: Honorable Prime Minister and Chairman of the RMA for kind information based on the decision taken during the 53rd RMA Board Meeting on 25th January 2008.

Penalty framework

Violations	Area of Irregularity	Penalty
Prudential Regulations 2002		
Section 4.1.4	<p>Insider Trading</p> <p>Staff & directors shall not deal in the securities of any company listed or pending listing on the stock at any time when any of its staff is in the possession of insider information.</p>	<p>Impose a fine of Nu.25,000 per case or imprisonment of not more than 60 months or both.</p>
Section 6.1.4	<p>All financial institutions must send to the RMA the auditor initialed balance sheet, profit and loss account and external auditor's report described in Section 1 (b) of Article 52 of the Financial Institutions Act. The submission of these final accounts to the RMA shall be within <u>14 days</u> of its preparation by the statutory auditors. In addition, the financial institutions shall also submit two copies of their annual report to the Financial Regulation and Supervision Department of the RMA.</p>	<p>Impose a fine of Nu.2,500 per day for the period of infraction.</p>
Section 7.4(a)	<p>Capital Adequacy Ratio</p> <p>Every FI shall maintain a Capital Adequacy Ratio of not less than 10%</p>	<p>Issue directive for compliance within a timeframe (90 days) prescribed by RMA. Thereafter, impose a fine of Nu.5,000 per day for the period of infraction.</p>
Section 8.4.1	<p>Cash Reserve Ratio</p> <p>Every bank is statutorily required to maintain a Cash Reserve Ratio in the ratio as may be prescribed by the RMA from time to time.</p>	<p>Issue directive for compliance within a timeframe (14 days) prescribed by RMA. Thereafter, impose a fine of Nu.1,000 per day for the period of infraction.</p>
Section 8.4.2	<p>Statutory Liquidity Requirement</p> <p>Every FI shall at all times maintain minimum liquidity in the form of quick assets, in a ratio of not less than</p> <p>(a) banks: 20% of total liabilities, excluding CF & liab. to the RMA</p> <p>(b) non-banks: 10% of total liabilities, excluding CF & liab. to the RMA</p>	<p>Impose a fine of Nu.5,000 per day for the period of infraction.</p>

Section 9.4	<p>Limit on credit to Single Largest Borrower</p> <p>No FI shall extend credit to a single borrower exceeding 30% of its CF</p>	<p>Issue directive for compliance within a timeframe (90 days) prescribed by RMA. Thereafter, impose a fine of Nu.5,000 per day for the period of infraction.</p>
Section 9.5	<p>Limit on Credit to Ten Largest Borrower</p> <p>The aggregate of loans & advances granted by a FI to its ten largest borrowers, including economically dependent persons, shall not at any time, exceed 30% of its total loan portfolio.</p>	<p>Issue directive for compliance within a timeframe (90 days) prescribed by RMA. Thereafter, impose a fine of Nu.5,000 per day for the period of infraction.</p>
Section 9.6	<p>Large Loans & Advances</p> <p>The total of a financial institution's sectoral large advances shall not, at any time, exceed eight times its capital fund.</p>	<p>Impose fine of Nu. 5,000 per case per day for the period of infraction.</p>
Section 10.2.2	<p>Establishment of Credit Review Unit (CRU)</p>	<p>Issue directive for compliance within a timeframe (30 days) prescribed by RMA. Thereafter, impose fine of Nu.500 per day for the period of irregularity.</p>
Section 10.8	<p>Provisioning Requirements</p> <p>Standard - 1.5%</p> <p>Watch - 1.5%</p> <p>Substandard - 20% (30% for Housing Sector)</p> <p>Doubtful - 50% (60% for Housing Sector)</p> <p>Loss - 100%</p>	<p>Issue directive stating that the concerned FI would, within 90 days create and maintain GP & SP as per the rates prescribed and submit to FRSD, RMA. Thereafter, impose a fine of Nu.5,000 per day for the period of infraction.</p>
Section 18.5 &18.6	<p>Bank must maintain record of any single cash transaction of more than Nu.5 million and any private single cash transaction of foreign currencies and Indian Rupee of more than Nu.0.5 million and Nu.1 million should be reported to RMA on a quarterly basis.</p>	<p>Impose a fine of Nu.5,000 per day for the period of infraction.</p>
Section 20.2	<p>Reporting Date & Date of Submission</p> <p>The reporting date for reports is the last working day of the period to which it pertains. The head office of each FI must consolidate the branch accounts up to the reporting date, and submit the consolidated report to the RMA on or before the last day of the following month.</p>	<p>Impose a fine of Nu.5,000 per day for the period of infraction.</p>

Financial Institutions Act 1992		
Part IV, Article 16	The establishment of branches, agencies, and other such offices of financial institutions shall be subject to prior approval of the RMA	Impose fine of Nu.3,000 per day for the period of irregularity
Article 23	Disclosure of information by directors and employees of the FIs without obtaining court order and consent of the client.	Impose a fine of Nu.25,000 or imprisonment of not more than 60 months or both.
Article 44, Section 1(a)	Financial institutions carrying on banking activities shall not directly or indirectly, without prior written authorization from the RMA (a) invest in project or enterprise exceeding 20% of the project's or enterprise's equity or become owned to more than 20% of its equity (b) permit investments described under paragraph (a) to exceed the equivalent of 25% of the financial institution's net worth.	Impose fine of Nu.5,000 per for the period of infraction
Part VIII, Article 55	Concealment of information All financial institutions is subject to inspections by RMA inspectors and banks shall prepare periodic reports using the forms issued by the RMA. The RMA may call for any information or document that it may require for the purpose of the administration of this Act from any financial institutions and that person must provide the information within any stated period.	Impose fine of Nu.5,000 per day for the period of irregularity.
Part VIII, Article 56	Establishment of Audit Committee The Board of directors & shareholders are required to ensure the establishment of an effectively functioning Audit Committee, consisting of three non-executive directors who are independent of management.	Issue directive for compliance within a timeframe (30 days) prescribed by RMA. Thereafter, impose fine of Nu.500 per day for the period of irregularity.