



CENTRAL BANK OF SOLOMON ISLANDS

**Prudential Standard No. 5  
Open Foreign Currency Positions for Commercial Banks**

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## **Introduction**

### **General stipulations**

1. This Prudential Standard (PS) forms part of the Central Bank of Solomon Islands (CBSI) standards governing the conduct of banks in Solomon Islands. The requirements in this PS are specified pursuant to section 8 of the Financial Institution Act 1998 (the Act) as amended, to ensure that a bank effectively establishes and operates a sound framework for the management of foreign currency positions and risk.
2. Part III of the Financial Institutions Act 1998 states that in determining whether or not a bank carries on its business in a prudent manner, the Central Bank of the Solomon Islands (CBSI) shall have regard to internal controls and risk management and such other matters as the CBSI considers relevant.

### **Objectives and key requirements**

3. This PS established the CBSI's minimum requirement for the establishment and operation of an effective framework for the management of foreign currency positions within a bank. The standard aims to (i) promote maximum availability of foreign exchange at competitive rates, (ii) allow banks to conduct business in a profitable yet prudent manner, and (iii) assure that foreign currency positions are maintained within prudent limits to avoid excessive risk of loss to a bank's capital as a result of fluctuations in foreign currency prices.

### **Applicability**

4. This PS is applicable to all banks licensed by the CBSI under the Act. In the case of a Foreign Incorporated Bank all the requirements set out in this Standards shall be applied in relation to the bank's operations in Solomon Islands. Wherever relevant, a separate documentation of the policies, procedures and frameworks regarding these elements shall be maintained in Solomon Islands for easy verification by the CBSI. This Standard sets out certain responsibilities for the Boards of Directors of banks. In the case of Foreign Incorporated Banks, the responsibility for ensuring compliance with these requirements shall rest with the parent bank's Board or any other authority within the bank to which the parent bank's board may delegate this function.

### **Enforcement and corrective measures**

5. A bank which fails to comply with the requirements contained in this PS, or which submits reports to the CBSI which are materially inaccurate will be considered as following unsound and unsafe practices as provided in Section 16 (1) (a) of the Act. The CBSI may pursue any or all corrective measures as provided in Section 16 of the Act to enforce the provisions of this PS including:
  - a) issuance of an order to cease and desist from the unsound and unsafe practices;  
and
  - b) action to replace or strengthen the management of the bank.
6. A bank shall immediately notify the CBSI in writing of and take action to correct any foreign currency open position which exceeds the limits outlined in this PS. Furthermore, the CBSI may require a bank to reduce its open foreign currency positions if it has inadequate risk management systems to measure, monitor and

control foreign exchange risk, or has less than satisfactory capital, asset quality, management, earnings, or liquidity.

### **Supervisory Reporting**

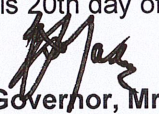
7. Each bank with foreign currency exposures (including off-balance sheet positions) shall submit to the CBSI a Report on Single and Overall Open Foreign Currency by not later than 20 days following the end of each calendar month. The Report shall be in such format and shall be prepared in accordance with written instructions as may be issued from time to time by the CBSI.
8. Each bank shall also maintain a daily record with the close-of-business open foreign currency position for each single foreign currency exposure, and the bank's overall open foreign currency position. Each bank shall preserve every such record for a period of at least seven years and such information shall be made available to the Central Bank of Solomon Islands or examining personnel of its Financial System Regulation Department (FSRD) upon request.

### **References**

9. This PS should be specifically applied in conjunction with the following related PS's:
  - a) PS Governance (No. 1)
  - b) PS Risk Management (No. 2)

### **Effective Date**

The effective date of this PS is 1 January 2025.  
Issued this 20th day of November, 2024

  
**Deputy Governor, Mr. Raynold Moveni**  
Central Bank of Solomon Islands

## Definition of terms

10. The following terms used in this Standard have the same meaning as in the Prudential Standard No. 1 on Governance:

- a) "Bank"
- b) "Board"
- c) "Foreign Incorporated Bank"

"Tier 1 capital" – Tier 1 capital for purposes of determining the open foreign currency position limit is the eligible Tier 1 capital net of any regulatory adjustments for banks incorporated in Solomon Islands and branches of foreign banks operating in Solomon Islands, as defined in the Prudential Standard on Capital Adequacy.

"Foreign currency" means a currency other than the Solomon Islands Dollar (SBD).  
 "Intraday" means between the opening of any business day until the close of business that same day.

"Open foreign currency position" means an excess of assets (including off-balance sheet forward purchase contracts) over liabilities (including off-balance sheet forward sales contracts) (a "long position") held by a bank denominated a foreign currency, or an excess of liabilities (including off-balance sheet forward sales contracts) over assets (including off-balance sheet forward purchase contracts) (a "short position") held by a bank denominated in a foreign currency.

"Overall open foreign currency position" means the greater of the SBD equivalent of the total "long positions" or SBD equivalent of the total "short positions" held by a bank in all foreign currencies.

## Responsibilities of the Board

### The Board

- 11. The Board of directors of each bank is responsible for ensuring compliance with the requirements of this PS and for establishing an appropriate policy to limit the amount of risk to the bank resulting from transactions in foreign currencies.
- 12. The Board of directors shall ensure that accounting systems and internal controls are in place to provide accurate and current information on all foreign exchange activities and are sufficient to ensure compliance with the requirements of the PS.

## Foreign currency positions

### Open Foreign Currency Position Limits

- 13. No bank is permitted to have as of the close of any business day:
  - a) an open foreign currency position of more than 15% of the bank's Tier 1 Capital, after deductions, in any single foreign currency; and
  - b) an overall open foreign currency position of more than 25% of the bank's Tier 1 Capital after deductions.

14. A bank's intraday open foreign currency positions (that is in any single foreign currency as well as the overall open foreign currency position) shall be monitored and maintained within prudent limits which shall be established by the Board of directors in a written policy covering foreign exchange operations and transactions.

#### **Computation of Foreign Currency Positions**

15. Each bank which holds assets (including off-balance sheet forward purchase contracts) or liabilities (including off-balance sheet forward sales contracts), denominated in foreign currencies shall calculate its open foreign currency position in each foreign currency and its overall open foreign currency position as of the close of each business day.
16. The open foreign currency position in each currency shall be computed as of the close of business each day in the following manner:
  - a) the difference between assets (including off-balance sheet forward purchase contracts) and liabilities (including off-balance sheet forward sales contracts) denominated in each foreign currency shall be calculated and categorized as either a long position or a short position;
  - b) the open foreign currency position (that is, the long position or short position) in each foreign currency shall be converted into a SBD equivalent by multiplying the long or short open position of that foreign currency by the spot mid-rate;
  - c) the SBD equivalent for each open foreign currency position shall be divided by the bank's Tier 1 Capital for the most recent calendar month-end.
17. A bank's compliance with the overall open foreign currency position shall be determined by adding separately all short positions and all long positions, comparing the two totals, taking the larger of the two totals as the overall open foreign currency position as a percentage of the bank's Tier 1 Capital.