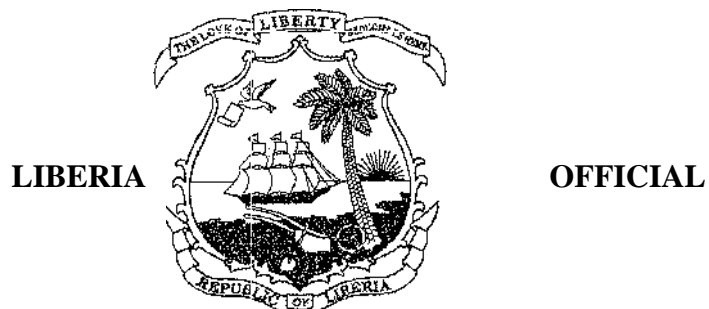


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### EXTRAORDINARY

The Government of the Republic of Liberia announces that the Central Bank of Liberia (CBL), pursuant to its mandate under Section 55 of the Central Bank of Liberia Act of 1999, has issued on Friday 9, 2005 its Regulation No. CBL/SD/01/2005 hereinunder:

### **PRUDENTIAL REGULATION FOR THE MANAGEMENT OF FOREIGN EXCHANGE RISK EXPOSURE**

## REGULATION NO. CBL/SD/01/2005

### PRUDENTIAL REGULATION FOR THE MANAGEMENT OF FOREIGN EXCHANGE RISK EXPOSURE

#### 1.0 PREAMBLE

In accordance with Section 4(5) of the Central Bank of Liberia (CBL) Act and Section 39 of the New Financial Institution Act of 1999 (FIA) as well as internationally accepted standards on prudent management of foreign exchange risk, the Central Bank of Liberia (CBL) hereby issues the following regulations on the management of foreign exchange risk exposure for all licensed banks.

These regulations are intended to (1) assure that the potential risk of loss to a bank's capital base is within prudential limits; (2) promote maximum availability of foreign exchange at competitive rates; (3) allow banks to conduct business in a profitable yet prudent manner, and (4) establish a uniform procedure for computing, recording and reporting foreign currency exposure of banks.

These regulations shall apply to all foreign currency-denominated assets and liabilities held by a bank, whether on-balance sheet or off-balance sheet. For ease of computation and reporting, the United States Dollar shall be the anchor currency in and to which all exposures in other currencies shall be determined and measured. Should this approach be revised, there will be an official notification from CBL.

#### 2.0 DEFINITIONS

In these regulations, unless the context otherwise requires:

- (a) Capital Base means "Total Capital" or "Net Capital" as the terms are used in CBL Prudential Regulations #CBL/SD/01/2000, otherwise known as the Regulations for Capital Adequacy Requirements.
- (b) Foreign Currency Exposure means the domestic currency equivalence of all net foreign currency-dominated assets or liabilities emanating from "on or off" balance sheet engagements, unless prior permission has been given, in writing, by the Central Bank of Liberia for exclusion.
- (c) Intra-day foreign exchange risk exposure means the foreign exchange risk exposure which a bank incurs between the opening and closing of business the same day.

- (d) Overall foreign currency risk exposure means the sum of all net balance and off-balance sheet assets or liabilities denominated in foreign currencies, expressed as a domestic currency equivalent amount at the spot mid-rate using the shorthand method of measurement.

Shorthand method means the procedure for measuring the foreign exchange risk exposure by:

- adding separately all short positions on one side and all long positions on the other side;
  - comparing the two totals; and
  - taking the larger of the two totals as the open position.
- (e) Spot mid-rate means the rate at the balance sheet date.
- (f) Long position means that the bank's assets and receivables in foreign currency exceed its liabilities and expenditures.
- (g) Short position means that the bank's liabilities and expenditures in foreign currency exceed its assets and receivables.
- (h) Long hand method means the procedure for measuring the overall foreign exchange risk exposure by:
- adding separately all sort positions on one side and all long positions on the other side; and
  - adding the two totals.

### **3.0 FOREIGN EXCHANGE RISK MANAGEMENT**

Every licensed bank operating in Liberia shall be and is hereby required maintain sound and acceptable policies and practices to prudently manage and control their foreign exchange risk exposures. It shall be the responsibility of the board of directors of each bank to establish a system for prudently monitoring and managing its foreign currency exposures in compliance with the limits set forth in these prudential regulations.

### **4.0 POLICY ON FOREIGN EXCHANGE OPERATIONS**

The written board-approved policy for foreign exchange operations of each bank shall be clearly documented, and, at a minimum, set internal approval and position limits for foreign exchange transaction, as well as establish and maintain both (1) accounting and information system and (2) internal compliance controls. The Internal Auditor shall be required to conduct at least one audit each quarter to test compliance with the foreign exchange risk management policy. The findings of each of these audits shall be reported to the appropriate Board Committee as well as Senior Management of the bank.

## **5.0 SPECIFIC LIMITS**

Every bank financial institution in Liberia shall, as of the effective date of these regulations, be required to observe the following minimum specific limits on foreign exchange exposures:

- (a) Limit on “overall” foreign exchange risk exposure – The overall foreign exchange risk exposure (short or long foreign currency positions) both on-balance sheet and off-balance sheet, as measures using spot mid-rates (i.e., rate at balance sheet date) and shorthand method shall not exceed 20% of a bank aggregate capital base as of the final business day of the month preceding the current reporting month.
- (b) Limit on “intra-day” foreign exchange risk exposure – Intra-day foreign exchange risk exposures shall be monitored and maintained within prudent limits, as established by a bank’s board of directors in a written policy required to be adopted by each bank pursuant to sections 3.0 and 4.0 of these regulations.
- (c) Global limits – The overall foreign exchange risk limits indicated above shall apply on a “global basis”, i.e., a bank may have different internal limits for its various branches and subsidiaries; however, the limits set forth in these prudential regulations apply on a global basis to the bank as a single, consolidated entity.

## **6.0 EXEMPTIONS**

If, in the normal course of business, a bank anticipates that it will exceed the overall limit, or if either limit is exceeded due to circumstances beyond the bank’s reasonable ability to anticipate and control, then the bank shall promptly apply, in writing, the Bank Supervision Department of the Central Bank of Liberia for temporary exemption stating the reason therefore and indicating how and when the excess position will be corrected.

## **7.0 CALCULATION OF FOREIGN EXCHANGE RISK EXPOSURES**

Each bank shall calculate its overall foreign exchange risk exposures daily using the shorthand method as per the prescribed reporting format indicated in **10.0 below**. For calculation of the exposure limit, the bank is required to use total capital for the prior month end.

## **8.0 CORRECTION OF EXCESS FOREIGN EXCHANGE RISK EXPOSURES**

Each bank shall take every reasonable action to immediately correct any and all foreign exchange exposures which exceed the limits set forth in these prudential

regulations and in its board-adopted policy. Failure to correct any non-complying risk exposure, other than one which has been exempted under paragraph 6 above, by the close of business on the following day may result in the imposition of sanctions on the bank as set forth in these Regulations.

**9.0 MAINTENANCE OF SUPPORTING DOCUMENTATION**

Each bank shall maintain records which are sufficient to determine at all times its overall foreign exchange risk exposures. Each bank shall also maintain a daily record showing close-of-business foreign exchange risk exposures (both single currencies and overall) and a reconciliation of open-to-closing positions. Each bank shall be required to develop an adequate reconciliation procedure within 180 days after the publication of these regulations.

**10.0 REPORTING REQUIREMENTS**

Licensed banks are required to submit to the Central Bank of Liberia a monthly return of their Foreign Exchange Exposure. **The format for reporting is attached.**

**11.0 PENALTIES FOR NON-COMPLIANCE**

A licensed bank found in violation of these regulations shall be liable to pay a fine of not less than Two Hundred Thousand Liberia Dollars (L\$200,000), bar from engaging in foreign exchange dealing, or subject to the long hand method and/or all of the above.

**12.0 EFFECTIVE DATE**

This regulation shall take effect immediately upon publication in the Gazette.

Issued this 9<sup>th</sup> day of February, A.D. 2005 in the City of Monrovia, Republic of Liberia.

**BY ORDER OF THE PRESIDENT  
MINISTER OF FOREIGN AFFAIRS**

**MINISTRY OF FOREIGN AFFAIRS  
MONROVIA, LIBERIA  
FEBRUARY 2005**

<b>Line No</b>	<b>Item</b>	<b>US\$'000</b>	<b>L\$'000</b>
<b>A</b>	<b>Foreign Currency Assets</b>		
	(1) Currency on Hand		
	(2) Due from Banks		
	(3) Checks and Items in Transit		
	(4) Loans and Advances		
	(5) Accrued Interest/Interest Receivable		
	(6) Other Assets		
	<b>Total</b>		
<b>B</b>	<b>Foreign Currency Liabilities</b>		
	(7) Due to Foreign Banks		
	(8) Due to Local Banks		
	(9) Foreign Currency Deposits		
	(10) Loans Payable		
	(11) Accrued Interest Payable		
	(12) Other Liabilities		
	<b>Subtotal</b>		
<b>C</b>	<b>Off-Balance Sheet Item</b>		
	(13) Undelivered Spot Purchases(+)		
	(14) Undelivered Spot Sales(-)		
	(15) Forward Purchases(+)		
	(16) Forward Sales(-)		
	(17) Options, Swaps, Derivatives (+)(-)		
	(18) Contingent Liabilities at 20% of Recorded Value of:		
	(i) Letter of Credit		
	(ii) Guarantees		
	(iii) Performance Bond		
	(iv) Other Contingent Liabilities		
	<b>Subtotal</b>		
	<b>Total Foreign Currency Liabilities(B+C)</b>		
<b>D</b>	<b>Foreign Exchange Positions</b>		
	(19) Net Long/(Short) Position		
	(20) Exchange Rate in Liberian Dollar		
	(21) Net Position in Liberian Dollars		
<b>E.</b>	<b>Foreign Exchange Position Limit</b>		
	(22) Total Net Long Position(+)		
	(23) Total Net Short Position(-)		
	(24) Overall Exposure (Higher of E(22) and E(23))		
	(25) Exposure Limit (% of the Core/Tier 1 Capital)		