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E X T R A O R D I N A R Y

The Government of the Republic of Liberia announces that the Central Bank of Liberia (CBL), pursuant to its mandate under the Central Bank of Liberia Act of 1999 and its authority under the Financial Institutions Act of 1999, and specifically consistent with Section 55 of the said Central Bank of Liberia Act of 1999 and Section 39 of the Financial Institutions Act of 1999, has issued on July 1, 2014, its Guidelines No. CBL/RSD/004/2014 amending sections 4.0 and 5.0 of Part Two of Guideline No. CBL/RSD/007/2012 herein under:

CONCERNING GUIDELINES FOR THE MANAGEMENT OF FOREIGN EXCHANGE RISK EXPOSURE AND PLACEMENTS ABROAD BY COMMERCIAL BANKS

BY ORDER OF THE PRESIDENT

AUGUSTINE KPEHE NGAFUAN
MINISTER OF FOREIGN AFFAIRS

MINISTRY OF FOREIGN AFFAIRS
MONROVIA, LIBERIA
JULY 1, 2014

GUIDELINES ON FOREIGN EXCHANGE RISK EXPOSURES AND PLACEMENTS

PART ONE
FOREIGN EXCHANGE RISK EXPOSURE

1.0 INTRODUCTION

The acceptance of deposits and extension of credits in foreign currencies as well as taking positions in foreign currency pose potential foreign exchange risk to the balance sheet of commercial banks, which could have serious negative impact on the capital position of banks. Therefore, prudent management of banks' activities in foreign currencies is crucial to ensuring the safety and soundness of the individual banks and the banking system as a whole. Based on this rationale, the Central Bank of Liberia (CBL), pursuant to Section 4(5) of the Central Bank of Liberia (CBL) Act and Section 39 of the New Financial Institution Act of 1999 (FIA) and consistent with internationally accepted standards on prudent management of foreign exchange risk, hereby issues these Guidelines on the Management of Foreign Exchange Risk Exposure for licensed banks, which replaces the Guidelines for the Management of Foreign Exchange Risk Exposure, issued by the CBL in 2005.

These Guidelines shall apply to all foreign currency denominated assets and liabilities held by banks, whether on or off balance sheet. For the purpose of reporting, each bank shall be required to compute its exposures in each foreign currency asset and liability that it holds. Should any portion of these Guidelines be revised, there will be an official notification from CBL.

2.0 OBJECTIVES OF THE GUIDELINES

i) To minimize the potential risk of loss to a bank's capital base associated with booking of foreign currency positions or accumulating exposures that cannot readily be hedged on an ongoing basis;

ii) To facilitate foreign currency lending by banks while at the same time minimizing credit and liquidity risk inherent in foreign currency lending;

iii) To ensure that banks have put in place adequate foreign exchange risk management systems, appropriate operational guidelines and internal controls intended to identify and control foreign exchange risks;

iv) To minimize risks arising from concentration of foreign exchange placements and/or deposits;

v) To promote maximum availability of foreign exchange at competitive rates;

vi) To allow banks to conduct foreign exchange business in a prudent manner; and

vii) To establish a uniform procedure for computing, recording and reporting foreign currency exposure of banks.

3.0 DEFINITIONS

In these guidelines, unless the context otherwise requires:

(a) Regulatory Capital means "Adjusted Capital" or "Net Worth" 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 refers to any currency issued by a government other than the government of Liberia.

(c) Foreign Currency Exposure means the domestic currency equivalent of net foreign currency denominated assets or liabilities emanating from on or off balance sheet transactions.

(d) 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.

(e) 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, as a ratio of regulatory capital, at the spot mid-rate.

(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 in the same currency.

(g) Short position means that the bank's liabilities and expenditures in foreign currency exceed its assets and receivables in the same currency.

(h) Foreign currency assets refer to all assets denominated in foreign currency.

(i) Foreign currency liabilities refer to all liabilities denominated in foreign currency.

(j) Limit means a regulatory threshold, which all banks must ensure full compliance with.

4.0 FOREIGN EXCHANGE RISK MANAGEMENT

Each licensed bank is required to put in place adequate risk management systems and other appropriate internal control mechanisms and procedures to identify, measure, monitor and control foreign exposure both on and off balance sheet.

5.0 POLICY ON FOREIGN EXCHANGE OPERATIONS

Each bank shall be required to maintain sound and acceptable policies and practices to prudently manage and control their foreign exchange risk exposures. The Board of Directors shall be responsible to establish a system for prudently monitoring and managing foreign currency exposures of their banks in compliance with these guidelines.

A written board-approved policy for foreign exchange management of each bank shall be clearly documented, and a copy forwarded to the CBL. At a minimum, the policy should define the internal approval and position limits for each foreign currency transaction, as well as establish and maintain (1) accounting and information system and (2) internal compliance controls. The Internal Auditor in each bank 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. Copy of the findings of the internal audit report must be submitted to the Supervision Department, at the same time of the submission of the report to the Board.

6.0 SPECIFIC LIMITS

Every bank financial institution shall be required to observe the following minimum specific limits on their 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 measured using spot mid-rates shall not exceed 40% of regulatory (or adjusted) capital.

(b) Limit on single currency exposure

The single currency exposure (short or long foreign currency positions) both on balance sheet and off balance sheet, as measured using spot mid-rates shall not exceed 20% of regulatory (or adjusted) capital.

(c) Limit on “intra-day” foreign exchange risk exposure

Intra-day foreign exchange risk exposure limit shall be 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 Section 4.0 above; provided that at no time shall the overall foreign exchange risk exposure and single currency exposure exceed 40% and 20%, respectively.

(d) Consolidated Limits

The limits set forth in these guidelines shall apply to the bank as a single entity or a consolidated entity. However, a bank may set different internal limits for its various branches and subsidiaries; provided such limits do not exceed 20% of regulatory (or adjusted) capital.

7.0 CORRECTION OF EXCESS FOREIGN EXCHANGE RISK EXPOSURES

If, in the normal course of business, a bank anticipates that it will exceed the overall limit, it shall promptly apply, in writing, to the Supervision Department of the Central Bank of

Liberia for temporary exemption stating the reason or circumstance that led to its failure to observe the prescribed limits; provided, however, that such exception does not occur more than once a month. In addition, the bank shall be required to correct such excesses within one working week. However, upon coming into force these guidelines, banks having exposure above the prescribed limit stated in these guidelines shall be allowed up to one month to comply with the provisions of these guidelines.

8.0 MAINTENANCE OF SUPPORTING DOCUMENTATION

Each bank shall maintain records which are sufficient to determine at all times its single currency and 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.

9.0 CALCULATION OF FOREIGN EXCHANGE RISK EXPOSURES

Each bank shall calculate its overall foreign exchange risk exposures daily as per the prescribed reporting format indicated in 10.0 below. For calculation of the exposure limit, banks are required to use the regulatory capital as at end of day.

10.0 REPORTING REQUIREMENTS

Each bank is required to submit to the Central Bank of Liberia a weekly return of its Foreign Exchange Exposure in the format herewith attached. The return shall be duly signed by the reporting bank's Chief Executive Officer and Chief Financial Officer covering five business days of the week and submitted to the Supervision Department not later than Monday following the end of the previous week.

11.0 PENALTY

Any bank failing to correct excesses within the timeframe indicated in Section 7 above shall be subject to appropriate supervisory actions, including but not limited to a fine of L$200,000 for each day of non-compliance.

PART TWO

FOREIGN EXCHANGE PLACEMENTS AND/OR INVESTMENT IN FINANACIAL INSTRUMENTS OUTSIDE OF LIBERIA

1.0 INTRODUCTION

In order to safeguard banks' foreign assets, both in and out of Liberia, and minimize potential risks arising from concentration of foreign exchange placements, deposits and/or investments by banks abroad, the CBL hereby issues these guidelines for the management of foreign currency placements and/or investments.

In keeping with these guidelines, no bank shall transfer a whole or a substantial part of its assets or liabilities, as defined below, abroad (with an affiliate, a subsidiary or a parent bank), without the prior knowledge and consent of the Central Bank of Liberia (CBL). Until otherwise advised by the CBL, no commercial banks shall maintain a placement with or invest in instruments issued by a related counter party (i.e., an affiliate, a parent company or bank, or a subsidiary); unless the related counter party is an internationally rated first-class bank, with no less than a rating of A.

2.0 CRITERIA FOR PLACEMENT WITH FOREIGN BANKS

(a) Banks shall be allowed to place funds with a first-rated bank having a minimum rating of A, certified by an internationally recognized rating agency; or with a reputable bank located within the West African sub-region with a minimum rating of B, certified by an internationally recognized rating agency.

(b) Each licensed bank MUST ensure that funds placed abroad are, at all times, available to meet their liquidity needs both abroad and at home.

3.0 CRITERIA FOR INVESTMENT IN FINANCIAL INSTRUMENTS

(a) Banks are allowed to invest in short-term financial instruments issued by first-class foreign banks with a minimum rating of A or fiscal authorities of countries with a minimum rating of AA, certified by an internationally recognized rating agency.

(b) A bank investing in financial instruments abroad MUST ensure that such instruments are readily convertible into cash, without imposing undue losses to the bank, and available to meet its liquidity needs both abroad and domestically.

4.0 LIMIT ON PLACEMENT AND/OR INVESTMENT ABROAD

No bank may place its liquid assets and/or invest abroad an aggregate amount in excess of 40% of its networth or with its parent bank and/or affiliates an aggregate amount in excess of 10% of its total networth. This requirement does not include nostros accounts for the purpose of facilitating foreign account transactions for banks. A request for dispensation above these limits MUST be made to the Executive Governor of the Central Bank of Liberia (CBL).

5.0 FORBEARANCE

Any placement and/or investment already existing at the time of coming into force of these guidelines, which is not in agreement with Section 4.0 of these guidelines, the bank in question shall be allowed a period not exceeding **three (3) months** to ensure full compliance with these guidelines.

6.0 SUBMISSION OF RETURNS

Each bank is required to submit to the Central Bank of Liberia a weekly return of its Foreign Exchange Placements/Investment in the format herewith attached. The return shall be duly signed by the reporting bank's Chief Executive officer and Chief Financial Officer and submitted to the Supervision Department, CBL, on Monday following the end of the week to which they relate.

7.0 PENALTY:

Banks violating these guidelines shall be subject to appropriate supervisory actions, including but not limited to a fine of L$200,000 for each day of non-compliance.

These guidelines shall take effect immediately upon publication in an official Gazette. Issued this 1ST day of July, A.D. 2014 in the City of Monrovia, Republic of Liberia.

BY ORDER OF THE PRESIDENT

AUGUSTINE KPEHE NGAFUAN
MINISTER OF FOREIGN AFFAIRS

MINISTRY OF FOREIGN AFFAIRS
MONROVIA, LIBERIA
JULY 1, 2014

SCHEDULE 1

FOREIGN EXCHANGE RISK EXPOSURE

INSTITUTION: ………………………………

(To be completed on a daily basis and submitted to the Central Bank of Liberia every Monday)

		(1) USD	(2) Naira	(3) CFA	(4) Euro	(5) OTHERS*	(6) TOTAL(LD)
	CURRENCY TYPE						
	EXCHANGE RATE						
1.	**FOREIGN CURRENCY ASSETS**						
1.1	**Balance Sheet Items**						
1.1.1	Cash and Balances with Banks Abroad						
	Checks & Clearing Items						
1.1.2	Loans & Advances						
1.1.3	Investment in Govt. Securities						
1.1.4	Other Foreign Assets						
1.2	**Off-Balance Sheet Items**						
1.2.1	Undelivered Spot Purchases						
1.2.2	Forward Purchases						
1.2.3	Other Off-Balance Items						
1.3	**Total Foreign Assets (1.1.1 to 1.2.3)**						
1.4	**Total Foreign Assets (Liberian Dollar)**						
2.	**FOREIGN CURRENCY LIABILITIES**						
2.1	**Balance Sheet Items**						
2.1.1	Balances due to Banks abroad						
2.1.2	Loans & Advances						
2.1.3	Customers deposits						
2.1.4	Other Foreign Liabilities						
2.2	**Off-Balance Sheet Items**						
2.2.1	Undelivered Spot Sales						
2.2.2	Forward Sales						
2.2.3	**Total Foreign Liabilities (2.1.1 to 2.2.3)**						
2.3	**Total Foreign Liabilities (Liberian Dollar)**						
2.4	**NET OPEN POSITION**						
3.	Long Position in FCY (where 1.3 less 2.3 is positive)						
3.1	Long Position in Liberian Dollar (where 1.4 less 2.4 is positive)						
3.2	Short Position in FCY (where 1.3 less 2.3 is negative)						
3.3	Short Position in Liberian Dollar (where 1.4 less 2.4 is negative)						
3.4	SINGLE CURRENCY EXPOSURE						
4.	**Net open position as a %age of regulatory capital**						
4.1	OVERALL FOREIGN EXCHANGE EXPOSURE						
5.	**Exposure (sum total of 3.2 and 3.4 in Column 6)**						
5.1	Regulatory Capital						
5.2	Exposure (5.1/5.2)%						
5.3	Allowable Exposure (15% of Regulatory Capital						
5.4	Over/(Under) Exposure (5.1 less 5.4)						
5.5	*** Please specify currency**						

NAME ………………………………………… **CHIEF EXECUTIVE OFFICER**

NAME ……………………………………….. **CHIEF FINANCIAL OFFICER**

SCHEDULE 2

REPORT ON FOREIGN EXCHANGE PLACEMENTS WITH FOREIGN COUNTER-PARTY OR CORRESPONDENT BANKS

Amounts in Liberian Dollar Millions

Name of bank/financial institution……………………………… **For the week ending: …..../………./………**

	Counter-Party Institution	Country	Rating	Rating Agency	Monday	Tuesday	Wednesday	Thursday	Friday	Weekly Average
1										
2										
3										
4										
5										
	Total Foreign Currency Placements									

Signature ……………………………………………..
(Chief Executive Officer)

Signature ……………………………………………..
(Chief Finance Officer)

Date……….………………………………….

Date…………………………………