

Cash Reserve Requirement Guidelines

1. General

1.1 Applicability

The maintenance of cash reserves is applicable to all banks covered by the Financial Institutions Act (1998).

1.2 Purpose

These guidelines outline the approach used by the Central Bank of Solomon Islands (CBSI) in calculating and determining compliance with the maintenance of reserves which the CBSI has authority to grant by notice under section 33 of the Central Bank of Solomon Islands Act (Cap 49). Cash reserves are statutory requirements obliging banks to hold a designated minimum level of cash deposits at the CBSI. In Solomon Islands, the cash reserve requirement is a tool of monetary policy.

1.3 Definitions

Throughout these guidelines, unless the context otherwise requires, the following terms shall have the following meanings assigned:

- a) "Business day" shall mean any day on which the CBSI is open for business.
- b) "Deposit Liabilities" shall mean (in accordance with the classifications under the Central Bank of Solomon Islands' Weekly Statement of Assets and Liabilities) the total of:
 - i. *Demand Deposits (items 11a + 11b)*
 - ii. *Savings Deposits (item 12)*
 - iii. *Time Deposits (items 13a + 13b)*
 - iv. *Non-resident Deposits (item 19a)*
 - v. *Resident Deposits (item 19c)*
- c) "End-of-day" shall mean the end of the CBSI's settlement day.
- d) "Call account" shall mean the cash deposit account of banks held at the CBSI.
- e) "Maintenance period" shall mean the period over which compliance with cash reserve requirements is established. The first day of each calendar month shall be taken to be the first day of the maintenance period and the last day of the calendar month shall be taken to be the last day of the maintenance period.
- f) "Reserve ratio" shall mean a component of deposit liabilities expressed as a percentage.



2. Calculation and Compliance

2.1 Compliance with Cash Reserve Requirement

A bank is deemed in compliance with the cash reserve requirement if the end-of-day balance on its call account for each day of the respective maintenance period equals or exceeds the minimum cash requirement set for that maintenance period. Compliance is monitored by the Currency and Banking Operations Department of the CBSI.

2.2 Calculation of Cash Reserve Requirement

The cash reserve requirement is set as an amount determinable by multiplying the average level of deposit liabilities for the previous maintenance period by the reserve ratio. Operationally, the average level of deposit liabilities shall be calculated by averaging the stated deposit liabilities in each Weekly Statement of Assets and Liabilities received in the previous maintenance period.

The CBSI shall establish the reserve ratio applicable to deposit liabilities. The initial reserve ratio is set at 7.5% (seven and one half per cent). This ratio shall be in effect until the Monetary Policy Committee of the CBSI announces otherwise.

2.3 Eligible Cash Reserve Assets

Assets eligible to be included towards meeting the cash reserve requirement are restricted to cash held by commercial banks in their call accounts at the CBSI (item 2(a) in accordance with the classifications under the CBSI's Weekly Statement of Assets and Liabilities).

2.4 Penalties for Violation

In the event that a bank does not fulfil its cash reserve requirement as specified in paragraph 2.1 the CBSI will levy a penalty on the institution. This penalty is set by the Central Bank of Solomon Islands Act, section 33(4) at a rate of 0.1% of the deficiency.

2.5 Penalty Payments and Dispute Process

If a bank does not fulfil its cash reserve requirement the CBSI shall, at the end of the maintenance period, provide the bank with written notice of the violation(s). The CBSI shall make the transfer of penalty funds, described in paragraph 2.5, two working days after the written notice is issued. During this period banks can query or dispute any penalty with the CBSI.

3. Effective Date

3.1 The effective date for these guidelines is 1st July 2011

