

Domestic Market Operations

Operational Guidelines

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Effective Date: The effective date for these guidelines is 1st February 2011.



1. Security Issuance and Auction Guidelines

1.1 General

1.1.1 Applicability

Unless otherwise specified in an offering announcement or information announcement, these guidelines apply to all eligible buyers as specified below.

1.1.2 Purpose

These guidelines outline the procedures followed by the Central Bank of Solomon Islands (CBSI) for the sale and issuance of both Government and CBSI backed securities in accordance with the authority granted to the Central Bank of Solomon Islands (CBSI) by section 24(2) of the Government Loans and Securities Act (1996) which appoints the CBSI as the agent for the Solomon Islands' Government for all matters relating to the issue of Treasury bills and section 37(k) of the Central Bank of Solomon Islands Act (Cap 49) which allows the CBSI to issue securities.

1.1.3 Definitions

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

- a) *"Announcement"* shall mean the notice of an auction by the CBSI.
- b) *"Auction"* shall mean the process through which the CBSI sells securities.
- c) *"Bid"* shall mean an offer to purchase securities communicated to the CBSI in line with these guidelines.
- d) *"Bid amount"* shall mean the total amount of securities desired by the bidder and communicated in the bid.
- e) *"Bidder"* shall mean the registered individual or entity who lodges a bid with the CBSI.
- f) *"Book entry"* shall mean the recording, transferring and processing of ownership of securities by electronic means. No paper certificates shall be issued by the CBSI as evidence of ownership.
- g) *"Business day"* shall mean any day on which the CBSI is open for business.
- h) *"Interest rate"* shall mean the annual percentage rate of interest paid on the amount of the principal.
- i) *"Maturity date"* shall mean the date specified in the offering announcement on which securities become due and cease to earn interest.
- j) *"Minimum bid"* shall mean the lowest allowable bid in any auction.
- k) *"Principal"* shall mean the purchase amount of any issued note.

1.2 Administration

1.2.1 Issuance



All securities issued pursuant to these guidelines shall be offered in book entry form. All securities shall be maintained at the CBSI in established securities accounts. Unless otherwise stated in the offering statement, all securities will be freely transferable and negotiable between holders upon notification to the CBSI.

1.2.2 Eligible Counterparties

Securities are available for sale to any person or persons registered with the CBSI. To register, interested parties must submit a registration form to the CBSI. The CBSI reserves the right to refuse any potential client to the register. Registration must occur at least five working days in advance of any tender that the interested party wishes to participate in. *[Please refer to Appendix 1 for the relevant registration forms]*

1.3 Bidding Procedure

1.3.1 Offering Announcements

The CBSI shall provide notice of the sale of securities by issuing an offering announcement. Offering announcements shall be made one day prior to the auction and will be published on the CBSI website and posted at the CBSI offices. The offering announcement shall list the offering amount, maturity dates and the closing time for the submission of bids.

The CBSI shall also release information announcements which specify further instructions for the sale which are in addition to the instructions outlined within these guidelines.

1.3.2 Submission of Bids

Following the offering announcement, registered bidders must submit their bid directly to the CBSI before the closing time for submissions. Late entrants shall not be accepted into the auction. Tenders shall not be recognized if the required information is not provided or is incomplete. All bids shall remain confidential. Submission of a bid is taken as evidence that the bidder has read and accepted all terms and conditions contained within these guidelines and the offering announcement and other relevant information announcements.

1.3.3 Cancellation or Postponement of Auction

The CBSI reserves the right to cancel or postpone an auction at any time without prior notification.

1.4 Allocation and Announcement of Successful Bids

1.4.1 Allocation of Successful Bids

Allocation of successful bids in the auction shall be made by the CBSI following the close of bidding. Each successful bidder shall pay the yield he/she offered. Successful bids shall be listed in ascending order, starting with the lowest yield, down to the yield that exhausts the amount offered. The CBSI reserves the right to enforce a ceiling on rates, which may or may not be released in the offering announcement.



1.4.2 Announcement of Successful Bids

Following the conclusion of the auction process the CBSI shall make an official announcement of the results. This announcement shall include; the amount of bids received, the accepted range of rates received and accepted, and the weighted average of accepted bids. The timing of making auction results public shall be specified in the offering announcement.

1.4.3 Notice of Successful Bids

Notice of successful bids shall be made to the successful bidders before the close of business on the day the auction results are announced.

1.5 Settlement

1.5.1 Settlement of the Successful Bids

Any bidder agrees through submission of a bid to pay the settlement amount for successful bids awarded to them in the auction. Payment should be made on the day following the announcement of successful bids. Payment should be made through the method agreed upon at the time of bidding. Maturing securities may be used as payment for new issues only if such a request for settlement is received by the CBSI at the time of the bid.

1.5.2 Liquidated Damages

A bidder shall agree to pay liquidated damages of 1% of the par value of issued securities if the bidder fails to pay for awarded securities in a timely manner. Only the Board of the CBSI may waive, in whole or in part, the payment of these damages.

1.6 Other Terms and Conditions

1.6.1 Reservation of Rights

The CBSI reserves the right to refuse any or all bids submitted in accordance with these guidelines. The CBSI also reserves the right to vary issuance from that specified in the offering announcement. The CBSI reserves the right to waive any or all guidelines for any or all bidders. The decision of the CBSI shall be final.

1.6.2 Reservations Regarding these Guidelines

The CBSI reserves the right to supplement or amend these guidelines. The CBSI further reserves the right to depart from these guidelines when issuing new forms of securities.



2. Standing Facility Guidelines

2.1 General

2.1.1 Applicability

Commercial banks covered by the Financial Institutions Act (1998), in possession of an account at the Central Bank of Solomon Islands (CBSI), who have registered and signed a Master Repurchase Agreement with the CBSI are eligible to use the standing facilities.

2.1.2 Purpose

These guidelines outline the approach used by the CBSI to extend credit for routine settlement needs in accordance with section 37(g) of the Central Bank of Solomon Islands Act (Cap 49) which allows the CBSI to grant loans and advances to holders of accounts with it. These guidelines should be read in conjunction with the CBSI's Master Repurchase Agreement (MRA).

2.1.3 Definitions

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

- a) "Advance" shall mean an extension of credit to a borrower in the form of a loan, including any renewal or extension thereof.
- b) "Borrower" shall mean any commercial bank that incurs a liability to the CBSI.
- c) "Business day" shall mean any day on which the CBSI is open for business.
- d) "Collateral" shall mean assets pledged by the borrower to secure a loan, subject to seizure in the event of default. Such collateral must be a form deemed eligible by the CBSI and identified on a collateral schedule.
- e) "Collateral schedule" shall mean a statement of available collateral to be pledged against any requested loan.
- f) "Default" shall mean the failure by the borrower to repay or satisfy a liability due to the CBSI or a requirement set by the CBSI.
- g) "Policy Rate" shall mean the interest rate set by the Monetary Policy Committee of the CBSI consistent with the Board's goal of maintaining price stability.

2.2 Extension of Credit under the Standing Facilities

2.2.1 Advances to Commercial Banks

The CBSI may lend to registered commercial banks who have signed an MRA by making an advance secured by acceptable collateral as stipulated under section 37(g) of the Central Bank



of Solomon Islands Act (Cap 49) and paragraphs 2.4.2 and 2.5.2, for the primary and secondary credit facilities respectively.

The CBSI shall provide credit on an overnight basis under a primary credit facility and credit out to terms of up to five business days under a secondary credit facility.

2.2.2 No Obligation

The CBSI is under no obligation to extend, increase or renew advances to any commercial bank.

2.2.3 Information Requirements

Prior to issuing advances, the CBSI may request any information it deems either appropriate or desirable to ensure that the conditions of eligibility to this facility are met.

2.2.4 Registration

In order to access the standing facilities, agents must first become registered counterparties with the CBSI. To register, interested parties must submit the relevant completed registration forms to the CBSI and a signed MRA. *[Please refer to Appendix 1 for the relevant registration forms]*

2.3 Requests for Credit under the Standing Facilities

2.3.1 Administration

Repurchase agreements entered into under the primary and secondary standing facilities are ordinarily issued with minimal administrative burden placed upon the borrower. Requests for credit can be submitted either in person or by email. A directory listing contact details for CBSI staff can be found at the end of this document.

2.3.2 Hours of Operation

Requests for credit under the primary and secondary credit facilities must reach the CBSI between 9:00 – 12:00. If approved, settlement will be made between 14:00 – 16:30 on the same day.

2.3.3 Minimum and Standard Parcel Sizes

Requests for credit must be a minimum of \$10,000 and in whole multiples of \$5,000 thereafter.

2.3.4 Maturity Date of Eligible Securities

Securities will not be deemed eligible for use in the standing facilities if they are due to mature whilst being used in the facility.

2.3.5 Results Announcement



The total volume of cash lent under the primary credit facility on any one day shall be announced the following business day on the CBSI website. The total volume of cash lent under the secondary credit facility and the facility start and end dates shall be announced on the CBSI website the next business day following the end date.

2.4 Primary Credit Facility

2.4.1 Standard Terms

The CBSI will extend primary credit on an overnight basis as a supportive source of financing to registered counterparties deemed by the CBSI to be in a sound financial condition. Requests for the extension of credit under the primary facility are at the initiative of commercial banks. Extension of credit under the primary credit facility is under a standard reverse repo transaction, where the CBSI buys acceptable securities in exchange for cash with an agreement to sell them back at a future date.

2.4.2 Eligible Securities

Under the primary credit facility, the Central Bank of Solomon Islands will buy CBSI backed Bokolo bills under a repurchase agreement.

2.4.3 Standardised Cover Factor

Securities sold to the CBSI under the primary credit facility will be subject to a standardised cover factor (or haircut) as stipulated in Appendix 2.

2.4.4 Term

The primary standing facility extends credit on an overnight basis to registered counterparties.

2.4.5 Interest Rate

The interest rate applicable to credit extended by the CBSI under the primary credit facility is set at a premium above the CBSI policy rate. The initial premium is to be set at 50 basis points above the CBSI policy rate. From time to time the CBSI may revise this premium. Any such revision will be published in advance of its effective date.

2.5 Secondary Credit Facility

2.5.1 Advances to Commercial Banks

The CBSI will extend secondary credit under terms ranging from overnight up to five business days as a supportive source of financing to registered counterparties deemed by the CBSI to be in a sound financial condition. Requests for extension of credit under the secondary facility are at the initiative of commercial banks. Extension of credit under the secondary credit facility is



through a standard reverse repo transaction, where the CBSI buys acceptable securities in exchange for cash with an agreement to sell them back at a future date.

2.5.2 Eligible Securities

Under the secondary credit facility, the Central Bank of Solomon Islands will buy CBSI backed Bokolo bills and Solomon Islands Government backed Treasury bills (T-bills) under a repurchase agreement.

2.5.3 Standardised Cover Factor

Securities sold to the CBSI under the secondary credit facility will be subject to a standardised cover factor (or haircut) as stipulated in Appendix 2.

2.5.4 Term

Under the secondary credit facility, registered counterparties can request a term of overnight up to five business days.

2.5.5 Interest Rate

The interest rate applicable to credit extended by the CBSI under the secondary credit facility is set as a premium above the CBSI policy rate. The initial premium is set at 75 basis points above the CBSI policy rate. From time to time the CBSI may revise this premium. Any such revision will be published in advance of its effective date.



3. Directory

For registration and general information contact:

- Doreen Monogari
Supervisor, Debts Unit
Currency and Banking Operations Department
Central Bank of Solomon Islands
PO Box 634
Honiara
Solomon Islands
Tel: 21791
Email: dlai@cbsi.com.sb

For bidding in Bokolo bill and Treasury Bill Auctions:

- Submit bids either in person or by email to the tender officers:
 - a) Tender Officer: Doreen Monogari – dlai@cbsi.com.sb

For requesting credit under the standing facilities:

- Submit requests either in person or by email to: cbo_dept@cbsi.com.sb



Appendix 1: Application for Registration as a Counterparty

Thank you for your interest in establishing a domestic dealing relationship with the Central Bank of Solomon Islands (CBSI). All applicants will be considered for participation in the auction of CBSI backed Bokolo bills and Government backed Treasury bills, but, applications for participation in the standing facilities is limited to commercial banks covered by the Financial Institutions Act (1998).

Please find attached the following forms which we require to be fully completed and returned before we can consider your application.

1. Application for Registration as a Counterparty

It is important to note that the application form requires you to designate the positions within the institution which have the authority to authorise dealers and signatories. The CBSI will refer to the application form as the sole determinant of authority for any subsequent changes to dealers or signatories. This authority will remain valid until it has been revoked or amended by your institution.

Please include the following information with the completed application (where applicable):

- a) Nature of business
- b) Organisational structure, showing company names up to ultimate parent, percentage of ownership, and relationship with entity (i.e. subsidiary or branch operation)
- c) Additional information that may be relevant to this application

2. Dealing Authorities

3. Authorised Signatories for Confirmation of Repurchase Transactions and Requests for Emergency Liquidity Assistance

Note: Should you wish to become a registered counterparty for repurchase transactions, a Master Repurchase Agreement must first be executed by both parties. If you have indicated interest for registration for use of the standing facilities in *Registration Form 1: Application for Registration as a Counterparty* an agreement will be automatically forwarded to you if your application is approved. If you would like a copy of the agreement in the interim, please advise.





CHECKLIST

Please attach and return with completed forms and information

(Name of Institution).....

For eligibility to participate in the auction of Treasury bills and Bokolo bills please complete:

1. Registration Form 1: Application for Registration as a Counterparty
2. Registration Form 2: Dealing Authorities

For eligibility to access credit under the standing facilities (including the Emergency Liquidity Assistance Facility) please complete:

1. Registration Form 1: Application for Registration as a Counterparty
(on completion of this form, if the request to apply for use of the standing facilities has been made then a Master Agreement shall be forwarded to you automatically)
2. Registration Form 3: Authorised Signatories for Confirmation of Repurchase Transactions and Requests for Emergency Liquidity Assistance *(please complete this after signing the Master Agreement)*
3. CBSI Master Repurchase Agreement must be signed by both you and the CBSI

Please find attached the following: *(please indicate as appropriate)*

Registration Form 1: Application for Registration as a Counterparty

Including:

- Nature of business
- Organisational structure, showing company names up to ultimate parent, percentage of ownership, and relationship with entity (i.e. subsidiary or branch operation)
- Additional information that may be relevant to this application

Registration Form 2: Dealing Authorities

Registration Form 3: Authorised Signatories for Confirmation of Repurchase Transactions and Requests for Emergency Liquidity Assistance

Any other information as indicated:





Registration Form 1: Application for Registration as a Counterparty

To: Chief Manager
Currency and Banking Operations Department
Central Bank of Solomon Islands
PO Box 634
Honiara

Section 1:

I/We
(Full Legal Name of Applicant)

Full Physical Address
.....
.....

Full Postal Address
For Correspondence
.....
.....

wish to apply for registration as a counterparty in the following Central Bank of Solomon Islands operations *(please indicate as appropriate)*¹:

- Primary Security Auctions
(Please additionally complete Registration Form 2)
- Standing Facilities (including the Emergency Liquidity Assistance Facility)
(Please additionally complete Registration Form 3 after you have signed an MRA)
- New transactions which may be authorised from time to time and as agreed between both parties².

¹ Non-bank institutions and individuals are only eligible to participate in primary securities auctions.

² **IMPORTANT.** For the avoidance of doubt, unless the Applicant advises otherwise in writing to the Central Bank five business days prior to such transactions, the Central Bank may in relation to such new transactions rely on the positions and authorities (for dealers and signatories) referred to in Section 2 of this Application.



Section 2:

The following position(s) has/have authority to authorise dealers and signatories for transactions and operations with the Central Bank of Solomon Islands:

Position	Name of person currently in position
.....
.....

Section 3:

Important

- (i) Notwithstanding that the persons currently holding the positions in Section 2 have been named, it is acknowledged and agreed that any successor to those positions shall bind the counterparty on all transactions undertaken under this Application.
- (ii) The Applicant confirms that the information given and the statements made by the Applicant in this Application are true and correct and the Central Bank shall not be under any obligation, whether at law or in equity, to enquire into the accuracy of such information or statements either now or in the future.
- (iii) Until this Application has been processed and the approval confirmed by the Central Bank of Solomon Islands in writing, it shall not have any binding effect.
- (iv) Notwithstanding the registration of the Applicant as a counterparty or anything else contained in the Application, all bids, tenders and other transactions shall be in line with the Central Bank of Solomon Islands’ operating guidelines for those transactions.

Section 4:

Authority

Signed by
(Name of Institution)

In the presence of:

.....



Registration Form 2: Dealing Authorities

To: Chief Manager
Currency and Banking Operations Department
Central Bank of Solomon Islands
PO Box 634
Honiara

(Name of Institution).....

1. This Authority revokes all previous authorities given for this purpose.
2. The employees listed in **Schedule A** are authorised to enter into the following operations with the Central Bank of Solomon Islands:
 - (i) Purchase, sell and transfer Bokolo bills, Treasury bills and any other security instruments issued by the Government or the Central Bank of Solomon Islands.

Schedule A

Authorised Person	Position of Authorised Person	Signature
.....
.....
.....
.....
.....
.....

I certify that I am duly authorised to give this authority.

Signed this day of 20.....

..... (Position Held) ³ (Name) (Signature)
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Senior contact in case of enquiry: Telephone:

³ **IMPORTANT.** The position held must correspond to a position stated in Section 2 of Registration Form 1.





Registration Form 3: Authorised Signatories for Confirmation of Repurchase Transactions and Requests for Emergency Liquidity Assistance

To: Chief Manager
Currency and Banking Operations Department
Central Bank of Solomon Islands
PO Box 634
Honiara

(Name of Institution).....

1. This authority revokes all previous authorities given for this purpose.
2. The employees listed in **Schedule B** are authorised to
 - a) execute any confirmations or other documentation evidencing the terms of a repurchase transaction under the CBSI standing facilities, pursuant to clause 3.5 of the Central Bank of Solomon Islands Master Securities Repurchase Agreement (MRA) executed by both parties.
 - b) arrange collateralised loans under the Emergency Liquidity Assistance Facility *(please note that the MRA is not applicable to the ELA Facility)*

Schedule B

Authorised Person	Position of Authorised Person	Signature
.....
.....
.....
.....
.....
.....
.....

I certify that I am duly authorised to give this authority.

Signed this day of 20.....

..... (Position Held) ⁴ (Name) (Signature)
---------------------------------------	-----------------	----------------------

Senior contact in case of enquiry: Telephone:

⁴ **IMPORTANT.** The position held must correspond to a position stated in Section 2 of Registration Form 1.



Appendix 2: Acceptable Securities, Standardised Cover Factors, Buyer/Seller Margins for Repurchase Transactions and Notice of Addresses

1. Schedule of Standardised Cover Factors (Haircuts):

Issuer	Instrument	Maturity	Cover Factor
Central Bank of Solomon Islands	Bokolo bill	< 12 months	1%
		≥ 12 months	3%
Solomon Islands Government	Treasury bill	< 12 months	5%
		≥ 12 months	10%

2. Eligible Securities:

In general, securities eligible for use in the primary and secondary standing facilities shall be Central Bank Bokolo bills and Solomon Islands Government T-bills of all maturities (Eligible collateral under the Primary Standing Facility is restricted to Bokolo bills as outlined in paragraph 2.4.2 in the above guidelines). Restructured Solomon Islands Government bonds are not acceptable as collateral under the primary and secondary standing facilities.

3. Buyer/Seller Margins for Repurchase Transactions:

(a) Reverse Repo transactions

Under clause 7 of the Master Repurchase Agreement (MRA), the Buyer has the right to make a margin call when the value of securities falls by 1% or more than from the starting valuation (plus haircut) of the repurchase price (on an aggregate basis). The value of the margin call is such that the cover (i.e. starting value calculated using haircuts outlined above) is restored.

Under clause 7 of the MRA, the Seller has the right to make a margin call when the value of securities rises by 2% or more of the starting valuation (plus haircut) of the repurchase price (on an aggregate basis). The value of the margin call is such that the cover (i.e. starting value calculated using haircuts outlined above) is restored.

(b) Repo transactions



Under clause 7 of the MRA, the Buyer has the right to make a margin call when the value of securities falls by 2% or more than from the starting valuation (plus haircut) of the repurchase price (on an aggregate basis). The value of the margin call is such that the cover (ie starting value calculated using haircuts outlined above) is restored.

Under clause 7 of the MRA, the Seller has the right to make a margin call when the value of securities rises by 1% or more of the starting valuation (plus haircut) of the repurchase price (on an aggregate basis). The value of the margin call is such that the cover (i.e. starting value calculated using haircuts outlined above) is restored.

4. Notice of Address for the Central Bank of Solomon Islands:

The notice addresses for the Central Bank of Solomon Islands as per clause 17.1 of the Master Repurchase Agreement are as follows:

The Bank: Central Bank of Solomon Islands

SWIFT: CBSISBSB
Telephone: (677) 21791
Our Facsimile: (677) 23513
Address: Mud Alley Street
P.O. Box 634
Honiara
Solomon Islands

