



## Central Bank of Solomon Islands

### Monetary Policy Guideline- Emergency Liquidity Assistance Facility

#### Section A- General.

##### 4.1.1 Authority

This guideline is in accordance with the authority granted to the Bank by Section 37(g) of the Central Bank of Solomon Islands Act (1996) which allows the Bank to grant loans and advances to holders of accounts with it.

##### 4.1.2 Purpose and Scope

The emergency liquidity assistance facility is made available by the CBSI in exceptional circumstances for distressed financial institutions. Loans and advances under this facility are available when a financial institution which is still solvent requests help to when met with a large liquidity shortage or when the soundness of the financial structure is threatened.

##### 4.1.3 Definitions

Throughout this guideline unless the context otherwise requires, the following terms shall have the following meanings assigned;

*'Borrower'* shall mean any financial institution that incurs a liability to the CBSI.

*'Collateral'* shall mean assets pledged as security for repayment of a loan, to be forfeited in the event of a default. Such collateral must be of a form deemed eligible by the CBSI and identified on the collateral schedule.

*'Collateral schedule'* shall mean a statement of the collateral available for borrowers to pledge against any requested loan.

*'Default'* shall mean a failure by the borrower to repay or satisfy an obligation due to the CBSI or a requirement set by CBSI.

#### Section B- Emergency Liquidity Assistance Facility.

##### 4.2.1 Loans and advances to financial institutions

The CBSI may lend to a financial institution, as defined under Section 2 of the Central Bank of Solomon Islands Act (1996), as long as that financial institution holds call accounts with the Bank, as required by Section 37(g) of the same legislation.

This advance shall be secured with adequate collateral as stipulated under Section 37(g) of the Central Bank of Solomon Islands Act (1996) and in accordance with this regulation.

Where in the opinion of the CBSI adequate collateral is unavailable, the CBSI may only provide emergency liquidity assistance after receiving in writing a guarantee from the Government securing the repayment in full.

#### **4.2.2 No obligation**

The CBSI is under no obligation to extend, increase or renew advances made to any financial institution under this regulation.

#### **4.2.3 Information Requirements**

The CBSI may request or require any information it believes either appropriate or desirable, prior to issuing credit. This may include but is not limited to;

- a) A statement by the Board of the applying financial institution affirming that the applying financial institution is solvent.
- b) A statement stipulating that the applying institution has tried, but failed, to meet its liquidity needs in the financial markets.
- c) A full description, deemed viable by the CBSI, of the remedial action the financial institution will pursue to return to market financing.
- d) A full description of the amount of assistance required and its desired maturity.
- e) A full description of available collateral.
- f) The most recent set of audited financial statements and management accounts.

If the financial institution is a branch or subsidiary of a foreign bank it may also be required to submit;

- a) A statement from its head office or parent explaining why they are unable to satisfy the the liquidity needs of its branch or subsidiary.
- b) A statement from the home supervisory authority of the head office or parent supporting the request to access emergency liquidity assistance.

### **Section C- Availability and Terms of Credit**

#### **4.3.1 Standard Terms**

In exceptional circumstances the CBSI can extend credit as a supportive source of financing to a financial institution if it is judged by the CBSI to be solvent and provides adequate collateral, or has a written guarantee from the Government securing the loan in full. Such assistance may only be granted to improve the liquidity position of the applying financial institution and/or the soundness of the financial system.

The CBSI will not grant credit under its emergency liquidity assistance facility unless it is convinced that funds cannot be secured from either the markets or in the case of branches or subsidiaries of foreign banks based in Solomon Islands, parent organisations or head offices.

Credit issued under the emergency liquidity assistance facility is available for no more than 30 days, unless justifiable by exceptional circumstances and with an acceptable regime of remedial measures in place.

Extended support, for a period not exceeding one year, is granted at the discretion of the CBSI.

### **4.3.2 Eligible Collateral**

The CBSI requires that approved credit extended under the emergency liquidity assistance facility be secured by collateral pledged by the borrowing institution. Collateral accepted pursuant to this regulation include government securities, government backed securities, CBSI notes, CBSI issued securities or any other asset specified in Section 30 of the Central Bank Act (1996).

The Board of the Central Bank will determine the necessary value of collateral, taking into account the available collateral's tenor and marketability. Under no circumstances should the value of collateral be below one hundred and twenty percent of the nominal value of the loan, but the Bank reserves the right to request collateral whose value exceeds this amount if deemed necessary or desirable.

### **4.3.3 Administration**

Due to the nature of this facility it is important to ensure that credit issued under it is available rapidly. Request for credit should be made to the CBSI as early as possible. To ensure rapid processing, all necessary information, as listed in 4.2.3, should be submitted together with requests.

## **Section D- Interest and Interest Rates**

### **4.4.1 Applicable Interest Rates**

The interest rate applicable to credit extended by the CBSI under the emergency liquidity assistance facility is set at a specific premium above the weighted average interest rate on commercial bank loans and advances.

The initial premium is set at 2,500 basis points above the weighted average interest rate on loans and advances from the commercial banks. From time to time the CBSI may revise this premium. Any such revision will be published in advance of its effective date.

### **4.4.2 Method of Repayment**

The CBSI will debit the borrower's account for the full amount repayable when it becomes due.

## **Section E- Collateral**

### **4.5.1 Collateral schedule**

As per paragraph 4.3.2 all credit granted under this facility must be secured by collateral deemed acceptable by the CBSI. To ensure rapid processing and easy administration of credit a collateral schedule must be kept with the CBSI. Collateral schedules held at the CBSI must be prepared in a manner specified by CBSI and must be kept current and be updated so as to be in accordance with any instruction issued by CBSI.

## **Section F- Remedies upon default**

#### **4.6.1 Methods to be used as remedy to default.**

In the event of a default the CBSI may pursue the following actions against the financial institution concerned separately, successively or concurrently;

- a) Set off any obligation against any amount owed by CBSI to the borrower, whether then due or not due.
- b) Resort to any letters of comfort signed by head offices.
- c) Pursue any other remedy available in equity or in law to collect enforce or satisfy any obligation.