

Solomon Islands Government

Operational Guidelines for the Issuance of Government Bonds



The effective date for these guidelines is 7 June 2022.

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Abbreviations

CBSI	Central Bank of Solomon Islands
DMAC	Debt Management Advisory Committee
DMU	Debt Management Unit
MoFT	Ministry of Finance and Treasury
SIG	Solomon Islands Government
SBD	Solomon Islands Dollar

1. Introduction

The government has issued development bonds in the domestic market in 2017 and 2020 in line with the Government Loans and Securities Act. Recognising the need to strengthen the governing framework for bond issuances, the Government issued these operational guidelines to guide the issuances and purchases of government securities in the domestic market. Any bond issuances must be consistent with the provisions of the; Government Loans and Securities Act Cap 100; Public Financial Management Act 2013; Public Finance and Audit Act; other relevant regulations; and the government's debt management framework.

These guidelines outline the procedures followed by Ministry of Finance and Treasury (MOFT) as the issuer of Government bonds as well as the responsibilities for the Central Bank of Solomon Islands (CBSI) as the Government agency for conducting the auctions and appointment as registrar. These guidelines are not all encompassing and it should be used with reference to other directives provided by the Solomon Islands Government and the Central Bank of Solomon Islands.

2. General

2.1 Purpose

The Government bonds are issued under a regular auction program and any issuance shall purposely be to raise funds for capital related expenditures only. The ambition is to establish Government bonds as the most liquid security in SBD attracting interest from a wide range of domestic and international investors. Promoting high liquidity, i.e. possibility to buy and sell the securities at low cost, is the best way to ensure long term low costs in accordance with government's debt management framework.

2.2 Applicability

Unless otherwise specified in an offering announcement or information announcement, these guidelines apply to all eligible buyers and participants domiciled in Solomon Islands as specified below;

- State Owned Enterprises
- Financial Institutions
- Non-Bank Financial Institutions
- Private Sector
- NGOs and Churches
- Communities
- Person

2.3 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) *"Bond negotiation"* shall mean MOFT selling development bonds in private transactions.
- g) *"Business day"* shall mean any day on which the CBSI is open for business.
- h) *"Certificate"* shall mean a paper certificate that CBSI issues as evidence of bond ownership.
- i) *"Coupon rate"* shall mean the percentage rate on the amount of the principal paid regularly.
- j) *"Electronically"* means signed bids sent through email.

- k) “Face Value” shall mean the nominal amount of Government bonds.
- l) “Government Securities” shall mean treasury bills and Government bonds.
- m) “Maturity date” shall mean the date specified in the offering announcement on which securities become due and cease to earn interest.
- n) “Minimum bid” shall mean the lowest allowable bid in any auction.
- o) “Non-Bank Financial Institutions” shall mean institutions that provide financial services that are not necessarily suited to banks, serve as competition to banks and specialise in their sectors.
- p) “Registrar” means CBSI; and
- q) “Securities” mean Government Securities.

3. Currency

Securities issued shall be denominated in the local currency (SBD) except otherwise explicitly stated by MoFT or CBSI. All subscriptions and redemptions shall be made in the issuing currency.

4. Administration of Bond Issuances

4.1 Notification of Issuance

The MoFT shall publish a Medium-Term Debt Strategy, Annual Borrowing Plan for the financial year, and a half yearly rolling calendar for the issuance of Government securities. Based on the issuance calendar, MoFT shall inform CBSI 30 days before an auction, the amounts and specific details of the government securities available at the next auction and their maturity profiles.

For the issuance of bonds, a prospectus will be published in the daily newspaper and on CBSI and MoFT websites on periodic basis. All securities shall be maintained at the CBSI in established securities accounts. Unless otherwise stated in the offering statement, all securities will be transferable and negotiable between domestic holders upon notification to the CBSI. Any securities that holders pledge against any borrowing shall not be transferable.

4.2 Eligible Counterparties

Bonds are available for sale to any person and corporates registered with the CBSI. To register, interested parties must submit a registration form to the CBSI. Prior to on-boarding, and after the on-boarding on an ongoing basis, MOFT and CBSI shall carry out due diligence assessments including anti-money laundering measures on interested parties and DMU/CBSI reserves the right to refuse any potential client to the registrar. Registration must occur at least five working days in advance of any tender or negotiation that the interested party wishes to participate in. *[Please refer to Appendix 1 for the relevant registration forms]*

4.3 Issuances

Government bonds can be issued either through an auction bidding process, syndication or direct negotiations with eligible counterparties.

4.3.1 Auction

Upon advice from MoFT, the CBSI shall either issue Government bonds through a public auction or through another format, as deem necessary.

4.3.2 Direct Negotiations with a counterparty

MoFT may negotiate directly with eligible counterparties to purchase Government bonds. The terms and conditions must be in accordance with all the relevant laws, regulations and the current debt management framework.

4.4 Launch Date or Offering Announcements

The CBSI shall provide notice of the sale of bonds by issuing an offering announcement. Offering announcements shall be made 14 days prior to the auction and will be published on the CBSI and MoFT websites and posted at the CBSI and MoFT offices. The offering announcement shall list the offering amount, maturity dates and the closing time for the submission of bids.

4.5 Maturity

The maturity of any issued bond shall be determined by the MoFT in accordance with the Medium to Long Term Debt Strategy.

4.6 Issuance Amount

The amount to be issued shall be decided by the Minister in consultation with the Debt Management Advisory Committee. Any amount to be issued shall take into consideration the annual borrowing limit, the medium term debt strategy, debt ratio target level, the debt sustainability threshold, and other fiscal and monetary policy issues.

4.7 Submission of Bids

Following the offering announcement, registered bidders must submit their bid directly to the CBSI either through an electronic platform or placed in a sealed box 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.

4.8 Cancellation or Postponement of Auction

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

4.9 Allocation and Announcement of Successful Bids

4.9.1 Allocation of Successful Bids

Allocation of successful bids in the auction shall be made by the MoFT and 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 MoFT reserves the right not to accept any bid above rates, which may or may not be released in the offering announcement.

Tap sales of bonds shall be considered as per the issuance announcement in line with the agreed methodology of issuance.

4.9.2 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 auction results shall be published not later than three working days after the close of bidding.

4.9.3 Notice of Successful Bids

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

5. Settlement

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 and through the method agreed upon at the registration or time of bidding. Maturing bonds 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. At the closing, remaining documents must be signed by the relevant parties before the bonds are transferred from the issuer to the bondholders and the payment for the bonds is transferred from the bondholders to the issuer.

5.2 Bond Price:

The semi-annual bond price shall be calculated on the basis of the following formula:

$$P = \sum_{t=1}^{2n} \frac{C_t/2}{(1 + \frac{y}{2})^t} + \frac{M}{(1 + y/2)^{2n}}$$

Where:

- **P** = Semi-annual bond price
- **n** = Period which takes values from 0 to the nth period till the cash flows ending period
- **C_t** = Coupon payment in the nth period
- **y** = interest rate or required yield
- **M** = Par Value of the bond

Example: To calculate the semi-annual price of a 5-year bond which has a par value of \$1,000-00, coupon payment of 10% and a yield of 8%:

Note: for semi-annual (or bi-annual) bond price, the yield rate is divided by 2 (8% / 2 = 4%), the coupon payment is divided by 2 ((10%*1,000) / 2 = 50) and the period or term is doubled, which will be 10 (n = 5 X 2 = 10).

Calculations

Semi-Annual

Semi-Annual Bond Price = $50 / (1.04) + 50 / (1.04)^2 + 50 / (1.04)^3 + 50 / (1.04)^4 + 50 / (1.04)^5 + 50 / (1.04)^6 + 50 / (1.04)^7 + 50 / (1.04)^8 + 50 / (1.04)^9 + 50 / (1.04)^{10} + 1000 / (1.08)^{10}$.

Bond Price = 48.1 + 46.2 + 44.4 + 42.7 + 41.1 + 39.5 + 38.0 + 36.5 + 35.1 + 33.8 + 675.6

Bond Price = **\$ 1,081.11**

Annual Bond Price

Bond Price = $100 / (1.08) + 100 / (1.08)^2 + 100 / (1.08)^3 + 100 / (1.08)^4 + 100 / (1.08)^5 + 1000 / (1.08)^5$.

Bond Price = 92.6 + 85.7 + 79.4 + 73.5 + 68.02 + 680.58

Bond Price = **\$ 1079.9**

5.3 Liquidated Damages

A bidder shall be required to pay liquidated damages of 1% of the par value of issued bond if the bidder fails to pay for the awarded bond within the stated timeframe and should be excluded from future auctions. Only the MOFT may waive, in whole or in part, the payment of these damages.

6. Payment of principal and interest

The principal and interest on Government bonds represent a charge on the consolidated fund. Payment of interest and principal shall be specified in the respective prospectus. Principal and interest payments are paid by bank transfer to the owner's bank account as recorded in the book-entry system. For participating commercial banks, their reserve accounts at the CBSI shall be credited with amounts due to them, by close of business. If the maturity or interest payment falls on a non-working day, payment will be effected on the following working day by close of business. No additional interest is expected to be paid in such circumstances.

7. Miscellaneous Auction Rules and Procedures

7.1 No withdrawals

Bids submitted either electronically or placed in a sealed box may not be withdrawn after the auction is closed

7.2 Ineligibility

Bids with error will not be eligible for the auction.

7.3 Reports

The CBSI will publish monthly and quarterly reports and analysis of the auction results, providing details of the;

- amount received and allotted per security
- range of rates received and the range of rates accepted
- weighted average interest for each security; and
- other relevant information as and when required

8. Registration and Holders

8.1 Registrar

The Government appointed registrar shall maintain a register of the Government securities in line with the Government Loans and Securities Act. An entry of the name of an investor in the register together with a certificate shall constitute prima facie evidence that the investor is the legal owner of the securities referred to against his/her name

8.2 Register

The register shall contain the following details:

- The issue dates of the securities;
- The securities serial number;
- The amount, type and maturity of each security held by each investor and the date the investor became registered as owner of the security;
- The name and address of the investor; and
- Whether the investor is holding the securities as a nominee for a beneficial owner.

8.3 Information

Although the register shall not be open to the public, the Registrar may provide information to any written request about the securities held by an investor subject to a court order. Such information will be provided at a fee payable by those who request such information. The registrar must also notify the holder of a security any changes in holdings and send half-yearly statement to the holder.

8.4 Registrar not liable

The Registrar shall not be responsible for any losses or liabilities suffered or incurred by a bondholder or other member of the public who relies on information obtained from the register which is not correct or is misleading, as long as the error is not caused by the Registrar.

8.5 Fraudulent transactions

In carrying out its duties, the Registrar may rely on a transaction which appears on its face to be genuine and to have been duly signed by authorized signatories of the party or parties to it, or captured in the register by an authorised user, and shall not be liable in any way should it later transpire that the transaction was a forgery or that it was not duly authorised by a party.

9. Other Terms and Conditions

9.1 Reservation of Rights

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

10. Directory

For registration and general information contact:

1. Doreen Monogari
Supervisor, Debts Unit
Currency and Banking Operations Department
Central Bank of Solomon Islands
PO Box 634
Honiara
Solomon Islands
Tel: 21791
Email: dmonogari@cbsi.com.sb
2. Robert Dukavalaka
Director
Debt Management Unit
Ministry of Finance and Treasury
PO. Box 26
Honiara
Email: rdukavalaka@mof.gov.sb

For registration of SIG Bond:

Submit bid request either in person or by email to the following officers:

- a) Registration Officer: Doreen Monogari – dmonogari@cbsi.com.sb or debtunit@cbsi.com.sb
- b) Registration Officer: Robert D Meyenn - [Rdukavalaka@mof.gov.sb](mailto:rdukavalaka@mof.gov.sb).

Appendix 1: Application for Registration as a Corporate 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 Government backed bonds as prescribed in the relevant legislation (quote here- eg 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

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 or Person)

.....

For eligibility to participate in the auction of SIG Bond please complete:

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

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

Registration Form 1: Application for Registration as a Corporate 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 1: Application for Registration as a Corporate 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 corporate counterparty in the following Central Bank of Solomon Islands operations *(please indicate ² as appropriate)*¹:

Primary Security Auctions
(Please additionally complete Registration Form 2)

New transactions which may be authorised from time to time and as agreed between both parties².

¹ Non-bank financial 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 SIG operating guidelines for the issuance of bonds.

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 SIG Bond & Treasury bills and any other security instrument 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.