



BANK OF PAPUA NEW GUINEA

PUBLIC NOTICE

FOREIGN EXCHANGE CONTROL DIRECTIVES

6th September 2016

In line with the Foreign Exchange Control Directives issued in March 2015, I hereby issue the following directives to address the issues currently faced in the domestic foreign exchange market.

1. Onshore Foreign Currency Accounts (FCA)

It has become evident that holders of onshore foreign currency accounts are not adhering to the requirements of foreign currency account such as reporting balances to the Bank of PNG. Furthermore, the foreign currency account balances have been used by the Authorized Foreign Exchange Dealers (AFED) to fund trade finance loans, which has, to an extent, starved liquidity in the FX spot market.

In light of these, the following will take effect as of the date of this letter;

a) All foreign currency account holders are to RE-APPLY to the Bank of PNG for assessment and approval. Upon re-applying, FCA holders must provide evidence of the source and uses of the foreign currency in their accounts

b) FCA holders without proof of foreign obligations/payments for 3 months are to immediately CONVERT all balances in the spot market

2. Trade Finance Loans

During the audit and meetings held with the AFEDs in August 2016, the Bank of PNG is concerned on the approval process, the use and the financing of trade finance loans. Bank of PNG is not against this product, however, it is concerned that trade financing has grown to an extent that has affected the clearing mechanism in the Spot market, thus the persisting high level of outstanding orders.

As of the date of this letter, all trade finance loans must be SUBMITTED to the Bank of PNG for APPROVAL, regardless of the term of the loan.

This is in line with Regulation 6 of the Foreign Exchange and Gold Regulations. Furthermore, the AFEDs should give priority to the settlement of outstanding payments in the order book from spot inflows and not to use for trade finance. Any funding of trade finance should come from AFEDs own funds.

Finally, the Bank of PNG's intervention proceeds must not be used to finance or repay the trade finance loans.

3. Interbank Spot Market Order Book

Given the misreporting of the spot market order book by the AFEDs, the following will take effect immediately;

- a) Orders in the Spot market should only be orders that need to be filled immediately
- b) AFEDs must segregate their order books between spot orders, trade finance orders and forwards and submit to the Bank of PNG
- c) All trade finance loan orders MUST not be included in the Spot order book but kept separately in the AFEDs banking book.

The Bank of PNG reserves the right to penalize any AFEDs if these directives are not adhered to.

Enquiries on this directive are to be directed to the Financial Markets Department on Phone: 322 7436 or email fxunit@bankpng.gov.pg.

Authorised by:

Loi M. Bakani CMG

Governor