



BANK OF PAPUA NEW GUINEA

PUBLIC NOTICE

FOREIGN EXCHANGE CONTROL DIRECTIVES

24th October 2016

Further to the additional Foreign Exchange Market Directives issued previously, I make the following clarifications;

1. Onshore Foreign Currency Accounts (FCA)

- a) Reapplication of FCA includes all operating (current bearing interest and non-bearing interest) foreign currency (refer attached list for your institution). Any FCA holder who does not reapply by the 28th October 2016 will have to close their account and convert the balances to Kina. Any FCA holder who wants to close their account immediately has to do so by conversion to Kina and not through remittance offshore.
- b) AFEDs are also required to provide a list of all foreign currency term deposits, stating clearly the source of the deposits, the reason for the deposit account and the use of the deposits for BPNG's assessment.
- c) All remittances to offshore accounts from onshore FCA require BPNG approval. There is no minimum threshold limit. Transfers between onshore FCAs of the same entity (name) are allowed. Transfers between FCA's of parent company and its subsidiaries are not allowed under Regulation 6 and requires approval from bank of PNG.
- d) As per the FEC Manual (March 2015), all non-residents, including diplomatic mission multi-national institutions and their employees (excluding PNG nationals) are exempted from the FCA directives

2 Trade Finance Loans

- a) "Trade finance loan" includes trade finance facility and also requires approval by the Bank.
- b) Trade finance provided to a client has to be backed up by foreign currency from own sources and not allowed to be funded from the Spot market.
- c) Any prepayments or part prepayments for trade finance must be funded from own sources. Flows from the Spot market cannot be used for this purpose.
- d) A trade finance cannot be brought into the spot market when it is due. Upon maturity the trade finance must be settled with funds from own sources.
- e) Use of foreign currency term deposits to fund trade finance must be approved by Bank of PNG as per Regulation 6, *FE 11.12, FE 15.14 and FE20.7 (FE Manual March 2015)*.

3. Forwards

- a) Forward inflows must be matched by forward outflows only and not with forward dated trade loan maturities or from the Spot market.

4. Other issues related to points 2 & 3

- a) Only funds from own sources or from correspondent banks can be used for maturing trade finance but not Bank of PNG interventions proceeds and spot market inflows. This also applies to any overdue trade finance.
- b) The AFEDs must use the spot inflows first to clear the Spot in-house orders, including any past due payments that are not served. Any excess after the AFED' s Spot order book is cleared must be brought to the Interbank Spot market.

5. Regulation 6 Issues

- a) Contracts between residents denominated in foreign currency must be approved by the Bank of PNG. These include employment and other service contracts.
- b) Settlement under such contracts must be in Kina.
- c) As noted in 2e), foreign currency term deposits used to fund trade finance (foreign currency lending) or a short position in the Spot order book requires Bank of PNG approval.
- d) Any new foreign currency product to be introduced by AFEDs should be discussed first with BPNG to ensure they are compliant with the Foreign Exchange Regulations.

6. Other Market behavior

- a) Some market practice gives rise to discriminatory allocation of foreign exchange where a seller (other than an AFED) of foreign currency dictates to the AFEDs who the buyer or beneficiary will be. The AFEDs must exercise fairness in the allocation of foreign currency.
- b) A seller of foreign currency is not allowed to deal with a buyer outside the foreign exchange market, thereby creating a parallel market for foreign currency.

The AFEDs are to adhere to the Directives and provide full and complete disclosure of all relevant information for the Bank to assess the applications.

The AFEDs are to ensure that their activities and operations are in compliance with the Foreign Exchange and Gold Regulations and Notices at all times.

Enquiries on this directive are to be directed to the Economics Department on Phone: 322 7214 or email ecoditmu@bankpng.gov.pg.

Authorised by:

Loi M. Bakani CMG

Governor