



**BANK OF PAPUA NEW GUINEA**

**REQUIREMENTS FOR FOREIGN EXCHANGE DEALER LICENCE**

**FOR**

**AUTHORISED NON-BANKS FINANCIAL INSTITUTIONS**

**DATE: 01<sup>ST</sup> JUNE 2007**

## 1. THE POLICY

The Central Bank intends to broaden the foreign exchange market by increasing the number of licensed Foreign Exchange Dealers to enhance competition. In accordance with Section 80 of the Central Banking Act 2000 (The Act) and the Central Banking Regulation, the Central Bank approves and licenses Foreign Exchange Dealers to deal in foreign exchange. The following are requirements for licensed financial institutions interested to become authorised Foreign Exchange Dealers.

The authorised Foreign Exchange Dealer shall:

- (1) be allowed to undertake any foreign exchange transaction, including trading in the Interbank Foreign Exchange Market.
- (2) open a Clearing Account at the Central Bank only for settling foreign exchange transactions.

## 2. THE LICENSING REQUIREMENTS

The following minimum Licensing Requirements must be satisfied for the issuance of a Foreign Exchange Dealer license by the Central Bank.

- 2.1 Foreign Exchange Business Plan** - An applicant must provide full details of the foreign exchange business plan, the type of business and currencies to be transacted. The applicant must also provide an organizational and management structure that clearly identifies the foreign exchange business.

The business plan must also set out in full detail the separation of foreign exchange trading, settlement, and information and accounting systems.

- 2.2 Foreign Exchange Information and Accounting Systems** - The applicant must provide sufficient details on the types of dealing, settlement and accounting systems that will be adopted, including security and backup facilities, as well as capability to produce reports required by the Central Bank in a timely manner.

Within three (3) months from the date of the issuance of the Foreign Exchange Dealer license, the applicant must:

- (1) provide a written notice to the Central Bank confirming installation of the information and accounting systems; and
  - (2) provide sample reports of foreign exchange trades and settlements to the Central Bank for assessment.
- 2.3 Correspondent Banks** - An applicant must enter into agreements with reputable overseas correspondent banks for transmission and receipt of funds and their settlement. Copies of agreements, full details of trading arrangements and the names of foreign correspondent banks must be provided to the Central Bank.

The authorised Foreign Exchange Dealer must give a written notice to the Central Bank two (2) weeks in advance and obtain approval, prior to any change to its foreign correspondent banks. Copies of the agreements, full details of trading arrangements and the names of the new foreign correspondent banks must be provided to the Central Bank.

An applicant must also establish nostro accounts with its overseas correspondent banks to conduct foreign exchange transactions. The establishment of any nostro accounts shall comply with the Foreign Exchange Control requirements.

- 2.4 **Fee** - A bank cheque for Application Fee of K5,000.00 made payable to the Central Bank must accompany the application.
- 2.5 **Declaration** - The directors and the chief executive officer (CEO) of the applicant must provide a declaration (Form-FEL 2) on the correctness of the documents and information provided to the Central Bank in respect of the application.
- 2.6 **Contact Address** - An application, including the relevant documents, information on location of business and address and contact details together with the forms, should be completed in Form-FEL2 and forwarded to: The Controller of Foreign Exchange, Bank of Papua New Guinea, ToRobert Haus, Douglas Street, P. O. Box 121, Port Moresby, Papua New Guinea.

### 3. THE OPERATING REQUIREMENTS

The following Operating Requirements must be complied with at all times.

- 3.1 **Foreign Exchange Business** - The foreign exchange trading and settlement functions, including accounting and information systems, must be maintained as distinct functional areas, in accordance with the business plan.
- 3.2 **Transaction Records** - The authorised Foreign Exchange Dealer must maintain a register in English and issue receipts to its customers, for all foreign exchange transactions with relevant details, including the names of the sellers and buyers of foreign exchange.

The foreign exchange dealings must be made available on a daily basis to the Central Bank and for inspection by the Central Bank or any law enforcement authority lawfully requiring production of the same. The records must be maintained for a minimum period of seven (7) years from the date of the transaction.

- 3.3 **Clearing Account** - The following rules apply to the operation of the Clearing Account at the Central Bank:
  - (1) Settlement of all foreign exchange transactions in the Interbank Foreign Exchange Market; and
  - (2) The Clearing Account shall have positive balance at all times, but not in excess of K1,000.00.
- 3.4 **Quotation of Exchange Rates** - The authorised Foreign Exchange Dealer must have available and on display and issue to clients on demand the buy and sell exchange rates, including any other transaction charges, at all times during business hours.
- 3.5 **Reporting Requirements of Central Bank** - An authorized dealer should comply with the reporting requirements in accordance with the prudential standards and the Exchange Control Regulations of the Central Bank.
- 3.6 **Revocation of License** - Failure to comply with the prudential and compliance requirements, the Act, the BFIA, the Central Banking Regulation, and Foreign Exchange Controls may constitute a breach and result in the revocation of the Foreign Exchange Dealer license.

**3.7 Licence Fee** - The authorized Foreign Exchange Dealer must pay an annual licence fee of K20,000.00. This fee constitutes licensing fee of K5,000 for Foreign Exchange Dealing and K15,000 for non-bank financial institution.

#### **4. DEFINITIONS**

**Application Fee** means the Foreign Exchange Dealer application fee of K5,000.00.

**Authorised Dealer** means a bank or a licensed financial institution as defined by the BFIA which has been licensed as a Foreign Exchange Dealer, for the purpose of any provisions of Part II or for any class of transactions subject to any such provision of the Central Banking Regulation.

**BFIA** means the Banks and Financial Institutions Act (2000).

**Central Banking Regulation** means the Central Banking (Foreign Exchange and Gold) Regulation.

**Clearing Account** means the Kina account established at the Central Bank for settling foreign exchange transactions.

**Correspondent Bank** means a foreign bank having banking relationship arrangement with a resident Authorised Dealer in dealing with foreign exchange transactions.

**Foreign Exchange Controls** means the controls in operation from time to time under the Central Banking Regulation.

**Foreign Exchange Dealer** means a licensed dealer of foreign exchange.

**Foreign Exchange Market** means the Interbank Foreign Exchange Market and Inhouse Foreign Exchange Market.

**Inhouse Foreign Exchange Market** means market where a Foreign Exchange Dealer settles a foreign exchange deal with an importer and exporter without the involvement of other Dealers in the foreign exchange market.

**Interbank Foreign Exchange Market** means the market where the licensed Foreign Exchange Dealers deal in foreign exchange with the Central Bank, or amongst themselves.

**Licensing Requirements** means the requirements set out under part 2 of this document.

**Management** means the chief executive officer (CEO), the chief financial officer (CFO) and other senior officers occupying management positions of a Foreign Exchange Dealer.

**Non-Bank Financial Institution** means a financial institution authorized by the Central Bank under the Banks and Financial Institution Act 2000.

**Nostro Account** means an account opened and operated by a resident Authorised Dealer with a foreign bank under a banking relationship arrangement.

**Operating Requirements** means the requirements set out under part 3 of this document.

**Prudential Standards** means any guidelines issued under the BFIA by the Central Bank from time to time.

**The Act** means the Central Banking Act (2000).

**The Central Bank** means the Bank of Papua New Guinea established under the Act.

Bank of Papua New Guinea

01<sup>st</sup> June 2007



## BANK OF PAPUA NEW GUINEA

### FOREIGN EXCHANGE DEALER LICENCE APPLICATION

This is intended to assist the applicant in preparing and submitting a complete application, in the form and detail set out under the **“LICENSING REQUIREMENTS”** (Part 2) of the REQUIREMENTS FOR FOREIGN EXCHANGE DEALER LICENCE<sup>1</sup>. The Checklist is not a substitute for the requirements of the BFIA<sup>2</sup>. Place tick in space (\_\_\_) alongside each item.

#### 1. Foreign Exchange Business Plan (Part 2.1)

- (\_\_\_) Full details of foreign exchange business plan, including the business model
- (\_\_\_) Full details of currencies to be transacted
- (\_\_\_) Organisational structure, incorporating the foreign exchange business
- (\_\_\_) Management structure, incorporating foreign exchange business management structure
- (\_\_\_) Chart showing clearly the separation of trading, settlement and information and accounting systems of foreign exchange business

#### 2. Information and Accounting Systems (Part 2.2)

- (\_\_\_) Policy showing sufficient details on the types of information and accounting systems to be adopted

#### 3. Correspondent Banks (Parts 2.3)

- (\_\_\_) Names of foreign correspondent banks
- (\_\_\_) Copies of agreements entered into and full details of trading arrangements with foreign correspondent banks
- (\_\_\_) Documentary evidence on the establishment of nostro accounts

#### 4. Other

- (\_\_\_) Application Fee (Part 2.4)
- (\_\_\_) Complete FORM-FEL 3 (Part 2)
- (\_\_\_) Complete FORM-FEL 2 (Part 2.6)
- (\_\_\_) Complete FORM-FEL 1

<sup>1</sup> Additional information may be submitted (or requested) where appropriate to clarify or supplement the requested information.

<sup>2</sup> BFIA means the Banks and Financial Institutions Act (2000).



**BANK OF PAPUA NEW GUINEA**

**APPLICATION FOR AN AUTHORISED FOREIGN EXCHANGE DEALER LICENCE, UNDER SECTION 80 OF THE CENTRAL BANKING ACT (2000) AND PART II OF THE CENTRAL BANKING (FOREIGN EXCHANGE AND GOLD) REGULATION**

Application Date: \_\_\_\_\_

Name of Applicant:

Operating Location of Applicant's Head Office:

Postal Address of Applicant:

**Contact Information:**

Name:

Position or Title:

Postal Address:

Telephone/Fax:

E-mail:



**BANK OF PAPUA NEW GUINEA**

**DECLARATION  
IN RESPECT OF APPLICATION TO DEAL IN FOREIGN EXCHANGE**

I/We, the undersigned acting for-and-on behalf of the applicant do hereby certify that:

*All the information and documentation provided as per the **CHECKLIST** in support of this application is true and correct in all respects to the best of my knowledge.*

**Name and Signatures:**

\_\_\_\_\_  
Name of applicant's Director 1

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Name of applicant's Director 2

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Name of applicant's Director 3

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Name of applicant's Director 4

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Name of Chief Executive Officer

\_\_\_\_\_  
Signature

Date: \_\_\_\_\_