

PRUDENTIAL REGULATION

REGULATION ON FOREIGN CURRENCY EXPOSURE LIMITS

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PART I: PRELIMINARY

1: Introduction – This Regulation is issued pursuant to Section 66 of Law No. 24/2010 (Maldives Banking Act).

2: Title - This Regulation shall be cited as "Regulation on Foreign Currency Exposure Limits."

3: Application – This Regulation applies to all Banks licensed under the Maldives Banking Act (Law no. 24/2010).

4: Commencement – This Regulation shall come into effect on 25 August 2015.

5: Definitions – The terms and expressions used in this Regulation shall, except where expressly defined below in this Regulation or where the context otherwise requires, have the same respective meaning as in the Maldives Banking Act (Law no. 24/2010):

(1) "**Act**" – means the Maldives Banking Act (Law no. 24/2010).

(2) "**bank**" – means a party holding a license or permit under the Act, to engage in the banking business; all or part of the banking activities listed in Section 25 of the Act.

(3) "**capital base**" – means Capital Base defined in the Capital Adequacy Regulation issued by the MMA.

(4) "**foreign currency exposure**" - means the domestic currency equivalent sum, currency by currency, of all net foreign currency denominated assets or liabilities, whether on or off-balance sheet, unless prior permission has been given, in writing, by the MMA for exclusion.

(5) "**intra-day foreign currency exposure**" - means the foreign exchange risk exposure, in either a single currency or as the sum of all currencies, which a bank incurs between the opening and close of business on the same day.

(6) "**MMA**" – means the Maldives Monetary Authority established under the Law no. 6/81 (Maldives Monetary Authority Act).

(7) "**overall foreign currency exposure**" - means the sum of all net on-balance sheet and off-balance sheet assets or liabilities denominated in foreign currencies, expressed as a domestic currency equivalent amount at the spot mid-rate and using the shorthand method for measurement.

(8) “**single currency exposure**” - means the larger of a long position (assets) or short position (liabilities), both on and off-balance sheet, denominated in a single foreign currency and expressed as a domestic currency equivalent amount at the spot mid-rate.

(9) “**shorthand method**” - means the procedure for measuring the foreign currency exposure by: (1) adding separately all short positions on one side and all long positions on the other side; (2) comparing the two totals; and (3) taking the larger of the two totals as the overall exposure.

(10) “**spot mid-rate**” - means that rate, expressed as a factor of the domestic currency equivalent, at which a foreign currency is converted to domestic currency equivalent.

PART II: STATEMENT OF POLICY

1. **Purpose** - The purpose of this regulation is to: 1) ensure that the risk of loss resulting from foreign currency exposures is within prudential limits relative to a bank's capital base; 2) promote maximum availability within the domestic market of foreign exchange at competitive rates; and 3) allow banks to conduct business profitably yet prudently.
2. **Responsibility** - It shall be the responsibility of the board of directors of each bank to establish a system for monitoring and managing its foreign currency exposures prudently and in compliance with the limits set forth in this Regulation.

PART III: IMPLEMENTATION AND SPECIFIC REQUIREMENTS

1. **Limit on overall foreign currency exposure** - The overall foreign currency exposure (short and long currency positions) for all currencies and on-balance sheet and off-balance sheet combined, using spot mid-rates and the shorthand method shall not exceed 40% of a bank's capital base.
2. **Limit on single currency exposure** - the foreign exchange risk exposure in any single currency, shall not exceed 25% of a bank's capital base for a long position, and 15% of a bank's capital base for a short position.
3. **Limit on intra-day foreign currency exposure** - intra-day foreign exchange risk exposures, both in single currencies and overall, shall be monitored and maintained within prudent limits as established by a bank's board of directors in a written policy covering foreign exchange risk exposure.

4. **Global limits** - The single currency and overall foreign currency exposure limits indicated above apply on a “global” basis, i.e., a bank may have different internal limits for its different branches and subsidiaries; however, the limits set forth in this regulation apply on a global basis to the bank as a consolidated entity basis.
5. **Exemptions** - If, in the normal course of business, a bank anticipates that it will exceed either of the single currency or the overall limit, or if either limit is exceeded due to circumstances beyond the bank’s reasonable ability to anticipate and control, then the bank may apply, in writing, to the MMA for a temporary exemption stating the reason/s for the excess position and indicating how and when the excess position will be corrected.
6. **Calculation of foreign currency exposures** - Each bank shall calculate its single currency exposure and its overall foreign currency exposure each day using the methodology prescribed by the MMA.
7. **Correction of excess foreign currency exposures** - Each bank shall take every reasonable action to immediately correct any and all foreign currency exposures which exceed the limits set forth in this prudential standard and in its board-adopted policy. Failure to correct any non-complying risk exposure, other than one which has been exempted under paragraph 5 above, by the close of business on the following day may result in the imposition of conditions on a bank’s license as set forth below.
8. **Maintenance of supporting documentation** - Each bank shall maintain records which are sufficient to determine at all times its single currency and overall foreign exchange risk exposures. Each bank shall also maintain a daily record showing close-of-business foreign exchange risk exposures (both single currencies and overall) and a reconciliation of opening-to-closing positions.
9. **Reporting Requirements.** Each bank shall submit to the MMA returns in respect of its foreign currency exposures in the form and frequency as the MMA may prescribe.

PART IV: CORRECTIVE MEASURES

- 1: **Remedial measures and sanctions** – If a bank, its administrators, or any other person associated with the bank violates any provision of this regulation, or fails to comply with the instructions and reporting requirements in this regulation, the MMA may take any one or more of the corrective measures or impose any administrative penalties as provided in the Act. Such measures and penalties may include, any or all of the following –

- (a) Issue a warning to the bank;
- (b) Enter into an informal agreement with the bank for correcting violations and any unsafe and unsound practices and conditions;
- (c) Issue an order to the bank requiring it to cease and desist from particular actions and further to take affirmative actions to correct violations and any unsafe & unsound practices and conditions;
- (d) Require the board of directors to inject additional capital funds;
- (e) Restrict the scope of activities of the bank including imposing limitations on any foreign exchange activities, granting of credit, making of investments, acceptance of deposits, borrowing of money, or other activities as the MMA may deem appropriate;
- (f) Suspend access to the credit facilities of the MMA;
- (g) Require the suspension or removal of any directors or executive officers;
- (h) Appoint an advisor or a conservator;
- (i) Impose an administrative penalty on the bank or any of its directors, executive officers or managers; or
- (j) Hold personally liable and seek restitution from, as the law allows, any directors, executive officers or major shareholders of the bank; or
- (k) Suspend or revoke the bank's license.

Questions relating to this regulation should be addressed to the Head of Financial Stability, Maldives Monetary Authority.

