



CENTRAL BANK OF SOLOMON ISLANDS BILL 2012

(NO. 7 OF 2012)



CENTRAL BANK OF SOLOMON ISLANDS BILL 2012
(NO. 7 OF 2012)

A

BILL

Entitled

AN ACT TO PROVIDE PROVISIONS IN LINE WITH CURRENT INTERNATIONAL BEST PRACTICES RELATING TO CENTRAL BANKING. THE CURRENT CENTRAL BANK TO CONTINUE UNDER THE NEW LEGISLATIVE CHANGES INCORPORATED UNDER THIS ACT; THE CENTRAL BANK OF SOLOMON ISLANDS ACT (CAP 49) TO BE REPEALED; THE ACT FURTHER PROVIDES FOR NEW DUTIES AND POWERS OF THE CENTRAL BANK AND FOR OTHER MATTERS CONNECTED THEREWITH OR INCIDENTALTHERETO.

ENACTED by the National Parliament of Solomon Islands.

ARRANGEMENT OF CLAUSES

PART 1 – PRELIMINARY

1. Short title and commencement
2. Interpretation

PART 2 – ESTABLISHMENT, OBJECTIVES AND FUNCTIONS

3. Establishment
4. Seal
5. Location
6. Capital
7. Autonomy
8. Objectives
9. Functions

PART 3 – MONETARY AND OTHER OPERATIONS

10. Opening of accounts
11. Custodial facilities
12. Open market and credit operations
13. Minimum reserves
14. Other instruments of monetary control
15. Lender of last resort

PART 4 – FOREIGN EXCHANGE MATTERS AND INTERNATIONAL RESERVES

16. Foreign exchange matters
17. International reserves portfolio

PART 5 – CURRENCY AND LEGAL TENDER

18. Currency
19. Issuance of currency and legal tender
20. Exchange of currency
21. Unfit currency
22. Redemption of currency
23. Currency reserve inventory and issue plan
24. Counterfeit currency
25. Sole right to issue

PART 6 – PAYMENT SYSTEM

26. Facilities
27. Licensing and oversight

PART 7 – SUPERVISION

28. Supervisory functions

PART 8 – CREDIT INFORMATION SYSTEM

29. Credit information system

PART 9 – STATISTICS AND INFORMATION

30. Statistics and information
31. Other publications

**PART 10 – RELATIONSHIP WITH PARLIAMENT,
GOVERNMENT AND STATE**

32. Accountability to Parliament
33. Banker, financial adviser and fiscal agent for Government
34. Depository and cashier for Government

- 35. Cooperation with the public administration
- 36. Prohibition on lending to the Government
- 37. Cabinet directions

PART 11 – GOVERNANCE AND ORGANISATION

- 38. Board and executive officers
- 39. Powers and functions of the Board
- 40. Powers and functions of the Governor
- 41. Appointment
- 42. Remuneration and allowances
- 43. Eligibility
- 44. Disqualification and removal
- 45. Resignation
- 46. Subsequent functions
- 47. Vacancy
- 48. Semi-permanent absence or inability to act
- 49. Meetings
- 50. Proceedings
- 51. General provisions for staff
- 52. Appointment of staff

PART 12 – FINANCIAL PROVISIONS

- 53. Reserve accounts
- 54. Profits, losses and distributable earnings
- 55. Allocation of distributable earnings
- 56. Coverage of shortfall in capital

- 57. Accounting standard
- 58. Annual financial statement and reports
- 59. Internal auditor
- 60. External auditor
- 61. Budget

PART 13 – MISCELLANEOUS

- 62. Regulations
- 63. Administrative penalties
- 64. Standards of good administration
- 65. Conflict of interest and fiduciary duty
- 66. Fees and charges
- 67. Prohibited activities
- 68. Immunity from taxation
- 69. Relationship with other laws
- 70. Confidentiality
- 71. Preferential right
- 72. Immunity from prejudgment attachment
- 73. Judicial review
- 74. Indemnification for legal costs
- 75. Repeal, transitional and saving

CENTRAL BANK OF SOLOMON ISLANDS BILL 2012

PART 1 – PRELIMINARY

Short title and
commencement

1. This Act may be cited as the Central Bank of Solomon Islands Act 2012, and commences on a date appointed by the Minister, by notice in the *Gazette*.

Interpretation

2. In this Act, unless the context otherwise requires –

“bank” means an entity as defined in the Financial Institutions Act 1998 for which the Bank is given supervisory authority by law;

“Board” means the Board of Directors of the Central Bank;

“Central Bank” means the Central Bank of Solomon Islands; referred to in section 3

“internal auditor” means the person appointed as such under section 59(1);

“currency” means the monetary unit of a country;

“Deputy Governor” means the person appointed as such under section 41(2);

“final judgment” means a judgment by a court against which there is no judicial remedy or a judgment by a court which the parties involved will not appeal;

“financial institutions” means entities such as banks, insurance companies, and other entities conducting financial activities, as defined in the Financial Institutions Act 1998, or any other relevant law, for which the Central Bank is given supervisory authority by law;

“Governor” means the person appointed as such under section 41(1);

“International Financial Reporting Standards” means the most recent international accounting standards issued by the International Accounting Standards Board;

“international reserves” means official foreign reserves and the State reserves of gold;

“International Standards on Auditing” means the most recent international auditing standards issued by the International Federation of Accountants;

“legal tender” means banknotes and coins which any creditor is obliged to accept in payment for a debt in Solomon Islands;

“monetary liabilities” means currency in circulation, financial claims issued by the Bank and deposits by non-government resident entities;

“non-executive member” means a person appointed as a director of the Board under section 41(3);

“public body” has the meaning ascribed thereto in the Interpretation and General Provisions Act (Cap 85) includes Parliament, a provincial assembly;

“regulations” means regulations issued by the Bank as referred to in section 62(1);

“repealed Act” means the Central Bank of Solomon Islands Act (Cap. 49);

“Secretary to the Board” means the Secretary to the Board appointed under section 50(5);

“staff” means management, officers and employees of the Bank;

“State” means the nation of Solomon Islands.

PART 2 – ESTABLISHMENT, OBJECTIVES AND FUNCTIONS

3. (1) Central Bank of Solomon Islands established under section 3 of the repealed Act shall continue under this section, as a body corporate to which the provisions of Part VII of the Interpretation and General Provisions Act (Cap 85) applies.

Establishment

(2) The Central Bank shall be entrusted with all the powers necessary to achieve the objectives and to implement the functions and duties set out in this Act.

4. (1) All deeds, documents and other instruments required to be sealed with the common seal of the Central Bank shall be sealed therewith in the presence of the Governor and of the Secretary to the Board

Seal

or some other person authorised by the Bank to act in that behalf (“signatories”).

(2) The signatories shall sign any deed, document or other instrument to which the common seal is affixed.

(3) The signatures of the signatories shall be sufficient evidence that the common seal was duly and properly affixed and that it is the lawful common seal of the Central Bank.

(4) Service of any document upon the Central Bank shall be deemed to be effected by delivering the same or by sending it by registered post to the Secretary to the Board.

Location

5. (1) The head office of the Central Bank shall be in Honiara.

(2) The Central Bank may establish branches, representative offices, and operational facilities at such places in Solomon Islands or abroad as it may deem necessary.

Capital

6. (1) The authorised capital of the Central Bank, fully subscribed and paid-up, shall be an amount equivalent to fifty million (50,000,000) dollars.

(2) The authorised capital stock of the Central Bank shall be held solely by the State and shall not be transferable or subject to encumbrance.

(3) The Governor-General may, by order published in the Gazette, increase the authorised capital of the Central Bank on a recommendation from the Minister for Finance acting upon a proposal by the Central Bank.

(4) No reduction of the authorised capital shall be permitted at any time, except by an amendment to the Order referred to in subsection (3).

Autonomy

7. (1) In the pursuit of its objectives and the performance of its functions, the Central Bank shall be autonomous and accountable as provided for in this Act.

(2) Except as otherwise specified in this Act, the Central Bank, the members of the Board or the staff, shall not seek or take instructions from any other person, including public bodies. The autonomy of the Central Bank shall be respected at all times.

(3) For the purposes of subsection (2), no person shall seek to unduly influence the members of the decision-making bodies or the staff of the Central Bank in the performance of their functions or to interfere in the activities of it.

8. (1) The primary objective of the Central Bank shall be to achieve and to maintain domestic price stability. Objectives

(2) An additional objective of the Central Bank, which shall be subordinated to the primary objective, shall be to foster and to maintain a stable financial system.

(3) Without prejudice to attainment of these two objectives, the Central Bank shall support the general economic policies of the Government.

9. In carrying out its objective under this Act, the functions of the Central Bank are – Functions

- (a) to determine and implement monetary policy;
- (b) to contribute to determining the exchange rate regime under section 16;
- (c) to determine and implement exchange rate policy;
- (d) to hold and manage the international reserves;
- (e) to regulate the international exchange of money as further specified in this Act or any other law;
- (f) to issue, regulate and manage the currency of Solomon Islands;
- (g) to collect and produce statistics;
- (h) to inform the Parliament, Government and the public about its policies, functions and operations as further specified in this Act;
- (i) to promote a safe, sound and efficient payment system;
- (j) to regulate, licence, register and supervise financial institutions as further specified in this Act or any other law;

- (k) to act as banker, financial adviser and fiscal agent to the Government and to any other public bodies and organisations of Solomon Islands;
- (l) to cooperate with and participate in international bodies and organisations concerning matters that are within its fields of competence; and
- (m) to ensure that financial institutions establish within their organization consumer complaints units;
- (n) to promote financial inclusion and related activities; and
- (o) to carry out any ancillary activities incidental to carrying out its functions under this Act or any other law.

PART 3 – MONETARY AND OTHER OPERATIONS

Opening of
accounts

10. (1) In order to conduct its operations and financial activities, the Central Bank may open and maintain cash and securities accounts on its books for –

- (a) banks and other financial institutions, and public bodies; and
 - (b) foreign banks, central banks; international financial institutions and, where appropriate, foreign governments, international organisations and donor organisations.
- (2) Without prejudice to the provisions of subsection (1) and section 11, the Central Bank shall not open accounts on its books for natural persons or private enterprises.
- (3) The Central Bank may –
- (a) prescribe the conditions for opening accounts in its books; and
 - (b) open and maintain cash and security accounts on the books of –
 - (i) banks and other financial institutions;
 - (ii) foreign banks, central banks, international financial institutions,

depositories and international organisations.

11. The Central Bank may –

Custodial facilities

- (a) provide, upon payment of reasonable fees to cover its costs, custodial facilities to financial institutions, public bodies and to the public at large for banknotes and coins, denominated in currencies that it designates, and for securities; and
- (b) prescribe the conditions for providing custodial facilities.

12. (1) In order to achieve its objectives and to carry out its functions, the Central Bank may –

Open market and credit operations

- (a) operate in the financial markets in Solomon Islands or abroad by buying and selling outright (spot or forward) or under repurchase agreement, and by lending or borrowing claims and marketable instruments, as well as precious metals; and
 - (b) conduct credit operations with banks operating in Solomon Islands, with lending based on adequate collateral.
- (2) The Board shall –**
- (a) determine the types of instruments and activities to be used for open market and credit operations; and
 - (b) publicly announce by publication in a daily newspaper conditions under which the Central Bank stands ready to enter into such transactions.

13. (1) The Central Bank may require banks to hold minimum reserves on deposit accounts with it in pursuance of its monetary policy objectives.

Minimum reserves

- (2) The reserves required under subsection (1) shall be the same for all banks for each category of liabilities and may be remunerated.
- (3) The Board shall, by regulation –

- (a) establish the method for calculating the minimum reserves required to be maintained under subsection (1); and
- (b) if a requirement of paragraph (a) is not complied with, be entitled to levy penalty interest or to impose administrative penalties under section 63(2), with comparable effect.

Other instruments
of monetary control

14. Subject to the provisions of section 8 the Board, acting by the unanimity of all its members, may decide upon the use of such other operational methods of monetary control as it sees fit.

Lender of last resort

15. (1) In exceptional circumstances, the Central Bank may, on such terms and conditions as it determines, act as lender of last resort for a bank.

(2) The support under subsection (1) may be provided by granting financial assistance to the bank, or for the bank's benefit, for periods not exceeding 90 calendar days that may be renewed by the Central Bank on the basis of a programme specifying the remedial measures that the bank concerned will be taking.

(3) No commitment shall be made by the Central Bank under subsection (2) unless –

- (a) the bank, in the opinion of the Central Bank, is solvent and can provide adequate collateral to support the loan, and the request for financial assistance is based on the need to improve liquidity; or
- (b) such assistance is necessary to preserve the stability of the financial system and the Minister for Finance has issued to the Central Bank a guarantee in writing on behalf of the Government securing the repayment of the loan.

(4) The Board shall –

- (a) determine the maximum loan value of the collateral deposited to secure each of the credit operations under subsections (1) and (2); and

- (b) take appropriate measures, if it discovers that the assisted bank did not implement the remedial measures under this section, or that these measures did not achieve the results intended.

(5) In all cases the loans and credit facilities granted under this section shall be repaid within 180 calendar days.

PART 4 – FOREIGN EXCHANGE MATTERS AND INTERNATIONAL RESERVES

16. Without limiting the Bank's primary objective to achieve and maintain domestic price stability under section 8(1) –

Foreign exchange
matters

- (a) the Government may, after consulting the Bank, determine the exchange rate regime; and
- (b) the Central Bank may, after consulting the Minister for Finance, determine and implement the exchange rate policy and enter into foreign exchange arrangements.

17. (1) The Central Bank shall conduct transactions in international reserves and manage such reserves consistent with international best practices and subject to its primary objective to achieve and to maintain domestic price stability, respecting the safety, liquidity and yield, in that order of priority.

International
reserves portfolio

(2) The Central Bank may hold in its portfolio of international reserves any or all of the following assets –

- (a) gold held by or for the account of the Central Bank, including credit balances representing such gold;
- (b) banknotes and coins denominated in freely convertible foreign currencies held by or for the account of the Central Bank;
- (c) credit balances and interbank deposits that are payable on demand or within a short term denominated in freely convertible foreign currencies and are held in accounts of the Central Bank, on the books of foreign central banks or international financial institutions;

- (d) readily-marketable debt securities denominated in freely convertible foreign currencies issued by, or supported by, the full faith and credit of foreign governments, foreign central banks or foreign financial institutions;
- (e) claims on international financial institutions resulting from repurchase agreements, sale and buy back transactions and securities lending agreements in the debt securities referred to in paragraph (d);
- (f) special drawing rights held in the account of Solomon Islands in the International Monetary Fund; and
- (g) the reserve position of Solomon Islands in the International Monetary Fund.

(3) In case international reserves decline to levels inadequate to ensure smooth international transactions, and the Central Bank is unable to remedy such decline, the Central Bank shall recommend a policy to the Minister for Finance to remedy the situation.

(4) The recommendation under subsection (3) shall be based on a report including the causes leading to the decline in reserves.

PART 5 – CURRENCY AND LEGAL TENDER

Currency

18. The currency of Solomon Islands shall be the Solomon Islands dollar which shall be divided into 100 cents.

Legal Tender

19. (1) Subject to the provisions of this subsection, currency issued by the Central Bank shall be legal tender in Solomon Islands.

(2) Only banknotes and coins issued by the Central Bank that have not been withdrawn from circulation shall be legal tender in Solomon Islands.

(3) The Central Bank shall, after consultation with the Minister for Finance, determine the face value, measures, weights, designs, security and other features of the banknotes and coins that are issued in Solomon Islands.

(4) The Central Bank shall be responsible for maintaining an appropriate supply of banknotes and coins in Solomon Islands.

(5) The Central Bank may, by regulations, limit the amounts of banknotes and coins that must be accepted as a legal tender in payment for an obligation and restrict the denominations of such banknotes and coins in which payment may be made to specified amounts or a range of amounts.

(6) The aggregate amount of circulating banknotes and coins issued by the Central Bank shall be noted in the financial statements of the Central Bank as a liability, and the liability shall not include banknotes and coins in the currency reserve inventory held by, or on behalf of, the Central Bank.

20. Upon request, the Central Bank shall exchange, without charge or commission, banknotes and coins that are legal tender in Solomon Islands.

Exchange of
currency

21. (1) Unfit currency shall be withdrawn, destroyed, and replaced with banknotes or coins by the Central Bank.

Unfit currency

(2) The Bank may decline to exchange banknotes or coins if their designs are illegible, misshapen or perforated, or if more than forty percent of their surface area has been lost.

(3) The banknote or coin declined under subsection (2) shall be withdrawn and destroyed without indemnity to the owner, unless there is evidence satisfactory to the Central Bank that the missing portions have been totally destroyed, in which case the Central Bank may, in its sole and absolute discretion, grant compensation in whole or in part.

(4) The Central Bank shall not be required to provide any compensation for banknotes or coins that are lost, stolen or destroyed and may confiscate without compensation any banknotes that have been altered in their external appearance, including in particular banknotes that have been written on, drawn on, overprinted, stamped or perforated, or to which adhesive matter has been applied.

22. (1) The Central Bank may decide to redeem banknotes or coins by issuing, free of charge, other banknotes or coins in equivalent amounts.

Redemption of
currency

(2) A decision to redeem banknotes or coins under subsection (1) shall be issued by notice in the *Gazette*, by the Central Bank specifying the period during which the exchange shall take place and the locations and the time frame within which withdrawn banknotes or coins may be presented for redemption.

(3) At the end of the exchange period, or at any other time specified by the Central Bank, redeemed banknotes and coins shall cease to be legal tender.

(4) The Central Bank shall notify the public, by notice in the *Gazette*, of the banknotes and coins that are legal tender.

Currency reserve
inventory and issue
plan

23. The Central Bank shall create and administer a currency reserve inventory, issue plans, and ensure the availability of a regular supply of banknotes and coins, in order to meet the currency requirements of Solomon Islands.

Counterfeit
currency

24. (1) Banknotes and coins presented to financial institutions denominated in legal tender in Solomon Islands or abroad, which are suspected of being forgeries, whether presented at banks and financial institutions or at other entities authorised to carry out exchange operations, must be withdrawn from circulation and forthwith sent to the authorities appointed for this purpose by the Central Bank and in compliance with any other legislative provision.

(2) The Central Bank may issue written instructions to implement subsection (1).

(3) The Central Bank shall seize all notes presented to it which are suspected of being counterfeited, forged or changed in value, and shall draw up a writ with the identification of the notes, their bearer, and the Bank's grounds for suspicion.

(4) The writ in subsection (3) shall be forwarded to the competent law enforcement authorities for such investigation and further action as may be required.

(5) The Central Bank may call upon the resources of any other authorities for assistance in carrying out the purposes of this section.

Sole right to issue

25. (1) The Central Bank shall have the sole right of issuing currency notes and coins for, on behalf of and throughout Solomon Islands, and no other persons shall issue currency notes, bank notes or coins or any

documents or tokens payable to bearer on demand being documents or tokens having the appearance of currency notes or coins.

- (2) Any person who contravenes the provisions of this section shall be guilty of an offence and liable on conviction to a fine not exceeding fifty thousand penalty units or imprisonment of seven years.

PART 6 – PAYMENT SYSTEM

26. (1) The Central Bank may provide facilities, including intra-day credit, to payment, clearing and securities settlement systems, and their participants, to ensure the safety, soundness and efficiency of such systems.

Facilities

- (2) The Central Bank is authorised to organise, participate in and operate systems under subsection (1).

27. The Central Bank shall be exclusively responsible for the regulation, licensing, registration and oversight of payment, clearing and securities settlement systems, including the imposition of administrative penalties under section 63(2).

Licensing and oversight

PART 7 – SUPERVISION

28. (1) The Central Bank shall be exclusively responsible for the regulation, licensing, registration and supervision of banks and other financial institutions as further specified in the Financial Institutions Act 1998, or any other relevant law, including the imposition of administrative penalties under section 63(2).

Supervisory functions

- (2) The staff of the Central Bank may visit the offices of financial institutions to examine such accounts, books, documents and other records, to obtain such information from them, and to take such other action as the Bank deems necessary or advisable.

- (3) Financial institutions shall provide the Central Bank with information concerning their operations and financial conditions, as it may require.

- (4) The Central Bank may disclose information and data obtained under subsection (3) in whole or in part in aggregate form for classes of financial institutions determined in accordance with the nature of their business, or in accordance with section 70(2).

PART 8 – CREDIT INFORMATION SYSTEM

Credit information
system

29. (1) The Central Bank may operate, regulate, licence, register and supervise credit information systems to collect and disseminate credit information among financial institutions and may issue regulations to effect its implementation.

(2) The information collected and maintained in credit information systems under subsection (1) shall only be used for the purpose of improving the quality of bank credit.

PART 9 – STATISTICS AND INFORMATION

Statistics and
information

30. (1) In carrying out its objectives under this Act, the Central Bank shall –

- (a) collect, compile, analyze, abstract and publish statistics and information relevant to the carrying out of its functions;
- (b) prescribe the statistical information so required and the form in which such information is to be provided to the Central Bank, the persons subject to reporting requirements, the applicable confidentiality regime and the administrative penalties under section 63(2), that may be imposed on the persons operating in breach of the statistical requirements;
- (c) collaborate with governmental departments and agencies in the collection, compilation, and publication of statistics and other relevant information; and
- (d) coordinate with bilateral and multilateral agencies in the adoption of international data dissemination standards with the aim of achieving consistency and efficiency in the organisation of statistics and information.

(2) A person referred to in subsection (1)(b) shall provide the requested information to the Central Bank.

(3) The Central Bank shall disclose –

- (a) statistics and information subject to the confidentiality regime as mentioned under subsection (1)(b);
- (b) documentation on the methodology applied to its compilation; and
- (c) relevant statistical data and concepts that will allow external verification of the statistics produced by the Central Bank to be made.

31. (1) The Central Bank shall at a minimum twice a year and at such additional times as may be necessary inform the Parliament and the public regarding the conduct of its monetary policy, the achievement of its objectives and its views regarding the real variables of the economy.

Other publications

(2) The Central Bank shall, within 4 months after the close of its financial year, submit to the Parliament and the Minister for Finance and publish one or more reports, approved by the Board, on the state of the economy during the financial year that just ended, including an outlook for the economy for the coming year, with emphasis on its policy objectives and the condition of the financial system of Solomon Islands.

(3) Any report under subsection (2) shall include a review and assessment of the Central Bank's policies followed in the last financial year and a description and explanation of the Central Bank's policies to be followed during the next financial year.

(4) The Central Bank shall, on a quarterly basis, publish reports on monetary policy and, on an annual basis, publish a report on financial stability that provide information on developments in the current year.

PART 10 – RELATIONSHIP WITH PARLIAMENT, GOVERNMENT AND STATE

32. The Governor may, subject to the provisions of section 7, at the request of the Parliament or on his own initiative, periodically be heard by the Parliament or its committees, concerning monetary policy, financial system issues and the state of the economy.

Accountability to Parliament

33. (1) The Central Bank shall act as banker and as financial adviser to the Government.

Banker, financial adviser and fiscal agent for Government

- (2) The Central Bank may carry out the following –
- (a) for and on behalf of the Government, receive foreign borrowings, manage and administer such debts, and settle claims and financial liabilities of the State to external parties;
 - (b) on such terms and conditions as it shall agree with the Government, act as fiscal agent for the account of the Government or for such other public body as the Government may determine;
 - (c) operate a registry for securities issued by the State.

Depository and
cashier for
Government

34. The Central Bank –

- (a) may accept deposits in any currency from, or on behalf of, the Government or from any other public agency;
- (b) shall, as depository, receive and disburse moneys and keep account thereof and provide other financial services related thereto;
- (c) shall pay to the limits of the deposited amounts against payment orders concerning such accounts; and
- (d) may pay interest on such deposits at market-related rates.

Cooperation with
the public
administration

35. (1) Subject to the provisions of section 7, and in pursuit of its objectives and functions pursuant to section 8, the Central Bank shall –

- (a) cooperate with the Government and any other public body; and
- (b) hold regular meetings with the Ministry of Finance on monetary and fiscal policies and other matters of common interest.

(2) The Central Bank and the Ministry of Finance shall keep each other fully informed of all matters that affect the Bank and the Ministry jointly.

(3) The Central Bank may render advice to the Government on any matter which, in its opinion, is likely to affect the attainment of the objectives of the Bank.

(4) The Central Bank shall, on request of the Minister for Finance, provide the Government with information regarding the functions of the Central Bank; specific information relating to supervised entities may be provided subject to such strictures to preserve confidentiality as it may deem appropriate.

(5) The Central Bank shall, on request of the Minister for Finance, provide the Government with pertinent data on the receipt by it of funds from any source.

(6) The Minister for Finance shall, on request of the Bank, provide the Central Bank with such information and documents as it may request for the purpose of carrying out its functions.

(7) The Central Bank shall be consulted by the Minister for Finance on any draft laws concerning matters that relate to the objectives of the Central Bank, or that otherwise are within its fields of competence, before such laws are submitted to the Parliament. The Central Bank may comment or make submissions on such draft laws.

36. (1) The Central Bank shall not grant any direct or indirect credits to the Government or to any other public body, with the exception of intra-day credits to secure the smooth functioning of the payment system.

Prohibition of
lending to the
Government

(2) Any intra-day credits shall –

(a) be guaranteed by negotiable Government securities; and

(b) be fully repaid before the end of the same day.

(3) The restrictions under subsections (1) and (2) regarding any direct or indirect credits to Government, shall not apply to publicly-owned banks and other financial institutions, which shall be given the same treatment as privately-owned banks and other financial institutions.

(4) The Central Bank may purchase government securities provided that such purchases are only made in the secondary market.

(5) Notwithstanding subsections (2) to (3), the Central Bank may grant temporary advances to the Government for periods not exceeding 90 calendar days provided that such advances are granted on market-related interest rates prevailing in Solomon Islands.

(6) The total outstanding advances, credit facilities or guarantees of the Central Bank to the Government shall not exceed 5% of the annual average of the Government ordinary revenue for the three financial years immediately preceding for which accounts are available.

(7) The Central Bank is prohibited to grant any advances beyond the conditions referred to in subsections (5) and (6).

(8) For the purposes of this subsection –

- (a) the ordinary revenue of the Government shall include revenues from taxes, levies, duties and fees, rents, profits and income from any investment or undertaking by the Government and any contribution to the revenue of the Government from any statutory corporation or State Owned Enterprises, but shall not include loans, grants other forms of economic aid or capital raised; and
- (b) the average of the annual ordinary revenue shall mean the average of the annual ordinary revenues for three financial years immediately preceding for which accounts are available.

Cabinet directions

37. The Minister for Finance –

- (a) may, with the approval of Cabinet, give the Central Bank in writing such directions where the Minister is of the opinion that coordination of monetary and fiscal policies or public interest requires to do so; and
- (b) shall cause to be published the approved directions in the Gazette and laid before Parliament at the next sitting of Parliament.

PART 11 – GOVERNANCE AND ORGANISATION

38. (1) The operations and governance of the Central Bank shall be conducted and managed in accordance with this Act by the Board of Directors consisting of—

Board and
executive officers

- (a) the Governor, as Chairperson;
 - (b) the Deputy Governor;
 - (c) the Permanent Secretary, Ministry of Finance; and
 - (d) four non-executive members.
- (2) The Board shall be charged with the formulation and the supervision of the implementation of the policies, and the supervision of the administration and the operations of the Central Bank.
- (3) The Governor shall serve as the chief executive of the Central Bank in charge of the day-to-day operations of the Central Bank.
- (4) The Deputy Governor shall assist the Governor in conducting the day-to-day operations of the Central Bank.

39. Subject to sections 8, 9 and 38 and any other provision of this Act, the powers and functions of the Board are —

Powers and
functions of the
Board

- (a) to define and adopt the monetary policy of the Central Bank including, as appropriate, decisions relating to intermediate monetary objectives, interest rates and the supply of reserves in Solomon Islands, and to adopt internal rules for their implementation;
- (b) to define and adopt the Central Bank's opinion on the exchange rate regime within the procedure referred to in section 16;
- (c) to define and adopt the other policies of the Central Bank regarding the execution of its functions, and to adopt, as appropriate, internal rules for their implementation;
- (d) to supervise the implementation of the policies and the execution of the functions of the Central Bank;

- (e) to define and adopt the general policies and to adopt internal rules applicable to the administration and operations of the Bank;
- (f) to determine the organisational structure of the Central Bank, including the establishment and location of branches, representative offices, and operational facilities;
- (g) to determine the general terms and conditions of employment of the employees, including allowances and other benefits;
- (h) to approve the annual budget and work programme of the Central Bank;
- (i) to define and adopt the accounting policies of the Central Bank and approve the annual report and other formal reports and financial statements of the Central Bank;
- (j) to appoint the external auditors of the Central Bank;
- (k) to decide whether the Central Bank should take on debt in material amounts, and if so, the terms and conditions of such debt;
- (l) to determine the categories of assets that shall constitute the international reserves of Solomon Islands
- (m) to determine the categories of assets that shall be suitable for investment of the Central Bank's financial resources;
- (n) determine the issuance or non-issuance of licences for payment, clearing and securities settlement systems;
- (o) to determine the issuance or non-issuance of licences and permits for financial institutions, and to revoke licences and permits of these institutions;
- (p) to determine the denominations and design of banknotes and, coins as well as matters relating to their issuance and handling;

- (q) to establish one or more advisory bodies, determine their terms and conditions of appointment of their members, and determine the terms of reference of such bodies;
- (r) to establish one or more committees consisting of members of the Board or other persons, and to determine their responsibilities;
- (s) to assess risks and formulate contingency plans for the ongoing operations and security of the Central Bank;
- (t) to adopt the rules of procedure for the Board;
- (u) to determine the Central Bank's common seal;
- (v) to exercise all powers of the Central Bank that are not specifically reserved for the Governor; and
- (w) to perform any other powers and functions conferred under this Act.

40. (1) The Governor shall –

- (a) propose and implement the monetary and exchange rate policy of the Central Bank in accordance with the internal rules and decisions of the Board;
- (b) propose and implement the other policies of the Central Bank in accordance with the internal rules and decisions of the Board;
- (c) be responsible to the Board for the execution of its decisions and for the direction and control of the administration and operations of the Central Bank; and
- (d) report, at least 6 times each year, to the Board on the conduct of the Central Bank's operations and policies, on the soundness of the financial system, and on the state of the money, capital and foreign exchange markets, including all events and conditions that have or are expected to have a significant effect on the administration or operations of the Central Bank, on the

Powers and
functions of the
Governor

conduct of its policies, on the financial system, or on the above-mentioned markets.

- (2) The Governor may –
- (a) take all actions required or deemed advisable for the administration or operations of the Central Bank, including without limitation the procurement of goods and services, entering into contractual commitments on behalf of the Central Bank, appointing the staff and agents of the Central Bank, and generally representing the Central Bank;
 - (b) take enforcement measures, including instructing any bank or financial institution, or any regulated payment, clearing and securities settlement system, to take remedial actions; or by appointing a receiver for such entities; or by imposing administrative penalties, as provided by this Act, or by any other law or regulation; and
 - (c) within the rules adopted by the Board, delegate any of his or her powers or functions to other members of the Board or departmental managers.

Appointment

41. (1) The Governor shall be appointed by the Governor-General on the recommendation of Cabinet which shall be made in consultation with the Minister of Finance. The Minister of Finance shall prior to making such recommendation consult the Board.

(2) The Deputy Governor shall be appointed by the Minister with the approval of Cabinet from among persons nominated by the Governor after consultation with the Board.

(3) The other directors shall be appointed by the Minister after consultation with the Governor,

(4) The Governor and Deputy Governor shall be appointed for a term of 6 years, and other members of the Board shall be appointed for terms of 5 years; and are eligible for re-appointment.

Remuneration and allowances

42. (1) The remuneration received by members of the Board shall be fixed so as to reflect their professional or academic standing.

(2) The remuneration of the Governor and the Deputy Governor shall be stated in the instruments of their appointment and such terms and conditions shall not be altered to their disadvantage during their period of office and shall be disclosed in the report referred to in section 58(2)(b).

(3) A non-executive member or a member of any committee of the Board is entitled to sitting allowances set out in the member's letter of appointment.

43. (1) Persons eligible to serve on the Board shall be of recognised integrity and hold a university degree or have extensive professional or academic experience in the fields of economics, finance, banking, audit or legal matters.

Eligibility

(2) No person shall be eligible to serve on the Board if the person –

- (a) has been convicted of felony and sentenced to a term of imprisonment including a suspended sentence or a fine, or convicted of any other offence and sentenced to a term of imprisonment including a suspended sentence;
- (b) has been a debtor in a bankruptcy or insolvency proceeding;
- (c) has, on the grounds of personal misconduct, been disqualified or suspended by a competent authority from practising a profession or has been prohibited from being a director or officer of another organisation; or
- (d) has engaged in illegal activity or serious misconduct in office.

(3) The following persons are not eligible to be appointed to the Board –

- (a) a current member of the Parliament;
- (b) subject to 38(c) a public officer or a Government employee;

- (c) an officer or employee of a financial institution operating through offices in Solomon Islands; and
- (d) a beneficial owner of 5% or more of an equity interest in a financial institution.

Disqualification and removal

44. (1) The Governor, Deputy Governor or other member of the Board may be removed from office before the expiry of his or her term only on grounds of permanent incapacity or serious misconduct substantially prejudicing the interest of the Central Bank.

Provided the Governor or Deputy Governor shall not be removed on any such ground except on the recommendation of a tribunal appointed under subsection (2):

- (2) If the Governor-General considers that the question of removing the Governor or Deputy Governor ought to be investigated, he shall appoint a tribunal, which shall consist of a Chairman, who holds or has held high judicial office, and not less than two other persons, which shall inquire into the matter, after giving the Governor or Deputy Governor, as the case may be, reasonable opportunity of being heard, and recommend to the Governor-General whether the Governor or Deputy Governor ought not be removed from office.

Resignation

45. (1) The Governor and Deputy Governor may resign from office by giving at least 3 months' notice in writing to the Governor-General, or the Minister of Finance, as the case may be.

- (2) A non-executive member may resign from office by giving one month notice in writing to the Minister of Finance.

Subsequent functions

46. Former members of the Board shall not serve in a professional capacity in a bank or other financial institution in Solomon Islands for a period of one year immediately following their departure from the Central Bank, without obtaining the prior approval of the Board.

Vacancy

47. Any vacancy on the Board shall be filled within 60 calendar days by the appointment of a new member of the Board to serve the remaining term of the departed member.

Semi-permanent absence or inability to act

48. (1) If one or more members of the Board are absent or unable to act, the remaining members shall continue to be charged with the management of the Central Bank.

(2) If the Governor is absent or unable to act, the office of Governor shall be taken temporarily by the Deputy Governor, and if the Deputy Governor is absent or unable to act, by the then most senior serving, and available, non-executive member of the Board.

(3) If all members of the Board save one are absent or unable to act, the remaining member shall continue to be charged with the management of the Central Bank.

(4) For the purpose of subsection (3), the Minister for Finance may decide to appoint one or more persons to bear temporarily the responsibility for the Central Bank's management, the office of Governor being taken temporarily by the remaining member of the Board.

(5) If all members of the Board are absent or unable to act, the Permanent Secretary of the Ministry of Finance shall be charged temporarily with the management of the Bank.

(6) For the purpose of subsection (5), the Minister for Finance may decide to appoint two or more persons to bear temporarily the responsibility for the Central Bank's management.

(7) Any replacement under this section shall last for a period no longer than 6 months.

49. (1) The meetings of the Board shall be chaired by the Governor or, in his absence, by the Deputy Governor.

Meetings

(2) The Board shall meet as often as the business of the Central Bank may require but not less frequently than 6 times a calendar year.

(3) Meetings of the Board shall be convened by the Governor and may also be convened at the written request of any two members of the Board.

(4) Board meetings shall be convened by communicating the time, venue and agenda of the meeting to all members of the Board at least 7 working days before the date set for the meeting except in the event of an emergency, or by the mutual consent of all members when, in which case a meeting may be convened at shorter notice.

(5) A quorum for the conduct of business at any meeting of the Board shall consist of at least two-thirds of the

members of the Board, including at least one non-executive member and the Governor or, in his absence, the Deputy Governor.

(6) If a quorum is not present, the Governor may convene an extraordinary meeting at which decisions may be taken without regard to the existence of a quorum; such decisions must be ratified at the next regular meeting of the Board to remain in effect.

(7) Each member of the Board shall have one vote and in the event of a tied vote, the person chairing the meeting shall have a casting vote.

(8) Subject to this Act, a decision of the Board shall be adopted by a simple majority of the members present at the meeting.

(9) The rules of procedure of the Board may permit meetings and voting by teleconferencing or, in exceptional circumstances, by tested electronic means of communication.

(10) Subject to the quorum requirement of subsection (5), no act or proceeding of the Board shall be invalidated merely by reason of the existence of a vacancy or vacancies on the Board.

Proceedings

50. confidential.

(1) The proceedings of the meetings of the Board shall be

(2) The Board may decide to make the outcome of its deliberations on any matter public.

(3) The Board shall promptly publish its decisions made under section 39(a), (b) and (c).

(4) The minutes of each Board meeting shall be signed by the person chairing the meeting and the Secretary to the Board.

(5) The Board shall, acting on a proposal from the Governor, appoint a member of the Staff of the Bank as the Secretary to the Board.

General provisions
for staff

51. (1) Members of the staff shall devote the whole of their professional services to the Bank, and shall not hold other offices or employment, whether remunerated or not, except as nominee of the Central Bank or for educational and civic endeavors provided that these do not

conflict with the ability to serve the Central Bank, however, the Board may decide to limit or prohibit participation in such outside activities.

- (2) The Central Bank shall apply personnel policies that are non-discriminatory with regard to race, gender or religion, in the employment of staff.

52. The Governor shall appoint and terminate the employment of members of the staff, agents and correspondents of the Central Bank, within the limits of, and in accordance with, the general terms and conditions of employment adopted by the Board.

Appointment of staff

PART 12 – FINANCIAL PROVISIONS

53. (1) The Central Bank shall establish and maintain a general reserve account. The general reserve account may not be used except for the purposes of covering losses sustained by the Central Bank.

Reserve accounts

- (2) The Central Bank shall establish unrealized revaluation reserve accounts to account for unrealized gains and losses owing to its positions with foreign currencies, gold, financial instruments, and other assets.

- (3) The Central Bank may, after consultation with the Minister for Finance, establish special reserve accounts for specific anticipated expenditures.

54. (1) The net profits or losses of the Central Bank shall be determined in conformity with the International Financial Reporting Standards.

Profits, losses and distributable earnings

- (2) The earnings available for distribution under section 55 shall be determined as follows –

- (a) by deducting from the net profits the total amount of unrealized revaluation gains, and by allocating an equivalent amount to the respective unrealized revaluation reserve account; and
- (b) by deducting from the appropriate unrealized revaluation reserve account and adding to the distributable earnings as determined in paragraph (a) the amount of any unrealized profit that was deducted from the net profits for one or more previous years and was realized during the current financial year.

(3) Unrealized revaluation losses will be transferred to the respective unrealized revaluation reserve accounts until such time as these revaluation reserve accounts have a zero balance, after which these losses shall be covered by the current year's profit, then by the general reserve account and subsequently by capital.

Allocation of
distributable
earnings

55. (1) Within 4 months after the end of a financial year, the Board shall allocate the distributable earnings as follows –

- (a) an amount equivalent to 100 percent of distributable earnings shall be credited to the general reserve account until the general reserves equal 50 percent of the authorised capital;
- (b) as of the moment that the general reserves reach the level referred to in paragraph (a), an amount equivalent to 50 percent of distributable earnings shall be credited to the general reserve account until the general reserves equal 200 percent of the authorised capital;
- (c) a part of the remaining distributable earnings may, with the approval of the Minister for Finance, be credited to special reserve accounts that may be established by the Bank pursuant to section 53(3) until the balances in such reserve accounts reach such sums as the Board deems appropriate; and
- (d) any remaining distributable earnings shall be transferred to the Consolidated Fund.

(2) No distribution shall be made out of current income of the Central Bank except as permitted under subsection (1).

(3) If in any financial year the Central Bank incurs negative distributable earnings, these earnings shall first be charged to the general reserve account, and subsequently applied against authorised capital.

Coverage of
shortfall in capital

56. In the event that in the audited annual financial statements of the Bank, the value of its assets falls below the sum of its monetary liabilities and its unimpaired authorised capital, then –

- (a) the Board, with the advice of the external auditor of the Central Bank, shall assess the situation and prepare a report on the causes and extent of the shortfall and assess the situation within a period of no more than 30 calendar days;
- (b) if the Board approves the report under paragraph (a), the Central Bank shall request the Minister for Finance for a capital contribution to be made by the Government to remedy the deficit; and
- (c) upon receipt of this request the Government shall, within a period of no more than 30 calendar days, transfer to the Central Bank the necessary amount in currency or in negotiable debt instruments with a specified maturity issued at market-related interest rates prevailing in Solomon Islands.

57. (1) To the extent possible to achieve its objectives under section 8(1) and (2), the Central Bank shall maintain accounts and records in accordance with the International Financial Reporting Standards to reflect its operations and financial condition.

Accounting
standard

(2) The financial year of the Central Bank is from 1 January to 31 December.

(3) Notwithstanding subsection (1) and considering the substantial cost incurred in the printing and minting of currency notes and coins, the Central Bank will accumulate the cost incurred and amortize the cost as expense when the stocks are issued into circulation from time to time.

58. (1) The Central Bank shall prepare financial statements for its financial year.

Annual financial
statements and
reports

(2) Within 4 months after the close of each of its financial year, the Central Bank shall submit to the Minister for Finance and shall transmit copies to the Parliament, of –

- (a) financial statements, approved by the Board, signed by the Governor and certified by the external auditor; and
- (b) a report, approved by the Board, on the Central Bank's operations and affairs during the financial year that just ended, in particular in relation to its policy objectives

and the events that affected the economy of Solomon Islands.

(3) Upon their completion, the Central Bank shall publish the financial statements referred to in subsection (2)(a) and in the *Gazette* and on its website.

(4) The Central Bank shall, within 10 working days after the end of each calendar month, prepare and publish a *pro forma* balance sheet as of the end of that month.

(5) Copies of the balance sheets shall be transmitted to the Minister for Finance and published by the Central Bank in the *Gazette* and on its website.

Internal Auditor

59. (1) The Board shall, on the recommendation of the Governor, appoint an internal auditor of the Central Bank.

(2) The Internal Auditor shall be a person with extensive professional experience in the field of accounting or audit, and shall satisfy the eligibility criteria as specified under section 43 to be a member of the Board.

(3) The Board may remove Internal Auditor from office if the Internal Auditor does not satisfy the requirements of subsection 43(2).

(4) The Board shall define the scope, terms and conditions of the Internal Audit in the Audit Charter of the Central Bank.

External auditor

60. (1) The accounting records, and financial statements of the Central Bank shall, at least once a year, be audited in accordance with the International Standards on Auditing by the Auditor General or by an external audit firm appointed by the Board in consultation with the Auditor General. An independent external auditor so chosen shall be of good repute and have recognized international experience in the auditing of major international financial institutions.

(2) The Board shall notify the Minister for Finance of the external auditor appointed under subsection (1).

(3) The external auditor appointed in consultation with the Auditor General, shall be appointed for a consecutive period of not more than 5 years, after which the audit firm or the key audit partners shall be replaced.

(4) The Board may after consulting with the Auditor General dismiss the external auditor conducting the audit if they do not meet the International Auditing Standards or breach the terms of their contract.

(5) The Minister for Finance may at anytime and with reasonable cause, request a special audit of the Central Bank.

(6) In the event that such an audit is requested under subsection (5), the auditor's report shall be submitted to Parliament for its information.

(7) The Auditor General or the approved external auditor shall report to the Board on key matters arising from the audit and in particular on material weaknesses in internal controls relating to the financial reporting process.

61. (1) The Central Bank shall prepare its annual budget, which shall be approved by the Board, prior to the commencement of each financial year.

Budget

(2) The Board shall furnish to the Minister for Finance a copy of the approved budget.

(3) All revenue and income projected to be generated by the Central Bank or granted to the Central Bank from any source together with projected expenditures, including depreciation and provisions for losses, shall be reported in the annual budget.

PART 13 – MISCELLANEOUS

62. (1) The Central Bank may make regulations for the purposes or to give effect to the provisions of this Act.

Regulations and
Directions

(2) Subject to the provisions of this Part, the Central Bank may issue directions which shall be binding on the person to whom it is addressed.

(3) The Central Bank shall publish such regulations and directions.

(4) The Central Bank shall maintain a public register of its published regulations and directions, including publication on its website.

63. (1) The Central Bank may impose administrative penalties upon any person who contravenes a provision of this Act, or any other relevant law.

(2) Administrative penalties include money penalties and other administrative measures, such as written warnings or orders, revocation of licences and other measures, as specified in this Act, or in any other relevant law.

(3) Money penalties may be imposed, at the discretion of the Bank, in amounts that range up to amounts not exceeding ten thousand penalty units or one year imprisonment per breach or contravention, unless otherwise specified in any other relevant law.

(4) The money penalties may be imposed on a daily basis for each day that the violation continues but may not exceed one hundred penalty units until the Central Bank determines that compliance is achieved.

(5) The Central Bank shall –

- (a) before imposing administrative penalties, provide a detailed statement to the person against whom the penalty is to be imposed describing the facts and law supporting the existence of a violation; and
- (b) give such person a full opportunity to provide facts and arguments as to why the penalty should not be imposed.

(6) The Central Bank is not required to comply with the subsection (5) when assessing the penalties mentioned in sections 13(3), 28(1) and 30(1).

(7) The Central Bank shall issue a regulation setting forth the procedures it will use in connection with its imposition of administrative penalties.

(8) In determining whether to impose administrative penalties, and in determining the size of such penalties, the Central Bank shall take into consideration –

- (a) the severity of the violation;
- (b) whether it was recurring;

- (c) whether depositors or other persons were injured thereby;
- (d) whether the person against whom the penalty is to be imposed profited from the conduct at issue;
- (e) the financial resources of such person;
- (f) any mitigating factors; and
- (g) such other factors as, in its discretion, it believes to be relevant.

(9) The imposition by the Central Bank of administrative penalties under this section shall not bar the imposition of any civil or criminal accountability under the provisions of any law.

64. (1) The Central Bank shall use the powers given to it equitably and uniformly and in accordance with sound administrative practices.

Standards of good administration

(2) The Central Bank shall refrain from using any such power to serve an objective for which the power was not given or from using power in excess of that which is required to achieve the objective for which the power was given.

(3) The decisions of the Central Bank shall be –

- (a) impartial;
- (b) motivated only by objective and rational considerations; and
- (c) executed with fairness and restraint.

65. (1) Members of the Board and of the Central Bank's staff have a fiduciary duty to place the Central Bank's interests and its customers' interests before their own private or personal interest.

Conflict of interest and fiduciary duty

(2) Members of the Board and staff shall avoid any situation likely to give rise to a conflict of interest.

(3) A conflict of interest arises where members of the Board or staff have private or personal interests which may influence or appear to influence the impartial and objective performance of their duties.

(4) In this section, “private or personal interests” of members of the Board or staff means any potential advantage for themselves, their families, their other relatives up to the second degree, or their circle of friends and acquaintances.

(5) The Governor and the Deputy Governor –

- (a) shall perform their duties on a full-time basis;
- (b) shall not engage in any other occupation, whether gainful or not, except –
 - (i) for *ex officio* functions provided for by law; or
 - (ii) in exceptional cases, if approved by in the Board.

(6) No member of the Board or of the staff shall receive or accept from any source any benefits, rewards, remuneration or gifts in excess of a customary or negligible amount, whether financial or non-financial, which benefits, rewards, remuneration or gifts are connected in any way whatsoever to their activities within the Central Bank.

(7) A breach of subsection (6) by a member of the Board or of the staff shall, independently of the value given or received, constitute a serious misconduct.

(8) Where it concerns a member of the Board, such misconduct constitutes serious misconduct within the meaning of section 43(2)(d).

(9) Such misconduct, where it concerns a member of the staff, may, at the discretion of the Governor, constitute grounds for disciplinary measures, including dismissal without compensation.

(10) Members of the Board and of the staff shall not use confidential information to which they have access for the purpose of carrying out private financial transactions, whether directly or indirectly through third parties, or whether conducted at their own risk and for their own account, or at the risk and for the account of a third party.

(11) Members of the Board shall before the last day of January each year disclose in full to the Board significant

financial interests which the member or any person with whom the member has family, business, or financial connections may directly or indirectly possess and such disclosures shall comply with any internal rules adopted by the Board regarding such matters.

(12) Whenever any matter related to such interest is before the Board, the member concerned shall disclose his interest at the beginning of the discussion and shall not participate in the discussion and decision on such matter; however, his or her presence shall be counted for the purpose of constituting a quorum.

(13) The Board may establish internal rules to implement the requirements mentioned under this section.

66. The Central Bank may charge reasonable fees and charges for the services it provides to cover its costs and shall publish them on its website or in other media.

Fees and charges

67. (1) Except as otherwise specifically authorised by law, the Central Bank shall not –

Prohibited activities

- (a) grant any credit or make any significant monetary or financial gift;
- (b) engage in commerce, purchase the shares of any corporation, including the shares of any financial institution, or otherwise have an ownership interest in any financial, commercial, agricultural, industrial, or other undertaking; or
- (c) acquire by purchase, lease, or otherwise any rights in or to real property, except as it shall consider necessary or expedient for the provision of premises for the conduct of its administration and operations or similar requirements incidental to the performance of its functions.

(2) Notwithstanding subsection (1), the Central Bank may –

- (a) make adequately secured loans to, or have an ownership share or otherwise participate in, any organisation that is engaged in activities that are required or useful for the proper

discharge of the Central Bank's own functions and responsibilities;

- (b) acquire, in the course of satisfaction of debts due to it, any interests or rights referred to in this section; provided, however, that all such interests or rights so acquired shall be disposed of at the earliest suitable opportunity; and
- (c) establish staff retirement funds or similar arrangements for the benefit or protection of the staff.

(3) Any activity under subsection (2) shall be published by the Central Bank in the report as referred to in section 58(2)(b).

Immunity from
taxation

68. (1) The Central Bank shall be exempt from all taxes on its income and all duties, excise and other taxes and levies on the import and domestic supply of gold, banknotes and coins.

(2) The Central Bank shall be exempt from all other taxes duties and levies from which Government Ministries and other public agencies are exempted by law.

Relationship with
other laws

69. (1) If there is a conflict between a provision of this Act and a provision of any other law, the provision of this Act prevails.

(2) Where any subsequent legislation has the effect of amending in whole or in part any provisions of this Act, such proposed legislative change shall require prior consultation with the Central Bank.

Confidentiality

70. (1) No person who serves or has served as a member of the Board or staff shall, except when necessary to fulfill any function or duty imposed by this Act or any other law, permit access to, disclose or publicize non-public information which the person has obtained in the performance of her or his duties or use such information, or allow such information to be used, for personal gain.

(2) Notwithstanding subsection (1), the person may disclose non-public information outside the Central Bank, in accordance with procedures established by the Central Bank, if such disclosure –

- (a) is made in accordance with the express consent of the person about whom the information relates;
- (b) fulfills a duty to disclose as imposed by law, including to assist law enforcement or on the order of a court;
- (c) is made to the external auditors of the Central Bank;
- (d) is given to regulatory and supervisory authorities or to public international financial institutions, in the performance of their official duties; or
- (e) is required by the interests of the Central Bank itself in legal proceedings requires disclosure.

(3) The Board shall, in accordance with section 39(e), determine the classification and accessibility of documents held or drawn up by the Central Bank.

71. (1) The Central Bank shall have a first priority unconditional preferential right to satisfy each of its claims arising from the execution of its functions from any cash balances, securities and other assets that it holds for the account of the debtor concerned, whether as collateral to secure its claims or otherwise, at the time that such claim becomes due and payable.

Preferential right

(2) The Central Bank may exercise its preferential right only by appropriating the cash balances by way of compensation and by selling securities and other assets without undue delay in a commercially reasonable manner and paying itself from the proceeds of the sale after deducting there from the costs associated with the sale.

(3) No court action shall be required, and no competing claim shall be permitted, to delay the exercise by the Central Bank of its preferential right under this section.

72. (1) No attachment or execution shall be issued against the Central Bank or its property, including gold, special drawing rights, currency, credits, deposits or securities, and any proceeds thereof, before the issuance of a final judgment in any legal action brought before the courts of Solomon Islands.

Immunity from
prejudgment
attachment

- (2) The Central Bank may, in whole or in part, waive this protection, explicitly and in writing, except with respect to its gold and the special drawing rights.

Judicial Review

73. In any court or arbitration proceeding against the Central Bank, a member of the Board, staff, or an agent of the Central Bank in carrying out their duties to the Central Bank –

- (a) the court or arbitration panel in reaching its decision may examine whether the defendant acted unlawfully or in an arbitrary or capricious manner in light of the facts and the relevant law and regulations;
- (b) a member of the Board, or of the staff, or agent of the Central Bank, including a person previously holding such a position, shall not be liable for damages or otherwise liable for acts or omissions performed pursuant to and in the course of the duties and responsibilities performed on behalf of the Central Bank unless it has been proven that such acts or omissions constitute intentional wrongful conduct or gross neglect;
- (c) the action in question shall continue without restriction during the period of an appeal and any further appeal or other judicial proceedings related to the appeal; and
- (d) the court or arbitration panel shall be authorised, in appropriate cases, to award monetary damages to injured parties, but shall not enjoin, stay, suspend or set aside the actions of the Central Bank.

Indemnification for costs in legal proceedings

74. (1) The Central Bank shall indemnify a member of the Board, its staff, or an agent of the Bank against costs incurred in the defence of a legal action brought against such person in connection with the discharge or purported discharge of official functions within the scope of his employment or engagement under this Act,

- (2) The indemnification does not apply if the person has been convicted of an offence arising out of the activities that are covered by such legal action.

Repeal, transitional and saving

75. (1) The Central Bank of Solomon Islands Act (Cap. 49) is repealed.

- (2) Notwithstanding such repeal from and after the commencement of this Act –

- (a) Any licence granted to a financial institution or bank shall continue to be valid on such terms and conditions of approval for the time stipulated therein.
 - (b) All regulations, orders and other instruments made under the repealed Act and in force at the date of commencement of this Act, shall subject to such a modification and adaptation as may be necessary to bring them into conformity with this Act continue until such time as new regulations, orders and other instruments are made under this Act.
 - (c) all members of the Board shall be appointed under section 41, except that the initial terms of office shall be –
 - (i) for the Governor, 6 years;
 - (ii) for the Deputy Governor, 5 years; and
 - (iii) for non-executive members their current term.
 - (d) the existing special reserve accounts under the repealed Act shall be deemed to be established under section 53(3).
- (3) By way of derogation from section 55(1)(d), earnings of the Central Bank shall be transferred to the Consolidated Fund only after applying the Government's debt to the Central Bank's distributable earnings.
-

CENTRAL BANK OF SOLOMON ISLANDS BILL 2012

OBJECTS AND REASONS

This bill is divided into thirteen Parts.

Part 1 deals with Preliminary matters, such as short title, date of commencement and interpretation of words used in the text.

Part 2 seeks to provide for the continuation of the Central Bank established under the repealed Act as a body corporate. It also specifies the objects of the Central Bank.

Part 3 prescribes the powers of the Central Bank to conduct monetary and other operations in respect of banks and other financial institutions.

Part 4 deals with the regulation of foreign exchange and international reserves on behalf of the Government. The Central Bank in order to achieve its objectives is required to recommend to the Minister of Finance, measures that need to be taken in order to achieve financial stability.

Part 5 vests the Central Bank with extensive powers to issue and determine currency and legal tender.

Part 6 makes provision for the Central Bank to provide facilities for the clearing and security systems of commercial banks.

Part 7 vests the Central Bank with exclusive responsibility for the provision of registration and supervision of commercial banks and other financial institutions.

Part 8 empowers the Central Bank to operate, regulate and license credit information systems relating to commercial banks and other financial institutions.

Part 9 imposes an obligation on the part of the Central Bank to provide statistics and information in relation to the banking and financial sectors.

Part 10 obligates the Central Bank to act as banker and financial adviser to the government, which includes *inter-alia*, the acceptance of deposits in any

currency on behalf of the government and keeping the government informed of all monetary and fiscal matters that may affect the commercial banks and government.

Part 11 makes provisions for the organisational structure of the Central Bank. The operation and governance of the Central Bank is to be conducted by a Board of Directors. The powers and functions of the Board are specified in detail under this part.

Part 12 requires the Central Bank to establish and maintain certain funds. These funds are to be administered in keeping with accepted International Financial Reporting Standards. It further provides that notwithstanding the autonomy of the Central Bank and its internal audit requirements, it is subject to external audit by the Auditor General.

Part 13 enables the Central Bank to make regulations for the purposes of its operations, including the imposition of administrative penalties. It also provides for the repeal of CAP.49. Further transitional and savings provisions are provided to ensure the continuation of the operation or functioning of the Central Bank under the new Act.

.....
MINISTER FOR FINANCE AND TREASURY

EXPLANATORY MEMORANDUM

OVERVIEW OF BILL

The Central Bank of Solomon Islands Bill will bring the CBSI legislation in line with international best practice for central banking legislation and governance. The Bill will strengthen the CBSI's autonomy and accountability to ensure that central banking policy and practice continues to be effective and efficient in facilitating price and financial sector stability, which is essential for sustainable economic growth in Solomon Islands.

The Bill removes or limits political interference into CBSI institutional autonomy; clearly identifies and prioritizes the objectives of CBSI and aligns its functions with its objectives; facilitates the use of direct instrument of monetary policy in addition to indirect instrument as used in modern central banking; strengthens CBSI board member's personal autonomy, giving tighter criteria, rules and policies on extending and fixing mandates for the members of the board; ensures greater attention be given to the checks and balances of limiting the powers of the board; and ensures that CBSI is transparent and accountable to the public by reporting through published materials.

Explanation of provisions

Part 1 Preliminary

Clause 1 Short Title and Commencement

Deals with Preliminary matters, such as short title and date of commencement.

Clause 2 Interpretation

Provides the interpretation of words used in the text.

Part 2 Establishment, objectives and functions

Clause 3 Establishment

Seeks to provide for the continuation of the Central Bank established under the Repealed Act as a body corporate entrusted with all the powers necessary to achieve the objectives and to implement the functions and duties set out in the Act

Clause 4 Seal

Provides for the common seal of the Central Bank and specifies the authorised signatories as that of the Governor or in his absence the Deputy Governor and the

Secretary to the Board or other person authorised by the Bank.

Clause 5 Location

The head of the Central Bank being in Honiara.

Clause 6 Capital

Prescribes the authorised capital of the Central Bank as fully subscribed and paid up equivalent to 50 million Solomon Dollars. The 50 million paid up capital is seen as sufficient coverage in case of shortfall. An increase requires the Governor-General to publish an Order in the Gazette and no reduction is allowed except with an amendment to the Order.

Clause 7 Autonomy

Provides for the Central Bank to be autonomous and accountable in pursuing its objectives and performing its functions under the Act. The autonomy is provided to the Central Bank both as a legal entity and a public body and prohibits the Central Bank from seeking or taking instructions from any persons including government entities. Furthermore, this provision also obliges those persons and entities to refrain from influencing the Central Bank and the members of the decision making bodies and staff.

Clause 8 Objectives

Clearly sets out the primary objective of the Central Bank to achieve and to maintain domestic price stability. Having a clear primary objective is critical because multiple objectives could conflict with each other hampering the effectiveness and credibility and diluting its accountability.

The secondary objective is to foster and to maintain a stable financial system. This is subordinated to the primary objective. The Central Bank's growing responsibilities in the area of supervision puts it in a unique position to shoulder such secondary objective.

The tertiary objective is to support the general economic policies of the Government.

Clause 9 Functions

Outlines the functions of the Central Bank for purposes of legal clarity and transparency. This also reflects the Central Bank's current functions and it captures the decision-making process where the Central Bank determines and adopts a policy, the Governor proposes and implements while the Board defines and adopts such policy.

The Functions of the Bank includes; to determine and implement monetary policy; contribute to determine exchange rate regime; exchange rate policy; hold and manage international reserves; regulate international exchange of money; issue, regulate and manage the Solomon currency; collect and produce statistics; inform public about its policies; promote safe and sound efficient payment system; regulate, license, register and supervise financial institutions; act as banker, financial adviser and fiscal agent to government; and corporate with international bodies.

Part 3 Monetary and other operations

Clause 10 Opening of Accounts

Allows the Central Bank to open and maintain accounts for banks and financial institutions and public bodies including foreign banks, central banks, international

financial institutions, depositories and international organisations.

Clause 11 Custodial facilities

Provides for the Central Bank to offer custodial facilities to the government as well as financial institutions, public bodies and to the public at large.

Clause 12 Open Market and Credit Operations

It prescribes the powers of the Central Bank to conduct monetary and other operations in respect of banks and other financial institutions.

Clause 13 Minimum Reserves

Prescribes the minimum reserves that commercial banks require to hold on its deposit accounts with the Central Bank to meet the monetary policy objectives.

Clause 14 Other instruments of monetary control

Provides for the Board to decide on other operational methods of money control.

Clause 15 Lender of Last Resort

Makes provision for emergency liquidity assistance and the main terms and conditions of the lender of last resort operations. It provides that the emergency liquidity assistance may be granted by Central Bank to improve banks' liquidity for periods not exceeding 90 calendar days that maybe renewed based on a program of specific measures for the bank in question. Such assistance is only given to solvent banks and based on adequate collateral and is determined with regard to the necessity to preserve the stability of the financial system..

Part 4 Foreign Exchange Matters and International Reserves

Clause 16 Foreign Exchange Matters

Deals with the regulation of foreign exchange matters whereby government is responsible for determining the exchange rate regime after consultation with the Central Bank. And the Central Bank after consulting with the Minister for Finance will determine and implement the exchange rate policy.

Clause 17 International reserves portfolio

Provides for the Central Bank to manage the international reserves on behalf of the Government. The Central Bank in order to achieve its objectives is required to recommend to the Minister of Finance, measures that need to be taken in order to achieve financial stability.

Part 5 Currency and Legal Tender

Clause 18 Currency

Provides for the currency of Solomon Islands to be the Solomon Islands Dollar.

Clause 19 Issuance of currency and legal tender

Vests the Central Bank with extensive powers to issue and determine currency and legal tender in Solomon Islands.

Clause 20 Exchange of currency

Allows the Central Bank to exchange without costs banknotes and coins of legal tender Solomon Islands.

Clause 21 Unfit currency

Provides for unfit currency to be destroyed and replaced with banknotes or coins by the Central Bank without granting any compensation.

Clause 22 Redemption of currency

Provides that the Central can decide to redeem banknotes or coins by issuing other banknotes or coins in equivalent amounts without any charge.

Clause 23 Currency reserve inventory and issue plan

Allows the Central Bank to create and administer a currency reserve inventory to meet the currency requirements of Solomon Islands.

Clause 24 Counterfeit currency

Provides for the withdrawal of counterfeit notes from circulation and for Central Bank to seize all counterfeit notes and forward to the competent law enforcement for further investigation and action.

Clause 25 Sole right to issue

Gives the Central Bank the sole right to issue currency notes and coins for and on behalf of and throughout Solomon Islands,

Part 6 Payment System*Clause 26 Facilities*

This makes provision for the Central Bank to provide facilities for the clearing and Security settlement systems of commercial banks.

Clause 27 Licensing and Oversight

Provides the Central Bank the exclusive responsibility to regulate, license, and register of oversight payment. Also provides the power to impose administrative penalties.

Part 7 Supervision*Clause 28 Supervisory function*

Vests the Central Bank with exclusive responsibility for the provision of registration

and supervision of commercial banks and other financial institutions. Also vests the Central Bank with the power to impose administrative penalty.

Part 8 Credit Information System

Clause 29 Credit information system

Empowers the Central Bank to operate, regulate and license credit information systems relating to commercial banks and other financial institutions.

Part 9 Statistics and Information

Clause 30 Statistics and Information

Enables the Central Bank to collect, compile, analyse and publish statistics and information relating to its functions as well as imposing administrative fines for failing to provide statistical information when required.

Clause 31 Other publication

Obligates the Central Bank to inform Parliament and public regarding its monetary policy and achievements of its objectives and its views on the economy.

Part 10 Relationship with Parliament, Government and State

Clause 32 Accountability to Parliament

Requires the Governor at the request of the Parliament or at his own initiative be heard by the Parliament or its committees concerning monetary policy, financial systems and state of the economy.

Clause 33 Banker, financial adviser and fiscal agent for Government

Obligates the Central Bank to act as banker and financial adviser to the government by

administering the financial liabilities of the state to external parties and operate a registry for securities issued by the state.

Clause 34 Depository and cashier for Government

Gives Central Bank the responsibility for the acceptance of deposits in any currency on behalf of the government.

Clause 35 Cooperation with the public administration

Obligates the Central Bank in keeping the government informed of all monetary and fiscal matters that may affect the commercial banks and government.

Clause 36 Prohibition of lending to the Government

Prohibits the Central Bank from directly or indirectly grant credits to government or any other public body except for intra-day credits, for the smooth functioning of the payment system.

Clause 37 Provides for the Minister of Finance with the

approval of Cabinet to give the Central Bank such directions on monetary and fiscal policies or if the public interest requires to do so. Such approved directions shall be published in the Gazette and laid before Parliament.

Part 11 Governance and Organization

Clause 38 Board and executive officers

Makes provisions for the organisational structure of the Central Bank. The operation and governance of the Central Bank is to be conducted by a Board of Directors in which the Governor is the chairperson, Deputy Governor, member, Permanent Secretary for Ministry of Finance, member and six non-executive members. The number of Board remains at nine given the responsibility imposed on the Board of Directors and the lack of human resources available.

Clause 39 Powers and functions of the Board

The powers and functions of the Board are specified in detail under this part. The Board is charged with formulation and supervision of the implementation of the policies and supervision of the administration and operations of Central Bank.

Clause 40 Powers and functions of the Governor

Provides for the powers and functions of the Governor as being responsible for the preparation and implementation of policy set by the Board.

Clause 41 Appointment

Provides for the appointment of the Governor by the Governor General on recommendation of Cabinet in consultation with the Minister of Finance. The Deputy Governor is appointed by the Minister of Finance with approval of the Cabinet among persons nominated by Governor after consultation with Board. The other directors are appointed by the Minister for Finance. The term for the appointment of the Governor and Deputy Governor shall be for 6 years whilst the Board shall be appointed for a term of 5 years and all are eligible for re-appointment.

Clause 42 Remuneration and allowances

Provides that remuneration for the Board members should promote the interest of the Central Bank and shall be that qualified and expert officials can be recruited and retained.

Clause 43 Eligibility

Sets out the eligibility criteria for persons to serve as Board of Director to be persons With integrity with degree qualifications or having extensive professional or academic

experience and who does not have past convictions, being a bankrupt or been dismissed of misconduct in previous employments. Also a person is not eligible if he is a Member of Parliament or employee of government or financial institution. This is made in view of the crucial role of personal knowledge and expertise to contribute to decision-making of the Board in an independent manner.

Clause 44 Disqualification and removal

Provides for removal from office on grounds of the inability to perform the tasks of office because of infirmity of body or mind; or serious misconduct prejudicing the interest of the Central Bank. Provided that the Governor and Deputy Governor are to be removed by a Tribunal appointed by the Governor General who shall investigate and submit a report as to whether they ought to be removed from office.

Clause 45 Resignation

Provides for the Governor and Deputy Governor to resign by giving 3 months' notice in writing to Governor General or Minister of Finance whilst non-executive members of Board may resign by giving one months' notice in writing to Minister. This mirrors the appointment provisions.

Clause 46 Subsequent functions

Prohibits the employment of former Board members in a bank or other financial institution for a period of one year immediately following their departure from being a Board member unless they seek the consent of the Central Bank.

Clause 47 Vacancy

Provides that any vacancy on the Board to be filled within 60 calendar days/

Clause 48 Semi-permanent absence or inability to act

Makes provision for cases where the Governor or members of the Board are absent or unable to act, the Deputy Governor shall temporarily keep the office of the Governor or in his absence the most senior non-executive member of the Board. Such arrangement should not be more than six months.

Clause 49 Meetings

Sets out the requirements of the Board meeting by stating the quorum.

Clause 50 Proceedings

Sets out the proceedings of the meeting.

Clause 51 General Provisions of Staff

Ensures that staff devote the whole of their professional services to the Central Bank and not hold any other offices

Clause 52 Appointment of Staff

Provides for the appointment and termination of staff by the Governor.

Part 12 Financial Provisions*Clause 53 Reserve accounts*

Requires the Central Bank to establish and maintain a general reserve account.

Clause 54 Profits, losses and distributable earnings

Provides that the net profits or losses conforms with the International Financial Reporting Standards.

Clause 55 Allocation of distributable earnings

Sets out how the distributable earnings are to be allocated within 4 months after the end of the financial year.

Clause 56 Coverage of shortfall in capital

Provides that in the event of a shortfall of capital, any negative distributable earnings shall first be charged to the general reserve account, and subsequently applied against the authorized capital. If the latter is used then Central Bank should be recapitalized by providing it with marketable government securities which can be used for monetary operations to promote market development.

Clause 57 Accounting standard

Requires that the accounts and records are in reference to the International Financial Reporting Standards.

Clause 58 Annual financial statements and reports

Provides that the Central Bank prepare financial statements for its financial year and within 4 months after close of the financial year submit to the Minister to transmit copies to the Parliament after which it shall be published in the Gazette

Clause 59 Internal Auditor

Provides for the appointment of the internal auditor by the Board who shall also define the scope and terms and conditions of the internal audit in the audit charter of the Central Bank.

Clause 60 External Auditor

Provides for the auditing of the Central Bank accounts, records and financial statements by an independent external auditor and their appointment and termination will be made by the Board in consultation with the Auditor General.

Section 61 Budget

Establishes the Central Bank's budgetary autonomy. To strengthen accountability, it

requires the Central Bank to submit its Board approved budget including all revenue and expenditure, to the Minister for information purposes.

Part 13 Miscellaneous

Clause 62 Regulations

Enables the Central Bank to make regulations for the purposes of its operations.

Clause 63 Administrative penalties

Enables the Central Bank to impose of administrative penalties on persons who contravene any of the provision of the Act.

Clause 64 Standards of good administration

Guides the Central Bank to exercise its powers justly and fairly.

Clause 65 Conflict of interest and fiduciary duty

Places on the Board and staff the fiduciary duty to put the Central Bank's interest first before their own private and personal interest.

Clause 66 Fees and Charges

Enables the Central Bank to charge fees and charges for services provided and shall publish them.

Clause 67 Prohibited activities

Prohibits the Central Bank in engaging in certain activities.

Clause 68 Immunity from taxation

Provides that the Central Bank is immune from all taxes on its income and all duties and other taxes on import and domestic supply of gold, banknotes and coins.

Clause 69 Relationship with other laws

Provides for the Central Bank Act to prevail when in conflict with other Acts.

Clause 70 Confidentiality

Requires that confidentiality be maintained at all times.

Clause 71 Preferential right

With the view of strengthening the Central Banks autonomy and preventing the obstruction of the achievement of its goals and execution of its functions the Central Bank is granted first ranking unconditional preferential right to satisfy each of its claims arising from the execution of its functions. Such a right may be exercised by the Central Bank by appropriating any cash balances by way of the specific sale after deducting any associated costs. It also provides that no court action shall be required and no competing claim shall be permitted to delay the exercise of by the Central Bank of its preferential right.

Clause 72 Immunity from prejudgement attachment

Provides that no attachment or execution shall be issued against Central Bank property, including gold, special drawing rights, currency, credits, deposits or securities, and any proceeds thereof, before the issuance of a final judgement in any legal action before the courts in Solomon Islands. This is without prejudice of the Central Bank's right to waive in whole or in part this protection, explicitly and in writing, except for its gold and special drawing rights.

Clause 73 Judicial Review

Safeguards the personal autonomy of the Central Bank staff and prevent the obstruction of the achievement of its goals and execution of its functions.

Clause 74 Indemnification for costs in legal proceedings

Provides that the Central Bank indemnifies the Board, staff or its agent against any legal cost arising in defence of a legal action brought against such person in connection with the performance of their official duties within the scope of their employment.

Clause 75 Repeal, transitional and saving

It provides for the repeal of CAP.49. Further transitional and savings provisions are provided to ensure the continuation of the operation or functioning of the Central Bank under the new Act.

.....
MINISTER FOR FINANCE AND TREASURY