Reserve Bank of Fiji
Banking Supervision Policy Statement No: 4
(Revised 2025)

<u>MINIMUM REQUIREMENTS FOR THE MANAGEMENT OF FOREIGN EXCHANGE RISK FOR LICENSED COMMERCIAL BANKS</u>

NOTICE TO BANKS LICENSED UNDER THE BANKING ACT 1995

Reserve Bank of Fiji
<u>April 2025</u>

PART 1: PRELIMINARY

1.0 Introduction

1.1 This Policy is issued under Section 14(3) of the Banking Act, 1995 as part of the Reserve Bank of Fiji's standards governing the conduct of banking business in Fiji. This Policy supersedes the Banking Supervision Policy Statement No.4 issued in 2016. The Policy must be read in conjunction with Banking Supervision Policy Statement No. 19 (BSPS 19)[1], which establishes the framework for the management of market risk.

1.2 This Policy provides the guidelines on the management of foreign exchange risk and settlement risk; and sets out the maximum limits for foreign currency net open positions; and reporting requirements in relation to prudent management of foreign currency exposures of licensed commercial banks.

2.0 Objectives of the Policy

2.1 The objectives of the Policy are to:

a) minimise foreign exchange risk by imposing prudent limits on banks' overnight net open positions in foreign currencies.
b) ensure that banks have in place adequate foreign exchange risk management systems, appropriate operational guidelines and internal controls intended to identify, measure, monitor and mitigate foreign exchange risk and settlement risk;
c) establish a uniform procedure for computing, recording and reporting foreign exchange exposures of banks; and
d) define Minimum Working Balances held in Foreign Currencies by Banks allowed under Section 42 of the Reserve Bank of Fiji Act 1985.

3.0 Background to the Approach

3.1 An essential part of the Reserve Bank's responsibility for the supervision of banking institutions is to ensure that each institution's board and senior management fully understand, and maintain effective controls over the risks inherent in all areas of the institution's operations.

3.2 Foreign exchange risk is the risk of financial loss to banks arising from adverse movements in foreign exchange rates. Excessive foreign exchange risk can pose a significant threat to banks' earnings and capital adequacy. Therefore, banks should adopt effective measures to address the risk arising from their foreign exchange operations and exposures.

3.3 Foreign exchange risk exposures can be divided broadly into two categories: (1) Structural and (2) Trading. Structural exposures typically arise because of structural imbalance between assets and liabilities, and these do not normally change rapidly. Whilst, trading exposures arise and change rapidly, and are subject to prescribed trading limits.

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[1] Minimum Requirements for the Management of Market Risk for Licensed Financial Institutions.

3.4 The prescribed limits set in this policy aim to address the risks of trading exposures, however, each bank's in-house policies must include measures to address the risks of both structural and trading exposures.

PART 2: REQUIREMENTS OF THE POLICY

4.0 Foreign Exchange Risk Management Framework

4.1 Managing foreign exchange risk is a fundamental component in the safe and sound management of all banks that have exposures in foreign currencies. It involves the prudent management of foreign currency positions in order to control, within set parameters, the impact of changes in exchange rates on the financial positions of banks.

4.2 The frequency and direction of exchange rate changes, the extent of the foreign currency exposure and the ability of counterparty to honour their obligations to the banks are significant factors in foreign exchange risk management. It is therefore essential that each bank puts in place a comprehensive foreign exchange risk management framework, taking into account the nature and complexity of their foreign exchange activities.

4.4 The foreign exchange risk management framework must comprise the following:

- sound and prudent foreign exchange risk management policies, procedures and prudent limits;
- appropriate and effective foreign exchange risk management systems, processes and internal controls; and
- effective oversight by the board (or its proxy[2]) and senior management.

5.0 Foreign Exchange Risk Management and Control Procedures

5.1 Foreign Exchange Risk Management Policy

5.1.1 Each bank is required to develop and document an in-house policy for the management of its foreign exchange risk. This policy must be approved by the bank's board or its proxy, and subject to annual review.

5.1.2 The BSPS 19 requires banks to develop and implement an effective comprehensive risk management framework for market risk[3], which includes foreign exchange risk. Therefore, banks may incorporate the policy for foreign exchange risk management into the market risk policy or document it as a separate policy.

5.1.3 In addition to the requirements specified in BSPS 19, banks should take into account its ability to absorb potential losses when developing an in-house

[2] Refer to definition in the BSPS 19.
[3] The definition of market risk in the BSPS 19 covers interest rate risk and foreign exchange risk.

foreign exchange risk management policy; and at the minimum, should include the following:

- clear objectives and strategies for foreign exchange risk management;
- procedures and mechanisms for managing foreign exchange activities; proportionally to the size, complexity and frequency of the bank's foreign exchange activities;
- scope of trading activity authorised and types of services offered;
- trading and credit limits, and limit exception approval and reporting procedures;
- clear standards for trading with affiliated entities including members of the board and employees;
- clear, prudent and detailed limits of the bank's foreign exchange risk exposure, compatible with the bank's operational and financial abilities, and the risk levels that the bank is willing to accept, related to individual overnight and intra-day limits for each currency and total overnight and intra-day limits for all foreign currencies;
- in-house policy limits on overnight open positions for single foreign currency position and the overall foreign currency position, which must not exceed the limits prescribed under sub-section 5.7.2 of this Policy;
- clearly defined delegation of authority and separation of duties regarding foreign exchange operations and risk management;
- accounting methods and operational procedures; and
- a contingency plan and framework for stress testing.

5.1.4 The policies, procedures and limits should be properly documented, drawn up after careful consideration of the foreign exchange risk associated with the different types of products, reviewed by management at appropriate levels, and approved by the board or its proxy, and circulated to all relevant departments and units.

5.1.5 Banks should supplement these policies and procedures with ethical rules and standards which employees engaged in foreign exchange trading should observe. These rules and standards should address issues concerning potentially problematic trading practices, such as spreading of rumours and false information.

5.2 Independent Risk Management Function

5.2.1 Each bank should assign the responsibility for managing foreign exchange risk to its Market Risk Function as prescribed under BSPS 19. The responsible personnel should have an adequate understanding of all sources of foreign exchange risk faced by the bank.

5.2.2 There should be adequate segregation of duties in key elements of the risk management process to avoid potential conflicts of interest. This is to ensure independent assessment of the bank's foreign exchange operations.

5.3 Risk Measurement and Reporting Systems

5.3.1 Banks should have foreign exchange risk measurement systems that encompass all significant causes of such risk. The systems should evaluate the effect of foreign exchange rate changes on profitability and capital adequacy meaningfully, and accurately within the context and complexity of the banks' foreign exchange activities.

5.3.2 Measurement systems should:

- evaluate all foreign exchange risk by maturity, on both a gross and net basis, arising from the full range of the bank's assets, liabilities and off-balance sheet positions, including instruments with embedded or explicit foreign exchange options;
- employ generally accepted financial models or methods for measuring foreign exchange risk;
- have accurate and timely data, in relation to exchange rates, embedded options and other details on current FX positions;
- enable banks to identify and measure accurately their foreign exchange settlement risk incurred both intraday and overnight, and monitor settlement exposures in real-time (or close to real-time) in order to ensure that settlement limits will not be exceeded;
- document the assumptions, parameters and limitations on which the measurement systems are based. Material changes to assumptions should be documented, well supported and approved by senior management; and
- include other relevant measures that the bank deems useful and relevant in line with the complexities of its foreign exchange activities.

5.3.3 Apart from those foreign currencies with high volatility, if banks have material exposures to currencies with low historical volatility, banks should also conduct stress tests on those exposures to measure foreign exchange risk. In setting the limits of those exposures, banks should consider the stress testing results, and should not rely solely on the historical volatility of the currencies.

5.3.4 Banks should have an accurate, informative and timely management information system (MIS) for foreign exchange risk. This is essential to ensure that senior management and individual business line managers are well informed, as well as to facilitate compliance with relevant in-house policies.

5.3.5 The MIS reports should include indicators on market risk, as well as operational risk arising from foreign exchange operations. Senior management should receive and review daily independent reports to ensure that these risks are prudently managed.

5.4 Control of Foreign Exchange Activities

5.4.1 Controls of foreign exchange activities may vary among banks, depending on the nature and extent of their foreign exchange activities. However, the key element of a bank's foreign exchange controls should govern the following:

- organisational controls to ensure clear and effective segregation of duties between those persons who approve foreign exchange transactions and those persons responsible for operational functions such as arranging settlement, exchanging and reconciliation of confirmations foreign exchange activities;
- procedural controls to ensure that transactions are fully recorded in the records and accounts of the bank, are promptly and correctly settled and that unauthorised dealing is promptly identified and reported; and
- controls to ensure that foreign exchange activities are monitored frequently against the bank's foreign exchange risk, counterparty and other limits, and ensure that any breach of these limits should be promptly reported.

5.4.2 Banks should identify potential foreign exchange risks in new product & services and activities; and ensure that these are subject to adequate procedures and controls before the introduction of these new products & services and activities. Furthermore, new activities may carry non-conventional risks and require substantial system changes and implementation costs to accommodate them. Such new activities should not be launched until the required systems are in place.

5.4.3 The use of hedging techniques is one means of managing and controlling foreign exchange risk. However, banks may not need the full range of hedging techniques or instruments, therefore, banks must consider which hedging techniques are appropriate for the nature and extent of their foreign exchange activities, the skill and experience of trading staff and management, and the capacity of foreign exchange rate risk reporting and control system. Banks must also ensure that the financial instruments used for hedging meet their specific needs in a cost-effective manner.

5.4.4 New hedging or risk management initiatives that are not already covered by the bank's foreign exchange risk management policy should be approved in advance by the board, or the Asset and Liability Management Committee prior to implementation.

5.4.5 In assessing the effectiveness of hedging activities, banks must ensure that the assessment is not solely based on the technical attributes of the individual transactions, but the overall risk exposure of the bank resulting from a potential change in asset-liability mix and other risk exposures such as credit, interest rate and position risks, is also considered.

5.5 Foreign Exchange Limits

5.5.1 Banks are required to establish explicit and prudent foreign exchange limits. They should consider their current business strategies, liquidity/volatility of the individual currencies and loss exposure related to capital when setting the internal limits. At the minimum, a bank's foreign exchange risk policy should include limits with respect to:

- net open position by currency, and aggregate;
- overnight net open position by currency, and aggregate;
- maturity distribution of foreign currency assets, liabilities and contracts

- individual customer and bank lines;
- total FX contracts outstanding;
- maximum loss by trader/desk/branch; and
- credit limits for FX counterparties and settlement limits.

5.5.2 Foreign exchange risk limits need to be set within the bank's overall risk profile, which should reflect factors such as capital adequacy, liquidity, credit quality, investment risk and interest rate risk.

5.5.3 The Reserve Bank sets maximum limits on the following:
- Overnight Single Foreign Currency Net Open Position;
- Overnight Overall Foreign Currency Net Open Position; and
- Over-the-Counter Foreign Currency Derivatives.

5.6 Measurement of Foreign Currency Net Open Positions

5.6.1 The calculation of foreign currency open position in a single currency should be made by summing up the following items:
- The net spot position (that is, all asset items less all liability items, including accrued interest, denominated in the currency in question);
- The net forward position (that is, all amounts to be received less all amount to be paid under forward foreign exchange transactions, including currency futures and the principal on currency swaps not included in the spot position);
- Guarantees (and similar instruments) that are certain to be called and likely to be irrecoverable; and
- Net future income/expenses not yet accrued but already fully hedged (at the discretion of the reporting bank).

5.6.2 Foreign currency position can be either open or closed:
- Where the amount of the bank's assets and liabilities are equal in each type of currency, the foreign currency position is considered as 'closed'.
- Where the amounts of the bank's assets and liabilities are not equal in each type of currency, the foreign currency position is considered as 'open'.

5.6.3 By type of foreign currency, a bank's single foreign currency open position can be either 'long' or 'short':
- Where the bank's assets exceed its liabilities, within the same type of foreign currency, an open position is considered as 'long'.
- Where the bank's assets are less than its liabilities, within the same type of foreign currency, an open position is considered as 'short'.

5.6.4 The Reserve Bank adopts the internationally acceptable method of measuring the Overall Foreign Currency Net Open Position, known as the Shorthand Position method, which measures the greater of either:
- the sum of the Fiji dollar equivalent amount of each foreign currency with a long position at the end of the day; or

- the sum of the Fiji dollar equivalent amount of each foreign currency with a short position at the end of the day.

5.6.5 Where a bank has long term or 'structural' asset or liability position in a foreign currency, such as investments in subsidiaries, premises, loan capital etc., this must be reported in Form FC-1.

5.6.6 For the purpose of measuring the limits for open positions in foreign currencies, Total Capital in Fiji is measured as set out in the Banking Supervision Policy Statement No 1, 'Capital Adequacy Requirements for Licensed Financial Institutions' and as reported in the bank's latest Capital Ratio Return to the Reserve Bank. The figure for Total Capital in Fiji can be obtained from Part IV, Item A of the Capital Ratio Return.

5.7 Limits on Net Open Positions in Foreign Currencies

5.7.1 Banks are required to monitor and manage their end-of-day foreign currency positions on a daily basis, to comply with the limits set out in section 5.7.2 below. At this stage, no formal limits are being imposed on intra-day positions in foreign currencies and each bank is required to manage its intra-day position in a prudent manner.

5.7.2 Banks are required to comply with the overnight foreign currency net open positions limits specified below:

- Limit on Single Foreign Currency Net Open Positions, irrespective of short or long position, shall not exceed 12.5% of Total Capital in Fiji; or FJ$30.0 million, whichever is less.

- Limit on Overall Foreign Currency Net Open Positions, using the shorthand position method, shall not exceed 25% of Total Capital in Fiji or FJ$30.0 million, whichever is less.

5.7.3 The above limits are maximum limits; however, banks are required to comply with its in-house policy limits where they are lower than the limits specified in this Policy.

5.7.4 Banks may sell any excess of foreign currencies to the Reserve Bank at end of day to minimise foreign exchange exposure.

5.7.5 The Reserve Bank will review the maximum limits set out in para 5.7.2 from time to time and may change or revoke the limits at any time by written notice to banks.

5.8 Limits on Over-the-Counter Foreign Currency Derivatives

5.8.1 Foreign currency derivatives include forwards, options and swaps. The maximum limit, operational guidelines and reporting requirements for over-the-counter foreign currency derivatives are set out in the *Guidelines for*

Over-the-Counter Foreign Currency Derivatives Transactions issued by the Reserve Bank. Banks are required to comply with this Guideline at all times.

5.8.2 Banks are permitted to enter into foreign currency derivatives contracts with each other, provided that:

- contracts entered into have an approved underlying transaction; and
- financing for these contracts are met by the bank's 'own funds', that is, banks cannot purchase foreign currencies from the Reserve Bank to finance such contracts.

6.0 Foreign Exchange Settlement Risk Management

6.1 Foreign exchange settlement risk involves both credit risk and liquidity risk. In a transaction that fails to settle, a bank faces the possibility of losing the full principal value of the transaction. The unsettled funds may expose the bank to liquidity pressures if such funds are needed to meet other expenses.

6.2 Foreign exchange settlement failures can arise from counterparty default, operational problems, market liquidity constraints and other external factors.

6.3 Banks should ensure that there are prudent limits to control the settlement risk of individual counterparties. Foreign exchange settlement exposures should be subject to an adequate credit control process, including credit evaluation of the maximum exposure that the bank is willing to accept for a particular counterparty (foreign exchange settlement limit).

6.4 Foreign exchange settlement limit should be subject to the same procedures used for deciding limits on other credit exposures of similar duration and size to the counterparty. For example, if the foreign exchange settlement exposure to a counterparty that lasts for a night, the limit may be assessed in relation to the bank's willingness to lend directly to this counterparty on an overnight basis. Limits should be based on the level of credit risk that is prudent and should not be set at an arbitrary or high level, solely for the purpose of facilitating trading with a counterparty.

6.5 Any planned excesses of settlement limits should be subject to approval by the appropriate credit management personnel in advance.

6.6 Banks must take steps to avoid any under-estimation of the risk they incur both intra-day and overnight, given the full size and duration of their remaining foreign exchange settlement exposures.

6.7 Recognising that some of settlement obligations may last for more than one day, affected by factors such as time zone differences, banks must measure accurately the size and duration of their settlement exposures by identifying explicitly both the unilateral payment cancellation deadline for individual transactions and the time needed for checking the receipt of funds for the currency bought.

6.8 For effective management of foreign exchange settlement risk, banks are required to have, at the minimum:

- clear senior level responsibility and authority for managing foreign exchange settlement exposures with individual counterparties, and appropriate daily management procedures for these exposures;
- institution-wide business policies that provide for the choice of settlement methods through appropriate risk measurement and cost-benefit analyses, with adequate incentives and controls for individual business units to follow the policies;
- measurement systems that provide appropriate estimates of foreign exchange settlement exposures on a timely basis;
- systems that monitor closely any limit excesses and unusual settlement activity;
- stress tests to evaluate capacity to withstand stressed situations such as settlement delay, individual counterparty failures and disruption of payment systems (stress-testing scenarios must be appropriate to the nature and complexity of the bank's foreign exchange operations); and
- procedures including contingency plans for dealing with settlement failures and other problems.

7.0 Role and Responsibilities of the Board

7.1 The board has the ultimate responsibility for ensuring that the bank has in place a foreign exchange risk management policy. In addition to the requirements specified in BSPS 19, the responsibilities of the Board or its proxy, at the minimum include:

- approve policies, processes and procedures on foreign exchange risk management;
- approve risk appetite and set limits for foreign exchange exposures and activities;
- ensure that the bank has in place adequate internal audit coverage of the foreign exchange operation;
- ensure the selection and appointment of qualified and competent management to administer the foreign exchange function; and
- determine the report submission intervals and frequency by senior management on foreign exchange activities and the management of exposure to foreign exchange risk.

8.0 Role and Responsibilities of the Senior Management

8.1 While the ultimate responsibility lies for foreign exchange risk management lies with the board, the senior management of the bank is responsible to formulate policies, processes and procedures, and implement these upon board approval.

8.2 In addition to the requirements specified in BSPS 19, the responsibilities of the senior management should, at the minimum:

a) develop and document appropriate foreign exchange risk management policies, processes and procedures for approval by the board;
b) ensure that foreign exchange risk is managed and controlled within the approved foreign exchange risk framework[4];
c) establish prudent limits on the bank's exposure to foreign exchange risk;
d) identify the risks inherent to any new products and services, and ensure to have in place adequate procedures and controls before introducing any new foreign exchange product or service;
e) develop and implement techniques to address the bank's exposure to foreign exchange risk and its foreign exchange gains and losses;
f) ensure effective segregation of duties between trading, risk measurement and monitoring, settlement and accounting functions;
g) establish and implement procedures governing the conduct and practices of foreign exchange dealers;
h) develop lines of communication to ensure timely dissemination of foreign exchange risk management policies, processes and procedures to officers involved in foreign exchange activities and foreign exchange risk management process;
i) provide reports on foreign exchange activities and foreign exchange risk management to the Board, at the frequency as determined by the Board. However, senior management should inform the Board promptly should any large losses occur or are likely to occur from foreign exchange exposures;
j) ensure that officers involved in foreign exchange operations have the necessary knowledge and expertise to undertake their duties; and
k) ensure prompt responses to findings regarding any violations of established procedures and ensure that there are rigorous procedures to fully address any suggestions or queries made by the risk control units, internal or external auditors and the Reserve Bank of Fiji.

9.0 Role and Responsibilities of the Asset and Liability Management Committee

9.1 Each bank should have an Asset and Liability Management Committee, responsible for the design and administration of foreign exchange risk management. The role and functions of ALCO are described under BSPS 19 – Minimum Requirements for the Management of Market Risk for LFIs.

10.0 Independent Internal Audit

10.1 The Internal Audit Unit of each bank is required to conduct regular reviews of the internal control and risk management process for foreign exchange risk (including settlement risk) in place, to ensure its integrity, accuracy and reasonableness.

10.2 At the minimum, the independent audit should review the bank's foreign exchange risk management activities to:

[4] As part of the Market Risk Framework of the BSPS 19.

- ensure foreign exchange policies and procedures are being adhered to;
- ensure effective management controls on foreign exchange positions, including effective segregation of duties;
- verify the adequacy and accuracy of management information reports of the bank's foreign exchange risk management activities;
- ensure that foreign exchange hedging activities are consistent with the bank's foreign exchange risk management policies, strategies and procedures; and
- ensure that personnel involved in foreign exchange risk management are provided with accurate and complete information about the bank's foreign exchange risk policies, risk limits and positions; and have the expertise required to make effective decisions consistent with the foreign exchange risk management policies.

10.3 The internal audit function is required to present the internal audit assessment report to the board on a timely basis, and must promptly inform the bank's senior management of any irregularities in trading patterns or trends, frequent excesses of limits or issues concerning controls in the trading area.

11.0 Contingency Plan and Stress Testing

11.1 Contingency planning should be an integral part of a bank's foreign exchange and settlement risk management process and should at the minimum:

- document general procedures and processes for the continuity of its foreign exchange operation in the event that the main area becomes unusable;
- negotiate service level agreements with vendors;
- incorporate specific procedures in addressing failed transactions or other settlement problems to ensure timely access to key information and to obtain information and support from correspondent banks; and
- test the plan periodically to assess its adequacy.

11.2 Banks may consider measuring the vulnerability to loss arising from its foreign exchange operations and liquidity squeeze through stress testing and evaluate their capacity to withstand stressed situations in terms of profitability, liquidity and capital adequacy.

11.3 The stress tests may:

- cover major currencies to which the banks are exposed;
- assess the effects of large exchange rate movements on its profitability and capital adequacy; and
- assess the effects of settlement risk.

11.4 The stress test scenarios should commensurate with the nature of the bank's portfolio and risks involved, and stress-testing results are to be considered when evaluating the bank's adequacy of capital and reviewing its business strategies, policies and limits for foreign exchange risk.

12.0 Balances Held by Banks in Foreign Currencies

12.1 Provided that all other relevant requirements of the Banking Act, Reserve Bank of Fiji Act and Exchange Control Act and Notices are also complied with, for the purposes of Section 42(a) of the Reserve Bank of Fiji Act, banks are permitted to include in eligible end of day balances held in foreign currencies, amounts up to the limits set out in this Notice for:

12.1.1 maximum overall open positions in foreign currencies; and

12.1.2 balances placed on deposit offshore to cover the risk of undesirable movements in foreign exchange rates during the term of forward foreign exchange sale contracts and for delivery on settlement date of the foreign currency amounts due under forward foreign exchange sales contracts outstanding.

12.2 Apart from the items in the preceding paragraph, and those components which banks have historically been permitted by the Reserve Bank to be retained in foreign currencies (eg. foreign currency notes held for sale, minimum working balances maintained in Nostro accounts with banks offshore, and short term placements with banks offshore of amounts received by the bank in Fiji from approved foreign currency borrowings and deposits in eligible foreign currency deposit accounts of Non-residents and approved exporters), all surplus foreign currency must be sold to the Reserve Bank of Fiji by the close of business each day.

12.3 The Reserve Bank reserves the right at any time to review and revise the approved limits for each bank and to withdraw approval for such amounts to be held in foreign currencies, at its discretion.

13.0 Reporting Requirements

13.1 Banks are required to compute and submit the following prudential reporting returns to the Reserve Bank as at close of business each Wednesday:

- **Form FC-1**: Foreign Currency Position;
- **Form FC-2A**: Summary of Undelivered Forward Exchange Contracts;
- **Form FC-2B**: Summary of Delivered Forward Exchange Contracts;
- **Form FC-2C**: Summary of Undelivered Foreign Exchange Swaps Contracts; and
- **Form FC-2D**: Summary of Delivered Foreign Exchange Swaps Contracts.

13.2 The returns are due to the Reserve Bank by close of business of Friday of the reporting week.

13.3 Banks are also required to compute the Form FC-1 return as at the last working day of the month and submit to the Reserve Bank by the 5th working day following the reporting month.

13.4 Banks not engaged in forward and swap foreign exchange business are not required to submit Forms FC-2A, FC-2B, FC-2C and FC-2D; but are required to submit Form FC-1.

PART 3: OVERSIGHT AND IMPLEMENTATION ARRANGEMENTS

14.0 Oversight by the Reserve Bank of Fiji

14.1 Each bank must provide to the Reserve Bank its Foreign Exchange Risk Management Policy within 60 days after the implementation date of this Policy. Furthermore, each bank must provide a copy of the same whenever amendments are made, and this must be submitted to the Reserve Bank within 30 days of receipt of board approval on the changes.

14.2 The Reserve Bank will assess the compliance of each bank with the requirements of this Policy in the course of its supervision.

14.3 A bank that fails to comply with her requirements of this Policy will be subject to sanctions under Section 15 of the Banking Act 1995.

14.4 The Reserve Bank may adjust or exclude a specific requirement in this policy statement by providing written notice.

15.0 Implementation Arrangements

15.1 This Policy applies to all banks licensed under the Banking Act 1995, and shall be effective from 1 June 2025, and will be reviewed as deemed necessary.

Reserve Bank of Fiji
31 December 1996
July 2016 (Revised)
April 2025 (Revised)

Attachment:
Schedule – Interpretation
Appendix 1 – Reports Templates

SCHEDULE 1

Interpretation-

(1) Any term or expression used in this Notice that is not defined in this Notice:

(a) which is defined in the Act, shall, unless the context otherwise requires, have the meaning given to it by the Act; and;

(b) which is not defined in the Act and which is defined in any of the Reserve Bank of Fiji Policy Statements shall, unless the context otherwise requires, have the meaning given to it by those policy statements;

(2) In this Notice, unless the context otherwise requires:

'Act' means the Banking Act 1995 unless otherwise specified.

'Foreign Exchange Risk' means the risk of financial loss to a bank arising from adverse movements in foreign exchange rates.

'Foreign Exchange Settlement Risk' the risk of financial loss to a bank when it pays the currency it sold but does not receive the currency it bought in a foreign exchange transaction.

'Foreign Currency' means a currency other than the legal tender of Fiji.

'Foreign Currency Open Position' means for an individual foreign currency, assets denominated in that currency minus liabilities denominated in that currency. A foreign currency position of zero is referred to as a closed foreign currency position. A positive or negative foreign currency position is referred to as an open foreign currency position.

'Intra-day' means between the opening of any business day until the close of business of that same day.

'Long Position' means an open currency position for an individual currency where assets denominated in that currency exceed liabilities denominated in that currency, plus the impact of off-balance sheet items.

'Overall Foreign Currency Open Position' means the higher in absolute terms of either the sum of all short foreign currency positions or the sum of all long foreign currency positions.

'Overnight Net Open Position' means the holdings of any net open positions in foreign currencies of a bank at the close of each business day.

'Short Position' means an open foreign currency position for an individual foreign currency where liabilities denominated in that currency exceed assets denominated in that currency, plus the impacts of off-balance sheet items.

'Shorthand Position Method' means the procedure for measuring the overall foreign currency exposure by:

a) adding separately all short positions on one side and all long positions on the other side;

b) comparing the two totals; and

c) take the larger of the two totals as the Overall Foreign Currency Open Position.

'Total Capital in Fiji' is measured as set out in the Banking Supervision Policy Statement No 1, 'Capital Adequacy Requirements for Licensed Financial Institutions' and as reported in the bank's latest Capital Ratio Return to the Reserve Bank. The figure for Total Capital in Fiji can be obtained from Part IV, Item A of the Capital Ratio Return.