

GUIDELINES GOVERNING BANK OF SIERRA LEONE WHOLESALE FOREIGN EXCHANGE AUCTION

In order to improve transparency and efficient functioning of the foreign exchange market and achieve a market-determined foreign exchange rate, the Bank of Sierra Leone (BSL) will initiate Wholesale auctions of *non-cash* foreign exchange. While the auction is primarily designed as a mechanism for the BSL to efficiently inject foreign exchange into the market, it also provides a window for commercial banks to buy and sell foreign exchange.

Rules Governing Purchasing of Foreign Exchange

1. Frequency of the Auction

The wholesale foreign exchange market Auction shall be held at the Bank of Sierra Leone on a weekly basis every Wednesday at 10:00a.m. or the next business day should the Wednesday fall on a national holiday.

2. Participants

2.1 Participants in the wholesale non-cash foreign exchange shall be Commercial banks who would submit bids on their own behalf for on-selling to their customers.

3. Eligible Currency

3.1 The auction is limited to transactions in *non-cash* U.S. Dollars, i.e. no U.S Dollar bank notes will be traded in the auction. Bids/Offered admitted to the wholesale foreign exchange auction shall be expressed in US Dollars and if the Bank of Sierra Leone decides, they may be denominated in another internationally-traded currency.

4. Terms of Access

4.1 Purchases of foreign exchange through the auction shall be for imports of goods consistent with the foreign exchange regulation governing payment for imports.

4.2 The maximum amount per bidder per auction shall be determined by the Bank of Sierra Leone as per the auction announcement.

4.3 The number of bids per bidder shall be determined by the Bank of Sierra Leone as per the auction announcement.

4.4 The minimum amount per bid per auction shall be determined by the Bank of Sierra Leone as per the auction announcement.

5. Market Procedures

5.1 Transmission of bids

- i. Commercial banks shall be required to transmit their bids to the Bank of Sierra Leone, duly signed and sealed, on the day of the wholesale auction, or no later than 9:00am on the morning of the auction.
- ii. Bids shall be in multiples of US\$10,000 and submitted on forms design for that purpose.
- iii. Each participant shall indicate the amount they wish to buy or sell and the exchange rate proposed for each bid.
- iv. All bids shall be forwarded in sealed envelopes marked 'Bid for wholesale auction' addressed to the director, Financial Market Department , Bank of Sierra Leone.
- v. Purchase bids submitted by any participant with a net open position above the stipulated limit shall not be accepted.
- vi. Participants who fail to submit their net open position by close of business, Tuesday; the day prior to the auction shall not be accepted.

5.2 Screening of Bids/Offers

- i. The auction committee shall screen bids to check that they meet the requirements.
- ii. Bids submitted after the deadline shall not be accepted.
- iii. Purchase bids submitted by any participant with a net open position above the stipulated limit shall not be accepted.
- iv. Participants who fail to submit their net open position by close of business, Tuesday; the day prior to the auction shall not be accepted;
- v. Bids with incomplete or missing information shall not be accepted.
- vi. Bids higher than the maximum bid amount and lower than the minimum bid amount shall not be accepted.
- vii. Multiple bids with combined value which exceeds the maximum amount per bidder shall not be accepted;
- viii. Bids submitted by commercial banks that the Foreign Exchange Committee (FEAC) regards as outliers (+/-2% spread between highest and lowest successful rates) shall not be accepted;
- ix. Successful participants shall be notified of the outcomes of the auction and the results of the auction shall be published and posted simultaneously on the BSL website.

6.0 Settlement

- 6.1 Each participant shall have a demand deposit account in Leones at the BSL and another account in US Dollars at a correspondent bank.

- 6.2 All participants shall exchange standard settlement agreement signed by their authorized signatories with BSL for settling in foreign currency.
- 6.3 The standard settlement arrangement for US Dollar shall give details of all participants' correspondent US Dollar account through which to settle after the auction.
- 6.4 BSL will allow for settlement of the Leone leg of foreign exchange transactions on a T+0) basis.
- 6.5 Settlement of interbank market transaction shall be done bilaterally by counterparties via SWIFT.
- 6.6 Each participant shall circulate the names of their treasurers who are legally authorized (i.e. as dealers) to engage in buying/selling of US Dollars and other international currencies against the Leone in the interbank foreign exchange market for and on their behalf.

7.0 Foreign Exchange Auction Committee (FEAC)

FEAC Composition

FEAC will be chaired by the Governor of the Bank of Sierra Leone or his appointee and shall include the following members:-

- 7.1 Directors of Policy Departments of the Bank of Sierra Leone, namely Financial Markets, Banking, Banking Supervision and Research and also the Internal Audit and Governors' office.
- 7.2 One representative from the Commercial Banks. The representatives from the commercial banks will only serve as an observer in the foreign exchange auctions and will not take part in policy decisions.

8. Post-Auction Announcement

The results of the auction session will be published on the **next day**, including the following:-

- i. the amount of foreign exchange offered for sale
- ii. the total amount sold
- iii. the clearing exchange rate
- iv. the weighted average auction exchange rate (auction rate)
- v. the official BSL exchange rate which will be calculated as a weighted average of the exchange rates in the auction, commercial bank, and exchange bureau markets.

The BSL will announce the amount to be offered at the next auction for the competitive bids and the date and time for accepting bids/offers for the next auction.

9.0 Monitoring Procedures

All market participants are hereby required to note the under-mentioned procedures for monitoring the utilization of funds purchased through the foreign exchange auction:-

- 9.1 Funds purchased in the auction shall be used for imports of goods consistent with exchange control regulations governing payment for imports.
- 9.2 Each commercial bank shall maintain at all times a maximum limit of 15% net open position in each foreign currency and 25% of the aggregate net open position of all currencies relative to their capital base. On a weekly basis, commercial banks will be required to submit returns on their open position in U S Dollars. Any amount above the open limit prescribed above should be sold to the auction, other commercial banks, foreign exchange bureaux or the Bank of Sierra Leone.
- 9.3 The Bank of Sierra Leone reserves the right to examine the books of any auction participant to ensure compliance with the guidelines governing the foreign exchange auction system.

10. Penalties

- 10.1 A Commercial bank who fails to comply with the auction rules and regulations will be sanctioned by the BSL, including suspension or exclusion from future auctions.

11. Final Provisions

- 11.1 These regulations shall annul and replace those that governed earlier foreign exchange auctions.

Inquiries on these Guidelines may be directed to the Financial Markets Department, Bank of Sierra Leone.

***Bank of Sierra Leone
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