

GUIDELINES GOVERNING BANK OF SIERRA LEONE **FOREIGN EXCHANGE AUCTION**

In order to improve transparency and efficiency in foreign exchange transactions and achieve a market-determined foreign exchange rate, the Bank of Sierra Leone (BSL) will initiate weekly 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 envisages a window for the sale of foreign exchange by other economic agents at market rates.

A. Rules Governing Purchasing of Foreign Exchange

1. Auction Venue

The Auction will 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

Participation in the auction is open to:

Commercial banks
Importers of goods and services

Importers must submit their bids through the commercial banks. Commercial banks must submit bids on their own behalf or on behalf of their clients.

3. Eligible Currency

3.1 The auction is limited to transactions in *non-cash* U.S. dollars, i.e. no dollar notes will be traded in the auction.

4. Competitive Bids

- Purchase of foreign exchange in the auction will be conducted through a competitive window.
- Bidders in the competitive window are required to specify an exchange rate at which they wish to acquire non-cash US dollars. (Annex I) Depending on the clearing exchange rate, as determined in the auction session, they may or may not be awarded. They are awarded only if

their bid exchange rate is higher or equal to the auction clearing exchange rate.

5. Eligible Transactions

- 5.1 Purchases of foreign exchange through the auction must be for imports of goods and services not included in the negative list (Annex II).
- 5.2 The maximum amount per bidder per auction will be determined by the Bank of Sierra Leone as per the auction announcement.
- 5.3 The amount of bid in multiples will be determined by the Bank of Sierra Leone as per the auction announcement.
- 5.4 The minimum amount per bid per auction will be determined by the Bank of Sierra Leone as per the auction announcement.
- 5.6 To be eligible each competitive bid must satisfy the following criteria:
 1. It must be accompanied by a **certification from a commercial bank in Sierra Leone** (In the format of Annex III). This certification must establish (i) eligibility of the underlying import transaction; (ii) availability of Leones counterparts for settlement and; (iii) the size of outstanding eligible import transactions. The latter is defined as the value of imports not yet covered by foreign exchange funding regardless of their source (own source, foreign exchange auction, commercial banks, exchange bureaus). Bids submitted by commercial banks on their own behalf require a written notification from the BSL (Annex IV) certifying the availability of the counterpart fund.
 2. The bank must certify that the bidder has in his account an equivalent amount in Leones at least as large as the bid amount and that this amount is being blocked until settlement or unblocked by a written notification from the Foreign Exchange Auction Secretariat (FEAS).
 3. The value of eligible imports as defined above is larger or equal to the amount of the bid.
 4. The sealed bid, together with the accompanying bank certification, must be lodged at the Financial Markets Department of the Bank of

Sierra Leone in Freetown no later than 2:00 p.m. on the business day prior to the auction day (normally Tuesday). Integrity of the seal shall be established by the FEAS staff at the time of the delivery of the bid and prior to registering it.

6. Disqualifications

- 6.1** Bids submitted after the deadline will not be accepted.
- 6.2** Bids submitted by importers without certification of a commercial bank in Sierra Leone will not be accepted.
- 6.3** Bids with incomplete or missing information will not be accepted.
- 6.4** Bids higher than the allowable maximum amount and lower than the allowable minimum amount will not be accepted.
- 6.5** Multiple bids with combined value which exceeds the allowable maximum amount per bidder will not be accepted.
- 6.6** Bidders are only allowed to bid once through any one commercial Bank multiple bids by bidders through different commercial banks with the same name will be disqualified
- 6.7** Bids submitted by commercial banks that have failed to justify the utilization of funds won at previous auctions will be disqualified.
- 6.8** Bids submitted with inadequate eligible import to support bid amount will be disqualified outrightly for the whole amount
- 6.9** Bids submitted by Commercial Banks without submission of Net Open Limit position (NOP) prior to the day of the auction will be disqualified
- 6.10** Bids submitted by commercial banks with open positions above the stipulated limit will be disqualified. (See 14.1.v)
- 6.11** Bids submitted by commercial banks that the Foreign Exchange Committee (FEAC) regards as outliers will be disqualified.

7.0 Foreign Exchange Auction Committee (FEAC)

7.1 Functions

FEAC shall be the highest administrative authority for the conduct of the foreign exchange auctions. It shall:

- Supervise the foreign exchange auction.
- Supervise the opening of the sealed bids.
- Take decisions on the eligibility of submitted bids, including any outlier bids.
- Act as referee between the Bank of Sierra Leone and the participants with a view to instill confidence and promote transparency in the auction process
- Announce the auction winners.
- Safeguard the rules of non-disclosure and confidentiality of information related to the proceedings of the auction.
- Address all matters arising from the foreign exchange auction.
- Make all other policy decisions on the foreign exchange auction.
- Make recommendations to Management on the amount to be put on offer for Management's approval.

7.2 FEAC Composition

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

- i. Directors of Policy Departments of the Bank of Sierra Leone, namely Financial Markets, Banking, Banking Supervision and Research and also the Director, Governors' office and the Internal Auditor.
- ii. Ministry of Finance
- iii. One representative from the Commercial Banks
- iv. One representative from the Foreign Exchange Bureaux
- v. One representative from the Chamber of Commerce

7.2.1 The representatives from the commercial banks, the foreign exchange bureaux and the Chamber of Commerce will serve as observers in the foreign exchange auctions and will not take part in policy decisions.

8. FEAC Secretariat (FEACS)

8.1 The Secretariat will be appointed by the Bank of Sierra Leone.

8.2 The Secretariat's main responsibility is to provide administrative support to the FEAC in the conduct of the auction including:

- bringing all the bid/offer boxes in the auction room
- carrying out all instructions of the FEAC during the auction session
- opening and vetting all bids/offers
- electronically processing all bids/offers
- determining the winning bids on the basis of the rules and regulations of the auction
- printing detailed and summary reports as deemed necessary by the FEAC
- notifying the banks on all winning bids as ratified by the FEAC
- disseminating the auction reports
- maintaining the database of all statistics concerning the auction
- providing in a timely fashion all winning bids and accompanying bank certificates to the Auction Monitoring Unit
- Safekeeping all bids.

9. Auction Monitoring Unit

9.1 There will be two Auction Monitoring Units namely On-site and Off-site Monitoring Units. The On-site monitoring will be carried out by the Banking Supervision Department who will be responsible to conduct on-site examinations of commercial banks regarding the documentation and the use of foreign exchange purchased through the Auction. The Off-site monitoring will be carried out by the Financial Markets Department with respect to evidence of payments and the evaluation of import documents submitted by commercial banks to justify the use of funds.

10. Auction's Day Proceedings

10.1 The auction commences at 10:00 a.m. on the auction day.

- 10.2** The FEAC Secretariat brings in the auction room all sealed bids and offers.
- 10.3** The integrity of the seals is established by allowing the FEAC opportunity to inspect each of them.
- 10.4** The sealed bids are opened and their eligibility is established in accordance with the rules and regulations of the auction. The eligible bids are then processed by the Secretariat. This will involve entering information contained in the bids/offers and accompanying bank certification.
- 10.5** The winning competitive bids are determined as follows.
- i. All competitive bids are ordered in descending order of the bid exchange rate (from the highest bid rate to the lowest bid rate)
 - ii. Foreign exchange will be awarded sequentially from the highest to the lowest bid exchange rate until the amount of foreign exchange offered in the competitive window is exhausted. If the aggregate amount of the winning bids exceeds the total amount offered for sale **all bids at the lowest successful bid exchange rate would be prorated and awarded accordingly**. In this case, the amount awarded at the lowest winning bid rate would be lower than the amount of the bid.
 - iii. **Each winning bid would be awarded foreign exchange at its bidding exchange rate.**
 - iv. **The auction rate** is defined as the weighted average rate of all the winning and awarded competitive bids.
- 10.6** The FEAS will ensure that the settlement procedures are initiated for all winning bids and funds are unblocked for all non-winning bids.

11. Post-Auction Announcement

- 11.1** The results of the auction session will be published on the **next day**, including the following:
- the amount of foreign exchange offered for sale
 - the total amount sold
 - the clearing exchange rate
 - the weighted average auction exchange rate (auction rate)

- 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.

12. Disbursement Procedures

- 12.1 The Bank of Sierra Leone will transfer to the correspondent bank(s) of the commercial banks, all foreign exchange sold to their clients for value date within three (3) banking days including the day of the auction.
- 12.2 All settlements of successful bids must be completed within three (3) banking days including the day of the auction during which the accounts of the commercial banks would have been debited and the foreign exchange transferred to the correspondent bank(s).
- 12.3 The commercial banks should, in each foreign exchange bid/offer request, provide the Bank of Sierra Leone with details of its correspondent bank into which funds should be lodged.

13.0 Supporting Transaction Documents

- 13.1 The Bank of Sierra Leone is responsible to review, validate and confirm all import documents (Annex V) submitted for the use of foreign exchange auction funds.*
- 13.2 Import documents by non-bank participants in support of bids under the Foreign Exchange Auction System should be forwarded through a commercial bank for onward transmission to the Financial Markets Department.*
- 13.3 Import documents in support of bids in the Foreign Exchange Auction should be forwarded to the Financial Markets Department latest by Friday 3:00 p.m. each week in order to be processed against Monday the following week.*
- 13.4 The evidence of payments of funds won by non-bank participants in the auction must be submitted by commercial banks to the Financial Markets*

Department three (3) banking days after the payment is made to the supplier and before the next foreign exchange auction.

13.5 Copies of Letters of Credit (L/C) established by commercial banks using auction funds must be submitted to the Financial Markets Department within three (3) banking days from the date of issuing the L/C.

13.6 Copies of all payment instructions made under L/C established by commercial banks using auction funds must be submitted to the Financial Markets Department within three (3) banking days from the date of issuing the payment instruction.

13.7 Commercial banks must submit to the Financial Markets Department original import documents following the negotiation of L/C within three (3) banking days.

13.8 All import documents in support of funds won by commercial banks and subsequently sold to non-bank participants for eligible goods which have arrived in the country not later than 90 days should be submitted to the Financial Markets Department within three banking days from the date of issuing the final payment instruction to the supplier.

14.0 Monitoring Procedures

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

- (i) Funds purchased in the auction must be used for eligible imports of goods and services. Access to the auction by non-bank participants must be on the basis of documents establishing that eligible goods and services have already been imported into the country (not later than 90 days). This will be the case for imports effected through supplier credit, but will exclude direct prefinancing of imports through a Letter of Credit (L/C). In this case, however, prefinancing can be available through the commercial banks' accessing the auction on their own behalf and making the foreign exchange available to their client for the opening of the L/C.
- (ii) In the case of Supplier's Credit opened using auction funds, these funds will be transferred not later than 3 banking days. These funds can also

be used for opening of Irrevocable L/C. L/C in respect of imports in excess of US\$300,000 must be opened within 30 banking days.

- (iii) Auction funds allocated by commercial banks in respect of L/C transactions must be utilized within 90 days of the date of issuance of the L/C unless the validity date of such L/C is extended with the express consent of the Financial Markets Department.
- (iv) On a weekly basis, commercial banks are required to submit returns to the Bank of Sierra Leone on the Drawings and utilization of foreign exchange bought from the foreign exchange auction giving the following details: -
 - (a) Name of Applicant
 - (b) Currency purchased and exchange rate
 - (c) Amount purchased
 - (d) Letter of Credit or Documentary Credit Number
 - (e) Date of Drawing
 - (f) Value of Drawing
 - (g) Unutilized Balance

These returns and the evidence of payment should reach the Financial Markets Department within three (3) working days after the end of each auction. Please see **Annex VI** for specimen to be adopted.

- (v) 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. (**Annex VII**) 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.
- (vi) 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.

B. Rules Governing Selling of Foreign Exchange

The foreign exchange auction provides a window for sellers of foreign exchange other than the BSL to sell their foreign exchange.

1.1. Participants

All economic agents are allowed to offer foreign exchange for sale including but not limited to commercial banks, exchange bureaus, exporters, NGOs, Embassies, and donors.

1.2 Eligible Transactions

Offers of foreign exchange of **non-cash** US dollars in the amount not less than US\$10,000.

1.3 Procedures

Sealed irrevocable offers of foreign exchange (**Annex VIII**) must be accompanied by a local bank certification (**Annex IX**) confirming the availability of US dollar funds for settlement as required by the auction regulations.

1.4 Offers to sell foreign exchange will be awarded at the weighted average auction rate.

Sanctions

Bidders who abuse the auction Rules and Regulations will be sanctioned by the BSL in close cooperation with the FEAC, including suspension or exclusion from future auctions.

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

List of Annexes

- I. Irrevocable Competitive Bid form to purchase
- II Ineligible goods (Negative List)
- III Bank Certification form to purchase
- IV Certification Form to Commercial Banks
- V Documentation required to justify utilization of funds
- VI Returns on Drawings and Utilization
- VII Returns on Foreign Exchange Open Position
- VIII Irrevocable Offer to sell foreign exchange
- IX Bank Certification to sell foreign exchange

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