

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

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 10:00 a.m. or the next business day should the Wednesday fall on the national holiday.

2. Participants

Participation in the auction is open to:

Commercial banks
Exchange bureaus
Importers of goods and services

Both importers and exchange bureaus must submit their bids through the commercial banks. Commercial banks 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 and Non-competitive Bids

- Purchase of foreign exchange in the auction can be conducted through two separate windows: a competitive window and a non-competitive window. For this purpose, BSL will pre-announce minimum amounts for sale in each of these two windows. The non-competitive window is intended to accommodate the needs of small importers.
- Bidders in the competitive window are required to specify an exchange rate at which they wish to acquire non-cash US dollars. 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.
- Bidders in the non-competitive window do not bid at a specific exchange rate, but are automatically awarded at the auction rate as defined below.

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 I).

5.2 The maximum amount per *bidder* per auction cannot exceed US\$100,000.

5.3. The maximum amount per *bid* per auction cannot exceed US\$100,000 for a competitive bid and US\$20,000 for a non-competitive bid.

5.4 The minimum amount per *bid* per auction cannot be less than US\$20,000 for competitive bids, and US \$10,000 for non-competitive bids.

5.5. Each bidder is allowed *only one* non-competitive bid and a maximum of *three* bids in any one-auction session.

5.6 To be eligible each bid (competitive and non-competitive) 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 II). 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 (Annex III) on their own behalf require a written notification from the BSL 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). For non-competitive bids the certified amount in Leones must be at least as high as the equivalent amount of the bid in US dollar at the current official exchange rate.
 3. The value of eligible imports as defined above is larger or equal to the amount of the bid.
 4. The bid price must be higher than the exclusion exchange rate as announced by the Bank of Sierra Leone.
 5. The sealed bid, together with the accompanying bank certification, must be lodged at the International Finance 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 and exchange bureaus 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 Bids without sufficient available of counterpart Leones funds will not be accepted.

7. 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:

- Conduct auctions
- Supervise the opening of the sealed bids and offers.
- Take decisions on the eligibility of submitted bids/offers during the auction session.
- Supervise the conduct of the members of the Auction Secretariat during the auction.
- Act as a 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.
- Provide relevant statistics to the general public.
- Safeguard the rules of non-disclosure and confidentiality of information related to the proceeding of the auction.

7.2 FEAC Composition

FEAC will be chaired by the Governor of the Bank of Sierra Leone or his appointee and shall include one representative from each of the following institutions: commercial banks, foreign exchange bureaus, Ministry of Finance, Chamber of Commerce.

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 on the basis of the rules and regulations of the auction the winning bids
- 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 (Annex)
- 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 The Auction Monitoring Unit will be appointed by the Bank of Sierra Leone. Its main responsibility is to ensure that foreign exchange purchased through the auction is utilized in accordance with the rules and regulations of the auction. In carrying out these responsibilities the Auction Monitoring Unit should conduct on-site examinations of commercial banks regarding the documentation and the use of foreign exchange purchased through the auction.

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/offers are opened and their eligibility is established in accordance with the rules and regulations of the auction. The eligible bids/offers are then processed by the Secretariat. This will involve entering information contained in the bids/offers and accompanying bank

certification and electronically separating competitive and non-competitive bids.

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 higher to the lower 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 All non-competitive bids are winning bids and are awarded at the auction rate. In case the aggregate amount of the non-competitive bids exceeds the total amount offered for sale in the non-competitive window, all non-competitive bids would be prorated and awarded accordingly.

10.7 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 amount sold to noncompetitive bidders
- the total number of bidders

- the number of noncompetitive bidders
- the number of successful competitive bids
- the number of successful US\$100,000 bids
- the clearing exchange rate (marginal 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 minimum amount to be offered at the next auction for both competitive and non-competitive bids, the exclusion rate, if any, and the date and time for accepting bids/offers for the next auction.

11. Disbursement Procedures

- 11.1 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.
- 11.2 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).
- 11.3 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.

12.0 Supporting Transaction Documents

- 12.1 Each bid for foreign exchange under the foreign exchange Auction system should be supported with the relevant documentation which should be ascertained and retained by the Commercial bank. (**Annex ix**).

13.0 Monitoring Procedures

- 13.1 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 (but no earlier than January 1, 2000). This will be the case for imports effected through supplier credit, but will exclude direct prefinancing of imports through a Letter of Credit (LC). 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 LC.
- (ii) In the case of Supplier's Credit of their clients, these funds will be transferred not later than 5 banking days. These funds can also be used for opening of Irrevocable L/Cs. L/Cs in respect of imports in excess of US\$300,000 must be opened within 30 banking days. Documents should be available for inspection by the Auction Monitoring Unit within 90 days.
- (iii) On a monthly 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 system 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 should reach the International Finance Department within five (5) working days after the end of the reporting month. Please see **Annex VII** for specimen to be adopted.

- (iv) 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/monthly 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 Bureaus or the Bank of Sierra Leone.

- (v) 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 VI**) must be accompanied by a local bank certification (**Annex VII**) 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, International Finance Department, Bank of Sierra Leone.