

RESERVE BANK OF VANUATU

DOMESTIC BANK PRUDENTIAL GUIDELINE NO. 6

RESTRICTIONS ON SHAREHOLDINGS

1. The aim of this guideline is to clarify aspects of the Financial Institutions Act in relation to restrictions of shareholdings to ensure that banks are not exposed to excessive risk as a result of their equity associations. This guideline should be read in conjunction with Sections 33 & 35 of the Act.
2. In the normal course of its operations, a bank (or its subsidiaries) may make equity investments in other entities. A bank should generally finance such equity investments from its shareholders' funds, and have regard to the size and risks associated with these investments to ensure that they would not have a detrimental effect on its (or the group's) capital position.
3. It is the responsibility of the board and management of a bank to establish group policies on equity investments in other entities, and to put in place appropriate systems and procedures for monitoring and managing the risks arising from the activities of its subsidiaries and associates. A bank's board should also establish, and monitor compliance with, policies governing dealings with these entities.
4. Unless otherwise indicated, this guideline does not apply to foreign banks operating as branches in Vanuatu.

Prior Notification Requirements for Certain Equity Investments

5. Consistent with the general requirement that a bank should consult with the Reserve Bank before undertaking new business initiatives, a bank should refer the following equity investments (by the bank or its subsidiaries) to the Reserve Bank for comment and approval before entering into a firm commitment. This includes:
 - (a) the establishment of subsidiaries¹; and
 - (b) equity investments in entities other than subsidiaries as follows:

¹ The establishment of a subsidiary requires the prior written approval of the Reserve Bank. Section 34 of the Financial Institutions Act No 2 refers.

- i. in the case of entities operating in the field of finance, where the investment will result in a bank acquiring more than 10 per cent of equity interest in an entity; or
 - ii. in the case of entities not operating in the field of finance, where an individual investment will exceed the limit of 5 per cent of a bank's consolidated total eligible capital; or
 - iii. where the investment, either in financial or non-financial entities, will in aggregate exceed the limit of 25 per cent of a bank's consolidated total eligible capital.
6. With the prior written approval of the Reserve Bank, a bank may be permitted to undertake equity investments in excess of the 25 per cent aggregate limit described in paragraph 5(b)(ii) above provided the excess is to be deducted from total eligible capital (of the bank and/or the group as appropriate).
7. The notification requirements set out in paragraph 5 apply to direct and/or indirect equity associations; to equity investments in domestic or overseas entities; and to increases in a bank's existing equity interest in an entity, including entitlements to new share issues.
8. Equity interests taken up as a result of the "work-out" of problem exposures which trigger the prior notification thresholds specified in paragraph 4 will be considered on a case-by-case basis.