



RESERVE BANK OF VANUATU

DOMESTIC BANK

PRUDENTIAL GUIDELINE NO: 7

DEALINGS WITH SUBSIDIARIES AND ASSOCIATES

1. This aim of this guideline is to clarify aspects of the Financial Institutions Act in relation to a bank's dealings with its subsidiaries and associates. In terms of Section 34 of the Act banks must obtain the prior approval of the Reserve Bank before establishing a subsidiary.
2. A bank must ensure that its subsidiaries and associates have sound and prudent management responsible for achieving the viability of these entities from their own capital resources, and that they do not give any impression that the bank's resources stand behind, or could be called upon to stand behind, their operations. This requirement also applies to foreign branches in respect of their subsidiaries and associates operating in Vanuatu.
3. A bank should not give a general guarantee of the obligations of a subsidiary or associate. Where a foreign bank wishes to give a general guarantee to its Vanuatu subsidiaries or associates, it should be able to demonstrate that the home supervisor is aware of the obligations and has no objection to the transaction.

4. A bank should address its risk exposures arising from financial dealings with subsidiaries and associates (including transactions between a foreign bank and its Vanuatu subsidiaries and associates) as strictly as it would address its risk exposures to unrelated entities.
5. A bank should establish prudent limits on exposures to these entities at both an individual and aggregate level. In determining limits on acceptable levels of exposure to subsidiaries and associates, a bank should have regard to:
 - (a) the level of exposures which would be approved for unrelated entities of similar credit status; and
 - (b) the impact on the bank's capital and liquidity positions, as well as its ability to continue operating, in the event of a failure of any of these entities to which the bank is exposed.
6. A bank's exposure to an individual subsidiary (including a subsidiary and all its subsidiaries) should not exceed 25 per cent of the bank's stand-alone capital base.
7. The Reserve Bank will review the adequacy of a bank's systems and controls for monitoring exposures to, and the operations of, subsidiaries and associates. The Reserve Bank may require a bank to put in place additional internal controls, a more robust reporting mechanism and/or to maintain a higher capital ratio if review findings are unsatisfactory.

Reporting Arrangements

8. All locally incorporated banks should report to the Reserve Bank each quarter (or more frequently if required by the Reserve Bank) their aggregate exposures to non-bank subsidiaries and associates. The Reserve Bank may ask a bank to provide details of its financial exposures – by way of loans, standbys or guarantees – to selected individual non-bank subsidiaries and associates.
9. Foreign banks should report quarterly (or more frequently if required by the Reserve Bank) their aggregate exposures to non-bank subsidiaries and associates operating in Vanuatu. The Reserve Bank may ask a foreign bank to provide details of its financial exposures – by way of loans, standbys or guarantees – to selected individual non-bank subsidiaries and associates.