Convention
Seychelles Interbank Foreign Exchange Market (SIFXM)

A. The Market

The Central Bank of Seychelles (CBS) is developing an interbank market for the trading of foreign exchange as part of its ongoing foreign exchange liberalisation process. The market will be called **Seychelles Interbank Foreign Exchange Market (SIFXM)** and is about buying and selling of foreign exchange between participants as defined below at bid/offer exchange rates.

This Convention does not amend or prevail over any regulation or directive issued by the CBS in its capacity as a supervisory authority.

B. Procedural Instructions and Rules

1.0 Management

1.1 The CBS will administer the SIFXM and operate as guided under the CBS Act 2004.

2.0 Participation

2.1 The CBS and all banks as licensed under the Financial Institutions Act 2004, excluding those granted solely with an offshore banking licence.

2.2 Each participant must have a demand deposit account in Seychelles Rupees at the CBS and another account in any traded currency (as per the Addendum to this Convention) at a correspondent bank.

2.3 Each participant must inform all other participants of the names of the persons who are legally authorised (i.e. dealers) to engage in transactions for the buying/selling of foreign exchange in the interbank market for and on their behalf.

2.4 Each participant must provide the list of authorised signatories, their e-mail addresses and official stamp which will appear on the submissions to CBS (i.e. authorised officers at each participant's back office) and inform the CBS on any updating on the referred list.

3.0 Reserved Rights

3.1 Each participant wishing to undertake transactions in the SIFXM has the right to choose any bid/offer rate it wishes to transact at, quoted by any other participant.

4.0 Transactions

4.1 A foreign exchange transaction is any transaction between two participants in the interbank foreign exchange market, for the purchase by one party of an agreed amount in one currency against the sale by it of the other party, of an agreed amount in another currency at an agreed exchange rate, both such amounts being deliverable on the agreed value date.

4.2 Foreign exchange transactions will comprise spot deals, where both the rupee settlement (value date as per section 4.4 below) and foreign currency delivery is at the norm of (T+2) business days.

4.3 Spot transactions to be concluded with same day value or value next business day may be agreed upon with the mutual consent of the parties. Parties who wish to trade on a different basis from the normal two-day (T+2) value date should specify in the fields provided on the blog site when quoting or asking for a price from another participant.

4.4 Since the interpretation of date conventions might differ (e.g. DDMM versus MMDD), in direct dealing, in order to avoid confusion, it is recommended that the month be spelt out.

4.5 Trading/dealing must be done within the trading intervals only and transactions must be concluded within the interbank quoting/trading intervals.

4.6 The interbank foreign exchange market is open everyday except weekends and public holidays.

4.7 The participants engage to accept and carry out individual transactions for a minimum value as stipulated in the Addendum to this Convention.

4.8 No transaction fees or charges shall be imposed by any participant.

5.0 Quoting

5.1 Participants must provide a two-way quotation (i.e. a buying and a selling rate) during the regular time intervals specified in the Addendum to this Convention. Responsibility for up-dating quotations rests with each participant. A participant who fails to update its quotations during any time interval will be deemed to have accepted its most recent pair of posted bid/offer quotations.

5.2 Quoting will be placed through the interbank blog site (http://seyinterbankfx.blogspot.com), which will be administered and maintained by the CBS with entry being restricted to registered participants. Each participating bank must sign up for an electronic 'gmail' account (from Google website) and obtain a password to access the SIFXM Blog site. Their 'gmail' addresses must be sent to CBS, so that these respective participants can be added to this blog site.

5.3 In the eventuality that the internet is not functioning, CBS will suspend all trading and inform participants of its resumption once the problem is rectified. All issues that may arise in relation to the suspension of trading will be resolved through the Interbank Market Committee (IMC; as per section 9.5 below).

5.4 The difference between the buying and the selling rate is at the discretion of the quoting participant.

5.5 Participants are only allowed to revise quotations during the quoting sessions. However, any existing quotation on the site by the end of the quoting session is considered binding up to the participant's agreed minimum tradable amount.

5.6 Provisions stated in 5.1 to 5.5 do not apply to the CBS but to the other participants who will give a binding two-way quotation whenever requested by the CBS.

6.0 Dealing and Confirmations

6.1 Foreign exchange transactions shall be concluded and carried out in the name and for the account of the participant during the specified time intervals as per the Addendum to this Convention.

6.2 Participants must have in place an organisational structure which minimises operational risk. In particular, a clear-cut segregation between dealing and back-office functions must be assured by each participant.

6.3 Foreign exchange transactions may be concluded via telephone, but in all cases, a written confirmation of each deal must be sent by fax or post by both parties to the counterparty immediately after the conclusion of the transaction.

6.4 Confirmations must be issued and sent by the back-office of each participant and addressed to the other participant's back-office. Dealer officers must not be involved in all aspects of the confirmation process on either side.

6.5 Confirmation invoices must include the following details:

- 6.5.1 Transaction date
- 6.5.2 Value (Settlement) date
- 6.5.3 Name and location of the counterparty
- 6.5.4 Name of dealers involved for each party
- 6.5.5 Exchange rate, amount of foreign currency and counter value in rupees
- 6.5.6 Side of transaction (buy or sell)

6.6 All confirmations must immediately be reviewed by each participant's back-office independently of those who initiate deals and if the other participant's confirmation is considered incorrect the counterparty must be immediately informed. A new confirmation (or written agreement to a correction) must be requested from and be provided by the counterparty whose original confirmation was incorrect.

6.7 Any participant failing to receive a written confirmation before the time specified in the Addendum to this Convention must inform the back-office of the counterparty.

7.0 Settlement

7.1 Participants will be provided with a 'Rupee Settlement Daily Activity Report for Interbank Foreign Exchange Market Activities' (FXDAR table) to complete for the submission of their daily trading activities.

7.2 At the specified time (according to the Addendum to this Convention) all banks should submit their FXDAR table via email (blogfxrpt@cbs.sc) or fax (+248) 224958 (or both) to CBS that illustrates the total rupee value and total foreign exchange value of all interbank transactions with each other participant and their corresponding weighted average exchange rate calculated at four decimal places. Participants should submit the report even if it indicates no trading, so that the CBS has visibility of the interbank trading activities. Only in the event that a participant is unable to submit its activity report via email or fax will the Central Bank accept hand delivered report which is officially stamped and have at least two authorised signatures at the bottom.

7.3 The netting and settlement process is then undertaken by the CBS at the specified time (according to the Addendum to this Convention) on the ‘Consolidated Daily Net Rupee Settlement Register for Interbank Foreign Exchange Market Activities’ (FXDNS Register) and the rupee settlement is done across the participants’ demand deposit accounts with the CBS on T+2.

7.4 In the event that “due from” and “due to” amounts between two participants do not match, these participants will be informed immediately and that particular transaction will be removed from the daily settlement and only added when the discrepancy is rectified by each participant within the time frame specified in the Addendum to this Convention.

7.5 The settlement of transactions requires that each participant holds sufficient funds available in their respective accounts by the end of trading hours. In the event that there are insufficient funds to complete the settlement, the participants will be immediately informed and requested (as specified in the Addendum to this Convention) to rectify the situation, failing which will result in the removal of the participant’s transaction from that particular settlement, as participants will not be allowed to close the day with an overdraft. All other aggrieved participants will be informed accordingly.

7.6 CBS will provide to all participants their positions after settlement whilst the seller undertakes delivery transfer using correspondent banking arrangement on a T+2 delivery basis as per specified time in the Addendum to this Convention.

7.7 No claim against the CBS shall be made by any participant in the event that any other participant fails to satisfy the proper settlement and delivery for interbank foreign exchange transactions.

8.0 Responsibilities

8.1 Responsibility for updating quotations on the blog site rests with each participant.

8.2 The CBS will be responsible for dissemination of daily closing average bid and offer rates and the weighted average interbank traded rate (Weighted Average SIFXM Exchange Rate), quoted at four decimal places, on both the CBS website and the SIFXM Blog site. The Weighted Average SIFXM Exchange Rate will be calculated daily using the 'Participant's Consolidated Daily Activity Report (FXCDAR) for Interbank Foreign Exchange Market Activities'.

8.3 CBS will allow for settlement of the rupee leg of foreign exchange transactions on a T+2 basis; however each participant is responsible for the settlement and delivery of the foreign exchange portion. CBS will not take any responsibility on failing to settle Rupee accounts by any participants.

9.0 Penalties and Resolution of Disputes

9.1 In the event of late payment in the specified foreign currency (as per section 2.2) and/or insufficient funds in the rupee account with CBS, the aggrieved party is entitled to claim damage in the form of a penalty as specified in the Addendum to this Convention.

9.2 CBS will not accept responsibility for any other participant failing to comply with the agreed settlement arrangements. In particular, the CBS will not be responsible for imposing and/or for collecting penalty fees.

9.3 Disputes are inevitable, and management should establish clear policies and procedures for resolution at the senior management level with a transparent audit trail.

9.4 In an effort to "settle" disputes senior management should be made aware of any problem so that both counterparties address the issues. At all times, traders should maintain professionalism, confidentiality, and proper language in telephone and electronic conversations with traders at other banks.

9.5 An Interbank Market Committee (IMC) governed by its Terms of Reference (see attached Appendix 1) shall be established to deal with all matters raised by participants, but in particular to resolve disputes that may arise among participants in relation to transactions carried out, in cases when the parties cannot agree upon a mutual understanding.

10.0 Amendments

At the written request of the participants with the approval of the IMC, this Convention through its Addendum may be amended.

11.0 Promulgation

Acceptance to this Convention in Victoria, Seychelles on March 06, 2009.

Addendum to the Convention
Seychelles Interbank Foreign Exchange Market (SIFXM)

The numbering in the Addendum relates to specific sections of the Convention.

2.0 Participation

2.2 Each participant must have a demand deposit account in Seychelles Rupees at the CBS and another account in United States Dollars (USD) at a correspondent bank.

4.0 Transactions

4.7 The participants engage to accept and carry out individual transactions for a minimum value of USD 25,000.

5.0 Quoting

5.1 Participants should provide a two-way quotation (i.e. a buying rate and a selling rate) during the specified time intervals:

0900 hrs –0930 hrs

1130 hrs – 1200 hrs

6.0 Dealing and Confirmations

6.1 Interbank trading intervals:

0930 hrs – 1030 hrs

1200 hrs – 1300 hrs

6.7 All participants should receive a written confirmation before **1500 hrs** of the transaction date.

7.0 Settlement

7.2 At **1330 hrs** on the date of trading (T+0), all participants should submit their FXDAR table via email (**blogfxrpt@cbs.sc**) or fax (+248) 224958 (or both) to CBS.

7.3 The netting process is undertaken by the CBS at **1400 hrs** on T+0 and settlement is undertaken on T+2 (value date/settlement date) as indicated in their submitted FXDAR table.

7.4 In the event that "due from" and "due to" amounts between two participants do not match, the time frame for rectification is between 1400 hrs to 1430 hrs.

7.5 In the event of insufficient funds, the participants will be given until the end of T+2 to rectify the situation.

7.6 On T+2 (value date/settlement date), CBS should provide to all participants their positions.

9.0 Penalties and Resolution of Disputes

9.1 For USD, a penalty interest equivalent to the overnight LIBOR plus 200 basis points (i.e. plus 2 per cent) is applicable. For rupees, a penalty interest equivalent to the latest 7-day weighted average rate for the Deposit Auction Arrangement applies.

The IMC will be responsible for imposing and/or collecting penalty fees where the participants have failed to settle the matter mutually.

Appendix 1

Terms of Reference for the Interbank Market Committee

1.0 Committee Name

The name of the Committee shall be the Interbank Market Committee (IMC).

2.0 Purpose

The main purpose of the Committee will be to resolve disputes that may arise among participants in relation to transactions carried out in cases where the parties cannot agree upon a mutual understanding. The Committee will also deal with other relevant matters raised by participants.

The IMC will be responsible for imposing and/or collecting penalty fees where the participants have failed to settle the matter mutually.

3.0 Chairperson

The Chairperson shall be the Deputy Governor of the Central Bank or in the absence of the Deputy Governor, any person delegated to do so.

4.0 Membership

In addition to its Chairperson, the IMC will consist of one member from each participating commercial bank, of which one will be the Secretary.

5.0 Meetings

The Committee shall meet as and when there is a conflict or any other relevant issues to deal with, or whenever the Chairperson or at least two participants excluding the CBS call for it. All members including the Chairperson shall be required for the Committee to make a decision.

6.0 Dispute Procedures

The IMC shall provide a forum for resolution of any dispute between market participants, after the parties have exhausted their own efforts to resolve the matter directly. The committee will ensure that it takes firm, clear and fair decisions.

Requests for arbitration should be addressed to the Deputy Governor of the Central Bank. A request shall be concise but shall contain all necessary information to facilitate the IMC's actions.

The Chairperson will act as arbitrator, without any voting right, except in the event of a tie where the Chairperson will have the casting vote.

APPENDIX 2:
GUIDELINES FOR CBS PARTICIPATION IN THE FOREIGN EXCHANGE MARKET

1. Foreign exchange market in general consists of
   a. A wholesale interbank market: authorized dealers (usually banks and other financial institutions) trade among themselves
   b. A retail market, in which authorized dealers transact with final customers (usually households and firms).

2. The main venue for foreign exchange trading shall be the interbank market. It should be the focal point for foreign exchange dealing, capturing all foreign exchange activity.

3. Fluctuations in the exchange rate, even if small, quickly create incentives for market participants to gather information, form views, price foreign exchange, and manage exchange rate risks. Experience is needed in price formation and exchange rate risk management by banks, businesses and individuals.

4. Creating a sense of two-way risk in the exchange rate is essential in establishing a deep market and capacity to manage risks. Market perceptions that the exchange rate can either appreciate or depreciate help reduce the risk of one-way bets against the central bank, minimize destabilizing trading strategies, and foster risk management expertise.

5. Central Bank too active in the market by necessity reduces the need for market participants to trade and keeps them from gaining experience. In the extreme, the central bank may dominate the interbank foreign exchange market and act as the primary foreign exchange intermediary

6. However, the CBS shall be both empowered and prepared for reacting promptly and effectively to sudden and unwelcome developments.

7. CBS shall implement and maintain a staff training plan for developing trading skills which are expected to support its intervention last resort duties in the domestic market as well as its international reserves management functions in the future.

8. If needed CBS interventions shall be executed by price alone. In particular, any deal offered by banks must be presumed legitimate and foreign exchange control regulations

(such as those performed under Anti Money Laundering arrangements) should be exercised separately.

APPENDIX 3:
GUIDELINES FOR CBS PARTICIPATION IN THE SEYCHELLES INTERBANK FOREIGN EXCHANGE MARKET (SIFXM)

Main features

1. Transactions comprise of all dealing conducted under the Seychelles Convention (the Convention) governing the SIFXM.

2. All Guidelines below must follow the outstanding Convention to the extent that the specific foreign currencies, minimum amounts and all other particular agreements should be agreed by the SIFXM members.

3. However, the Convention does not prevail over any regulation issued by the CBS in its capacity of supervisory or monetary authority.

4. The CBS shall be a passive participant. It is not expected to quote or deal on a daily basis. Nevertheless, the CBS may eventually use the SIFXM to conduct any trading activity in foreign exchange. In particular, last resort kind of trading, be it either for currency intervention, liquidity or foreign exchange risk management objectives, might be exceptionally performed by the CBS through the SIFXM.

CBS support

5. Currency intervention for exchange rate stabilization purposes may take the form of either spot buying or selling of foreign exchange or through engaging in swap operations in United States Dollars (USD) or EURO agreed to repurchase (resale) in a future date.

6. Spot or forward (swap) dealing by the CBS for liquidity management reasons in the context of monetary policy shall also be available tools.

7. Once the spot market is established, the Convention should be amended to extend interbank trading from spot to forward transactions. This will provide the financial system with market instruments for risk management by banks and allow the CBS to enhance its menu of monetary policy tools

8. Foreign exchange risk management shall be exercised by the banks themselves and the CBS reassures it through the respective prudential regulations limiting open positions. However, the CBS might want to use the interbank market for either squaring its own open positions or offering a last resort (i.e. expensive, high bid-offer spreads) to banks wanting to avoid penalties for non compliance of the above mentioned prudential limits.

9. The CBS shall be a key supporter of the SIFXM, especially during its initial development. In particular, the CBS will provide both a quoting platform and a clearing facility for the settlement of the Seychelles Rupee (SR) portion of the completed foreign exchange transactions.

10. Until an automated trading system is adopted by the SIFXM members, interbank trading utilizing the SIFXM Blog Site (http://www.seyinterbankfx.blogspot.com) is the only recognized source for valid quotations as stated in the Convention.

11. The CBS is expected to benefit from administering the quoting platform in two ways. First, in regard to exchange rate and monetary policy, it will provide a privileged tool for price discovery and foreign exchange liquidity. Second, it will help the CBS banking supervision functions by bringing early warning signals about the extent of possible mismatches in the foreign exchange position of a particular bank.

12. CBS will support the operational efficiency of the SIFXM by allowing clearing and settlement of the rupee leg of foreign exchange transactions on a T+2 basis. However, the CBS is not expected to hold any responsibility in the settlement of the foreign exchange portion of participants other than itself. Although the Convention contains a set of penalties for failing to honor agreed value dates, they will be enforced in a self-regulated regime, the CBS holding the same status than its peers in regard to discipline enforcement. Accordingly, participant banks are expected to take care and develop credit and settlement risk safeguards for themselves.

13. Liquidity in the foreign exchange market is expected to increase if and when retail transactions between banks and its customers would become standard business. A more liquid SIFXM brings stability and depth, reducing the need for CBS participation.

14. The CBS shall also preside over the SIFXM executive board (the Interbank Market Committee, IMC) and help in coordinating member activities but it shall be a specific

Statute, agreed by the Convention signatories, which shall rule all the administrative operations of the SIFXM and the IMC itself.

15. Amendments to the Convention shall be proposed by any of the SIFXM members (including the CBS) to the IMC. The CBS will however, hold a veto power on the IMC decisions on amendments to the Convention.

16. Eligible participants are banks having a settlement account with the CBS and membership to the SIFXM is essentially voluntary. The CBS or any member may decide to leave the SIFXM at any moment. However, the CBS will always remain supporting the rupee clearing of foreign exchange transactions at the SIFXM as well as disseminating market rates information. It is also expected that the CBS will continue providing a quoting platform until the SIFXM install an automated trading.

Operational aspects

17. Settlement undertaken using the “hybrid manual RTGS” arrangement, and settlement of the rupee leg will be completed on T+2 by the CBS Banking Services Department.

18. In line with the Convention, only spot USD transactions will be allowed. However, it is expected that the SIFXM would eventually evolve to trading in other major foreign currencies as well as forward transactions and foreign currency swaps. Such developments must be timely included through amendments to the Convention and/or Addendum.

19. Delivery of USD will be on a T+2 basis using correspondent banking arrangements.

20. Quotations are irrevocable commitments to trade by the party posting the quotation.

21. The CBS business day will develop in the following sequence:
    - 0900 hrs to 1300 hrs, Quotation and Trading periods
    - 1330 hrs, all banks submit “Activity Report Form” to CBS for Seychelles Rupee value (Via E-Mail)
    - On T+2 (value date/settlement date), netting and rupee settlement undertaken by CBS and positions provided to all participants

22. Seller undertakes transfer utilizing correspondent banking arrangements on a T+2 basis.

23. Submission of the Participant's Daily Activity Report Form must be addressed to blogfxrpt@cbs.sc.

24. CBS will net transactions using a Participant's Consolidated Net Settlement Form.