MMA MONETARY OPERATIONS MANUAL

Section 3

Foreign Exchange Swap

03 July 2011

Operating Instructions on FX Swap Transactions under Auction System

The Maldives Monetary Authority (MMA) will conduct FX Swap (Foreign Exchange Swap) transaction with licensed banks, hereinafter referred to as the Participating Institutions (PIs). FX Swap is a monetary policy instrument to manage liquidity in the banking system by mopping-up or injecting liquidity. This involves the purchase or sale of Rufiyaa against another currency at an initial date and an agreement to reverse the transaction at a future date at a specified forward rate determined via an auction system.

The MMA may engage in two types of FX swaps under the Open Market Operations (OMO):

1. For absorbing domestic liquidity; buy spot and sell forward Rufiyaa against another currency
2. To inject domestic liquidity to the market; sell spot and buy forward Rufiyaa against another currency

On the basis of an assessment of the weekly market liquidity situation, the Market Operations Committee (MOC) of the MMA will decide whether to absorb domestic liquidity (buy spot and sell forward FX swaps) from or to inject domestic liquidity (sell spot and buy forward FX swaps) to the market and the amount and the type of transaction under which such absorption or injection would be made. The MMA will announce its decision to the market through the MMA website.

All FX swaps transactions between a PI and the MMA should be carried out under the terms and conditions of these Operating Instructions and are subject to the provisions of the International Swaps and Derivatives Association (ISDA) Master Agreement entered into between such PI and the MMA.

The MMA reserves the right to amend, revise or vary any term and / or condition or any part thereof of these Operating Instructions with prior notice to the PIs.

Sell/buy or buy/sell FX swaps under the Auction System

1. The tenure of sell/buy or buy/sell FX Swaps transactions, until further notice will be for a maturity of one week (seven days).

2. The MOC, after assessing the liquidity position in the monetary market will call for quotations (bids) from PIs by 11.00 am every Sunday (and 10.30 am in the month of Ramal'aan), through an announcement on MMA's website.

3. A PI who wishes to invest under sell/buy or buy/sell FX swaps is required to submit tender form to the Foreign Exchange Section (FES) of the MMA between 11.00 am to 1.30pm(and between 10.30 am to 12.00 pm in the month of Ramal'aan) the same day (Sunday), giving the amount and the swap point (variable rate tenders). Bids should be signed by the authorized signatories and submitted in sealed envelopes to the FES.

4. The PI can submit up to a maximum of three bids at each tender. The minimum amount of a bid shall be US Dollar one thousand and in multiples of US Dollar one thousand. MMA reserves the right to reject any bids of the banks that falls above a marginal rate decided by MMA.

5. The swap points should be quoted to two decimal places and in the event that bids are submitted at the same rate in excess of the amount offered, the available quantum will be allocated among such bidders on a 'pro-rata' basis. Accordingly, the bids at the cut off rate may be partially accepted.

6. Result of the auction will be published on the website on Sunday at 3.30 pm (and 2.00 pm in the month of Ramal'aan) as per annexure 1

7. Each successful bidder will be informed of the acceptance of its bids and allotment through fax at 3:30 pm (and 2.00 pm in the month of Ramal'aan). The allotment will be made at the swap points quoted by the successful bidder.

8. Successful PIs should ensure that sufficient funds are available in their Settlement Account to settle the transaction in full at or before 12.30 pm on the settlement or maturity date. If a PI fails to settle a FX swaps transaction in full, the PI shall be liable to pay interest and compensation as provided in section 9 (h) of the Master Agreement.

9. On maturity if any party defaults, the defaulting party shall be liable to pay interest and compensation as provided in section 9 (h) of the Master Agreement.

10. Settlement procedure for sell/buy or buy/sell FX swap transactions.

    a. ***Initial exchange of principal amount*:** At the agreed exchange rate, the MMA will debit the Rufiyaa Reserve Account of the PI held with MMA for the equivalent of the US Dollar amount allotted and credit the US Dollar Reserve Account of the PI held with MMA for the allotted US Dollar amount.

b. ***Re-exchange of principal on maturity and exchange of interest*:** On the maturity date, the MMA will debit the US Dollar Reserve Account of the PI held with MMA for the re-exchange of the principal US Dollar amount allotted at the beginning of the transaction and will credit the Rufiyaa Reserve Account of the PI held with MMA for the re-exchange of the principal Rufiyaa amount debited at the beginning of the transaction along with the agreed interest amount.

11. If the maturity date in respect of any FX swaps transaction is a bank holiday, any obligation of a party to such FX swaps transaction arising on such day shall be carried out by such party on the immediately succeeding business day.

12. The MMA has the right to hold additional auctions later in the same day, as it deems necessary.

13. The MMA reserves the right to:
    i. accept the full amount
    ii. accept partially an amount if the rate exceeds the marginal rate
    iii. reject an amount that exceeds the marginal rate