

Finance Instruction No. 1 of 2025

Chief Executive Officer

Financial Supervisory Authority of Kiribati

Under sections 38(1) and 41 of the *Financial Supervisory Authority of Kiribati Act 2021* (Authority Act), all licensed financial institutions under the *Kiribati Financial Institutions Act 2021* (Financial Institutions Act) are hereby directed to comply with the following annual prudential and reporting requirements. This Instruction considers the commencement instrument signed by the Minister in April 2023, recognising that some of those requirements may have lapsed. It is in addition to ongoing full compliance with the Financial Institutions Act and the Authority Act.

1. Application

These Instructions apply to every entity licensed under the Financial Institutions Act, including:

- Commercial banks
- Investment and development banks
- Credit institutions
- Moneylenders
- Insurance companies
- Superannuation funds, and
- Remittance services.

All domestic operations and, where incorporated in Kiribati, overseas branches.

2. Definitions

- **Authority:** The Financial Supervisory Authority of Kiribati established under section 4 of the Authority Act.
- **Financial Institution:** Any person or company carrying on “financial business” as defined in section 7 of the Financial Institutions Act.
- **Auditor:** A person approved by the Authority, holding a certificate of public practice, or, in the case of a statutory corporation, the Auditor-General.
- **Financial Year:** 12 months ending on 31 December.

3. Prudential Requirements

3.1 Minimum Capital

- **Thresholds:** Maintain paid-up capital and unimpaired reserves of at least \$2,000,000 for banks and \$500,000 for credit institutions, as prescribed.
- **Dividend Restriction:** Do not declare or pay dividends or make other remittances if this causes non-compliance with capital requirements.

3.2 Required Reserves

- **Reserve Ratio:** Maintain minimum reserves against deposits and other similar liabilities:
 - As specified by the Financial Supervisory Authority, or
 - An amount equal to 20% of deposits and other similar liabilities.
- **Deposit Requirement:** Reserves must be deposited with a commercial bank licensed as a financial institution under the Financial Institutions Act.
- **Penalties:** Shortfalls may result in a penalty of up to 0.01% of the shortfall per day until the shortfall is rectified.

3.3 Unimpaired Liquid Assets

- **Composition:** Include Australian currency, Government treasury bills, government-guaranteed securities (≤ 10 years maturity), net interbank claims, approved foreign exchange, and other Authority-approved assets.
- **Minimum:** Maintain unimpaired liquid assets of at least 20% (up to 35%) of deposits and similar liabilities.
- **Penalties:** Failure to maintain the specified minimum holding may result in a penalty of up to 0.01% of the shortfall per day until the shortfall is rectified.

3.4 Foreign Exchange Limits

- **Net Positions:** Comply with maximum net foreign currency holdings and indebtedness as specified by the Authority.
- **Policy Consultation and Submission:** Consult with the Financial Supervisory Authority on policies and guidelines, and submit foreign exchange risk management policies on an annual basis.

3.5 Asset Quality

- **Non-Performing Loans:** Ensure non-performing loans do not exceed the maximum ratio specified by the Authority.
- **Provisioning:** Follow the prescribed methods for ageing, provisioning, and reporting non-performing exposures.
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3.6 Reporting Agreements With Third Parties

- **Reporting Requirement:** Submit any existing agreements with another financial institution or third party within three months of commencement of the Authority Act.
- **Approval:** Obtain approval of the Authority before entering into agreements with any financial institution or a third party.

4. Annual Reporting Obligations

4.1 Information Submission

- **On Request:** Furnish, within 14 days, any statements of assets and liabilities, balance sheets, profit and loss accounts, income and expenditure statements, or other returns as specified by the Authority.
- **Annual Return:** Submit a consolidated Annual Return, in the Authority's prescribed electronic format, by 31 March each year or three months after the end of the financial year nominated by the financial institution, covering the preceding financial year.

4.2 Audited Financial Statements

- **Publication:** Publish in the Gazette, no later than four months after year-end, the audited balance sheet, and profit and loss account, in the form specified by the Authority, including full director details.
- **Delivery:** Provide two bound copies of the audited statements and the auditor's report to the Authority's head office by the publication deadline.
- **Public Inspection:** Maintain the latest published statements at every branch for public inspection.
- **Penalties:** Failure to comply may incur penalties up to \$1,000 per day for every director and every manager of a licensed financial institution, and may lead to licence suspension or revocation under the Financial Institutions Act.

4.3 Auditor Appointment and Reporting

- **Approval:** Obtain prior written authorisation from the Authority for each annual auditor appointment.
- **Scope:** Engage auditors to cover both Kiribati and, where applicable, overseas operations.
- **Reporting:** Require auditors to opine on whether proper books are kept, whether the accounts give an accurate and fair view, and to highlight any material weaknesses.
- **Shareholder Meeting:** Table the directors' and auditors' reports at the institution's Annual General Meeting and submit copies to the Authority.

5. Compliance for Institutions Without Audited Statements

Any institution that has not yet produced audited financial statements for its Kiribati operations must, within 120 days of this Instruction:

- Submit audited balance sheets, profit and loss accounts, and audit reports for the past three financial years.

- Provide directors' reports and auditors' opinions confirming completeness and fairness.
- Demonstrate implementation of internal controls over financial reporting.
- Failure to comply may incur penalties up to \$1,000 per day for every director and every manager of a licensed financial institution, and may lead to licence suspension or revocation under the Financial Institutions Act.

6. Transitional Arrangements

- **Extensions:** Financial institutions may request, in writing, a one-time extension of up to 60 days for any submission deadline. The Authority may grant such extensions at its discretion under Section 45(3) of the Authority Act.
- **Template Use:** The Authority will publish standard templates and guidance notes on its website by 31 August 2025 and distribute them via email to all licensees.

7. Enforcement and Escalation

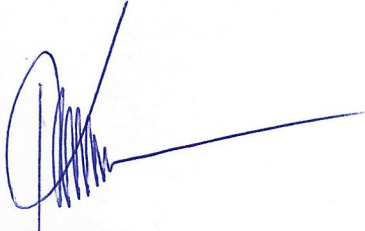
- **Monitoring:** The Authority will conduct quarterly off-site reviews and annual on-site inspections.
- **Compliance:** Financial institutions must comply with rules and directions issued by the Authority under section 38 (1) of the Authority Act.
- **Penalties:** Penalties apply under the Financial Institutions Act and the Authority Act:
 - Non-compliance may result in financial penalties, public reprimand, or licence suspension under Part 6 of the Financial Institutions Act.
 - Contravention of Section 38 (1) of the Authority Act is an offence punishable on conviction by a fine of up to \$5,000 under Part 7 of that Act.
- **Appeals:** Institutions may appeal adverse decisions to the High Court within 21 days, as provided under Section 18 of the Financial Institutions Act.

8. Contact and Inquiries

All queries regarding these Instructions should be submitted in writing to:

Office of the CEO
Financial Supervisory Authority of Kiribati
P.O. Box 34, Bairiki, Tarawa
Email: compliance@fsa.kir

These Instructions take effect immediately upon issuance and remain in force until amended or revoked by the CEO under sections 38 and 41 of the Authority Act.



Kevin Rouatu
Chief Executive Officer
Financial Supervisory Authority of Kiribati

Date: 13th June 2025