

# FINANCIAL SUPERVISORY COMMISSION



Cook Islands

## PRUDENTIAL STATEMENT

BPS01

### BANK LICENSING

#### Authority

1. This Prudential Statement is issued by the Financial Supervisory Commission (FSC) pursuant to Sections 6 and 65 of the Banking Act 2011 (Act).

#### Application

2. This Prudential Statement applies to all applications to conduct banking business in the Cook Islands. The Act specifies that no person shall carry on banking business in or from within the Cook Islands unless the person is a body corporate or a statutory corporation and is licensed under the Act. Under Section 4(1) of the Act, "banking business" is defined as:
  - (a) the business of receiving funds through the acceptance of money deposits that are payable on demand, after a fixed period, or after notice; and
  - (b) the use of those funds either in whole or in part for loans or investment for the account and the risk of the person doing such business; and
  - (c) other activities specified in a prudential statement as constituting banking business."

### **Purpose**

3. The purpose of this Prudential Statement is to
  - (1) provide for the standardisation of applications and minimum information requirements for the licensing of a bank, including a branch or subsidiary of a foreign bank/financial institution; and
  - (2) promote transparency in licensing requirements in the Cook Islands and the international financial community.

### **Application for a Licence**

4. In order to obtain a licence, an applicant must complete and submit the following forms and supporting schedules and documentation as prescribed by the FSC from time to time:
  - (1) Banking Licence Application (BPS Form 1) - to be completed by the organisers/ promoters.
  - (2) Personal Affidavit (BPS Form 2) - to be completed by each proposed significant<sup>1</sup> shareholder and their associates, director, and manager<sup>2</sup>.
  - (3) Corporate Declaration (BPS Form 3) - to be completed by each associate (other than individuals).
  - (4) Confidential Financial Statement (BPS Form 4) - to be completed by each proposed significant shareholder and their associates, director and manager.
5. General instructions are included in the Licence Application form and more specific instructions and notes in each section. Where necessary, the FSC may require the submission of additional information and documents.
6. The prescribed application and licence fees must be paid at the time of filing the application with the FSC.
7. A general checklist of all documents for each prescribed form should accompany an application. All required forms and documents must be properly indexed following the sequence of the checklist.
8. Applications must be filed in accordance with this Prudential Statement. The FSC will not accept an application other than in the prescribed form.

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<sup>1</sup> Significant as defined in the Act.

<sup>2</sup> Manager as defined in the Act. Management functions for purposes of this Prudential Statement includes participating in policy-making functions of a bank, lending, investing bank assets or incurring liabilities.

9. As provided in Section 9 of the Act, the FSC is required to either issue or refuse a licence within 3 months of receiving an application and all other information and documents requested.

#### **Criteria for the Issue of a Licence**

10. The FSC must determine whether an applicant satisfies the criteria for the issuance of a banking licence outlined in Sections 7 and 8 of the Act and will comply with the physical presence requirements of Section 29 of the Act. Information provided by an applicant bank will be evaluated and where necessary information will be verified and investigated.
11. In deciding whether to grant a licence, the FSC reviews the application under four general headings:
  - (1) **“Fit and Proper” Standing:** The FSC must be satisfied that all prospective shareholders, directors and managers: (i) meet fit and proper criteria as prescribed by the FSC and (ii) are not otherwise disqualified under Section 4(3) of the Act.
  - (2) **Business Plan:** The FSC will require applicants to submit a business plan covering at least the first three (3) years of operations. The FSC must be satisfied that the business plan is comprehensive, realistic and viable. The applicant bank must have capitalisation adequate for its size and the nature of its proposed business. Appendix 1 outlines the minimum format and information requirements for a business plan. Appendix 2 details the pro forma financial statements which must be submitted.
  - (3) **Physical Presence:** The applicant must demonstrate to the satisfaction of the FSC that meaningful mind, management and records of the proposed bank, if approved, will be physically present in the Cook Islands;
  - (4) **Systems and Controls:** The systems and controls must ensure that the applicant bank will operate in a prudent manner and comply with all the requirements of the Act, the regulations and all other relevant enactments.
13. The FSC will evaluate evidence that significant shareholders have adequate funds available to meet capital requirements and collectively have sufficient assets or access to funds to contribute additional capital if necessary.
14. The FSC will evaluate the manuals and written guidelines of the applicant bank to ensure that risk management, accounting and internal control systems are adequate to meet its proposed business plan. The FSC may approve an application for a banking license conditioned on the bank formulating and implementing appropriate manuals and written guidelines covering such items as record keeping, accounting policies, public

disclosure policies, internal controls and policies and control procedures relating to lending and investment activities, liquidity risk management, foreign exchange and/or operational risks prior to commencing banking business in or from within the Cook Islands.

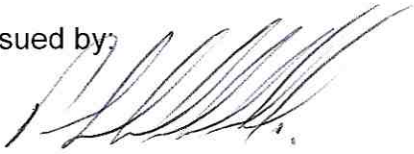
### **Commencing Business**

15. A bank must commence banking business in the Cook Islands within three (3) months after the issue of its licence.
16. In approving the application for a banking licence the FSC may impose conditions that must be satisfied by the licensee prior to the commencement of business. If the FSC determines that the conditions specified in a conditional approval have been satisfied, a final approval will be promptly issued.
17. If a bank fails to comply with the conditions issued by the FSC in approving the licence or otherwise fails to commence carrying on banking business in or from within the Cook Islands within three (3) months after the issue of its licence or conditional approval, the FSC may revoke the licence as provided in Section 14(1)(b) of the Act.
18. The FSC will conduct an on-site inspection within three (3) to six (6) months after a bank commences operations to assess whether the bank is operating in a safe and prudent manner, is compliant with any conditions attached to its licence and all applicable laws and prudential statements issued by the FSC, and in accordance with the business plan on which the licence was approved.

### **Ongoing Requirements**

19. Once a bank is licensed it is subject to regular inspection and review by the FSC as part of its ongoing prudential supervision of licensees.
20. The criteria for the issue of a licence under Section 7 of the Act must be satisfied on an ongoing basis. Any significant change to the ownership, directors, management, external auditor, and instrument/s providing for its incorporation must be reported immediately to the FSC.
21. Failure to meet these conditions may lead to suspension or revocation of a bank's licence as well as, in some cases, prosecution.

Issued by:

A handwritten signature in black ink, consisting of several overlapping, sweeping strokes that form a cursive representation of the name Paul Heckles.

Paul Heckles  
Commissioner  
FINANCIAL SUPERVISORY COMMISSION  
1 August 2013

## APPENDIX 1

### SAMPLE BUSINESS PLAN FORMAT, INFORMATION REQUIREMENTS AND PRO FORMA STATEMENTS AND PROJECTIONS

#### A. Market Analysis

1. **Market.** Identify the markets currently served and those proposed to be served by the bank, including any new or proposed branch or other office facilities.
2. **Characteristics.** Describe the target market demographic and economic characteristics. Include any anticipated changes in the market, factors influencing such changes, and possible effects on the bank.
3. **Competition.** Identify and describe the competition (including all other financial services providers) located within the target markets of the applicant bank including any branches or other office facilities contemplated. Indicate arrangements and contracts in place for the capital markets targets.

#### B. Business Strategy and Objectives

1. **Market Area.** Identify the market areas from which the bank generates or expects to generate approximately fifty percent (50%) of its business.
2. **Services.** List and briefly describe the services to be offered. Distinguish among depository services, credit services, and other services.
3. **Assumptions.** Describe the objectives and strategies for serving the identified target markets. List assumptions, including at a minimum: market growth rates, anticipated competition, interest rates, cost of funds, overhead expenses, asset mix, return on assets, dividends, and capital ratios (leverage capital and risk-based).
4. **Asset/Liability Management.** Explain the reasons for the proposed asset/liability mix and actions that will be taken to reduce funding and interest rate risks.
5. **External Audit.** Explain what provisions have been made for independent annual external audit services.
6. **Outsourcing Arrangements.** Identify all functions, processes or services which will be outsourced to external providers. If possible, provide details of the service level agreements made with those providers.

### **C. Pro Forma Statements and Projections**

Detailed pro forma balance sheet and income and expense statements must be submitted showing assets, liabilities, capital, income, and expense projections for a minimum of three (3) years. Sample pro forma statements are provided in Appendix 2.

At a minimum, the information shown in the following pro forma financial statements must be provided. When information required is not applicable, indicate this along with an explanation.

**APPENDIX 2**  
**PRO FORMA FINANCIAL STATEMENTS**  
**BALANCE SHEET PROJECTIONS**  
**(IN THOUSANDS OF NZ DOLLARS)**

\_\_\_\_\_  
(Name of Applicant Bank)

	Year		
	1	2	3
<b>ASSETS:</b>			
Notes and Coin.....	_____	_____	_____
Due from Head Office/Own branches/Associates...	_____	_____	_____
Due From Other Financial Institutions.....	_____	_____	_____
Securities & Investments.....	_____	_____	_____
Loans & Overdrafts.....	_____	_____	_____
Less: Provisions for Bad Loans.....	_____	_____	_____
Fixed Assets.....	_____	_____	_____
Less: Depreciation.....	_____	_____	_____
Foreclosed Real Estate.....	_____	_____	_____
Other Assets (Itemise if over 10% of Total Assets)	_____	_____	_____
<b>Total Assets</b>	_____	_____	_____
<b>LIABILITIES:</b>			
Deposits.....	_____	_____	_____
Due to Head Office/Own branches/Associates.....	_____	_____	_____
Due To Other Financial Institutions.....	_____	_____	_____
Mortgages, Capitalised Leases & Other Borrowings	_____	_____	_____
Other Liabilities (Itemise if over 10% of Total Liab.)	_____	_____	_____
<b>Total Liabilities</b>	_____	_____	_____
<b>CAPITAL ACCOUNTS:</b>			
Issued and Fully Paid Shares (Common Stock).....	_____	_____	_____
Paid-in Premium.....	_____	_____	_____
Retained Earnings (Prior Years).....	_____	_____	_____
Income (Loss) Year-to-date.....	_____	_____	_____
Other (Specify Type and Amount).....	_____	_____	_____
<b>Total Capital</b>	_____	_____	_____
<b>Total Liabilities &amp; Capital</b>	_____	_____	_____



**Sample Pro Forma Statements  
 Balance Sheet Projections (Details)  
 (In thousands of NZ Dollars)**

\_\_\_\_\_  
 (Name of Applicant Bank)

	Year		
	1	2	3
<b>LOANS:</b>			
Real Estate Loans.....	_____	_____	_____
Commercial Loans.....	_____	_____	_____
Instalment Loans.....	_____	_____	_____
Overdrafts.....	_____	_____	_____
Other Loans (describe).....	_____	_____	_____
Less: Provisions for Bad Loans.....	_____	_____	_____
<b>Net Loans</b>	_____	_____	_____
<b>DEPOSITS:</b>			
Demand & Checking.....	_____	_____	_____
- Cook Islands Government.....	_____	_____	_____
- Cook Islands Government-owned Corporations.....	_____	_____	_____
- Individuals/Consumers.....	_____	_____	_____
- Corporations/Businesses/Partnerships.....	_____	_____	_____
- Other (describe).....	_____	_____	_____
Total Savings Deposits.....	_____	_____	_____
Time/Certificates of Deposit.....	_____	_____	_____
- Sub-total Short Term (up to 90 days).....	_____	_____	_____
- Under \$100,000.....	_____	_____	_____
- \$100,000 & Over.....	_____	_____	_____
- Sub-total Medium Term (91 to 365 days)....	_____	_____	_____
- Under \$100,000.....	_____	_____	_____
- \$100,000 & Over.....	_____	_____	_____
- Sub-total Long Term (Over 365 days).....	_____	_____	_____
- Under \$100,000.....	_____	_____	_____
- \$100,000 & Over.....	_____	_____	_____
Total Time/Certificates of Deposit.....	_____	_____	_____
<b>Total Deposits</b>	_____	_____	_____

**Sample Pro Forma Statements  
Income and Expense Projections  
(In thousands of NZ Dollars)**

\_\_\_\_\_  
(Name of Applicant Bank)

	Year		
	1	2	3
<b>INTEREST INCOME:</b>			
Interest/Fees on Loans & Overdrafts .....	_____	_____	_____
Interest/Fees on Deposits Due from Fin. Inst. ....	_____	_____	_____
Interest/Fees from Head Office/Own Branches/..	_____	_____	_____
Associates .....	_____	_____	_____
Interest/Dividends on Securities & Investments.	_____	_____	_____
Other Interest Income <sup>1</sup> .....	_____	_____	_____
<b>Total Interest Income</b>	_____	_____	_____
<b>INTEREST EXPENSE:</b>			
Interest Paid on Deposits.....	_____	_____	_____
Interest Paid on Deposits Due to Banks. ....	_____	_____	_____
Interest Paid on Deposits Due to Head Office/ ...	_____	_____	_____
Own branches/Associates.....	_____	_____	_____
Other Interest Expense <sup>1</sup> .....	_____	_____	_____
<b>Total Interest Expense</b>	_____	_____	_____
<b>Net Interest Income</b>	_____	_____	_____
<b>Provisions for Loan Losses.....</b>	_____	_____	_____
<b>NON-INTEREST INCOME</b>			
Lending Related Fees & Commissions .....	_____	_____	_____
Charges & Fees on Deposit Accounts.....	_____	_____	_____
Exchange & Commissions .....	_____	_____	_____
Other (provide details)	_____	_____	_____
<b>Total Non-Interest Income</b>	_____	_____	_____
<b>NON-INTEREST EXPENSE:</b>			
Salaries & Benefits – Directors & Officers .....	_____	_____	_____
Salaries & Benefits – Employees.....	_____	_____	_____
Fixed Asset Expense .....	_____	_____	_____
Other Non-Interest Expense <sup>1</sup> .....	_____	_____	_____
<b>Total Non-Interest Expense</b>	_____	_____	_____
Less: Applicable Income Taxes .....	_____	_____	_____
<b>Net Operating Income (Loss)</b>	_____	_____	_____

<sup>1</sup>Itemise/describe all accounts/amounts that total ten percent (10%) or more of the total amount reported on this line.

**Sample Pro Forma Statements  
 Income and Expense Projections (Details)  
 (In thousands of NZ Dollars)**

\_\_\_\_\_  
 (Name of applicant bank)

	Year		
	1	2	3
<b>CAPITAL FUNDS:</b>			
Beginning Capital Funds .....	_____	_____	_____
Capitalised Expenses .....	_____	_____	_____
Net Operating Income (Loss).....	_____	_____	_____
Other Increases (Decreases) <sup>1</sup> .....	_____	_____	_____
Less: Dividends.....	_____	_____	_____
<b>Ending Capital Funds</b>	_____	_____	_____

	Year		
	1	2	3
<b>PROVISIONS FOR BAD LOANS:</b>			
Beginning Balance .....	_____	_____	_____
Gross Loan Losses (write-offs).....	_____	_____	_____
Recoveries.....	_____	_____	_____
Net Losses (Recoveries).....	_____	_____	_____
Other Increases (Decreases) <sup>1</sup> .....	_____	_____	_____
<b>Ending Provisions for Bad Loans</b>	_____	_____	_____

	Year		
	1	2	3
<b>MISCELLANEOUS</b>			
Number of Officers (as defined in Section 4 of Banking Act 2011)	_____	_____	_____
Number of Employees.....	_____	_____	_____

<sup>1</sup> Describe all increase and decreases, and the corresponding amount for each item reported in this line.