FINANCIAL INSTITUTIONS COMMISSION

ADMINISTRATIVE REGULATION
FIC-AR-02

FEES & ASSESSMENTS

Arrangement of Paragraphs

PART I
Preliminary

PARAGRAPH
1. Short Title
2. Authorization
3. Application
4. Definitions

PART II
Statement of Policy

PARAGRAPH
1. Purpose
2. Scope
3. Responsibility

PART III
Implementation and Specific Requirements

PARAGRAPH
1. Annual Fee
2. Computation of Annual Fee
3. Assessment and Payment Schedule
4. Penalty

PART IV
Effective Date

PARAGRAPH
1. Effective Date

PART I: PRELIMINARY

1: **Short Title** – Fees and assessments.

2: **Authorization** – The Financial Institutions Commission (the Commission) of the Republic of Palau (Palau) is authorized to promulgate regulations under Sections 12 and 80 of the Financial Institutions Act of 2001 (the Act) as amended. In addition, Sections 12 and 80 specifically address fees that shall be charged by the Commission for licensing and the costs of supervision.

3: **Application** – This regulation applies to all banks licensed by the Commission to conduct financial activities in Palau.

4: **Definitions** – Terms used within this regulation are as defined in the Act, as defined within this regulation, or as reasonably implied by contextual usage.

PART II: STATEMENT OF POLICY

1: **Purpose** – This regulation is issued pursuant to provisions in the Act that require the Commission to charge fees to defray the costs of supervising and regulating financial institutions. This regulation establishes the methodology that the Commission will use to assess and collect the required fees.

2: **Scope** – This regulation applies to the fees that will be assessed by the Commission against banks operating in Palau for the costs for supervision and regulatory services. Fees relating to licensing, changes-of-control, mergers, branch offices, and non-resident workers are not covered by this regulation.

3: **Responsibility** – It is the responsibility of each bank operating in Palau to pay to the Commission the full amount of the annual fee in the manner and timetable prescribed in this regulation.

PART III: IMPLEMENTATION AND SPECIFIC REQUIREMENTS

1: **Annual fee** – each bank operating in Palau, including branches and subsidiaries of foreign banks, shall pay to the Commission an annual fee as prescribed from time to time by the Commission. The annual fee shall consist of:
(a) a base fee which shall be set by the Commission from time to time in an official meeting, plus;
(b) an additional amount which shall take into account (i) the relative size of a Palau bank or branch of a foreign bank licensed to conduct financial activities in Palau (hereafter collectively referred to as a "bank") to the total assets of all banks operating in Palau and (ii) the level of regulatory and supervisory resources that the Commission must devote to the bank based on the risk profile of the bank.

2: **Computation of annual fee** – the annual fee required to be paid by each bank to the Commission shall be computed by multiplying the amount for adjusted total assets by a fee factor where the fee factor is based on the annual budget of the Commission, plus the (ii) base fee as determined by the Commission. The components and the annual fee computation are as provided below:

1) Adjusted Total Assets = (Total assets at prior year end) x (weighting factor[1]) x (surcharge[2])

2) Fee Factor = $\frac{\text{Net annual budget of FIC}^{3}}{\text{Sum of Adjusted Total Assets for all banks}}$

3) Annual fee = [(Adjusted total assets) x (Fee factor)] + Base Fee

[1]Weighting factor: based on asset size range applicable to a bank, i.e. $0-10 million total assets; $10-50 million total assets; greater than $50 million total assets. The weighting factor reflects the lower incremental cost of supervision as asset size of a bank increases. The Commission, as it deems appropriate, may amend from time to time the asset size ranges and the applicable weighting factors.

[2]Surcharge: based on the composite CAMELS rating assigned at the most recent on-site examination by the FIC; the rating may be raised or lowered subsequent to an examination based on credible evidence presented to or available to the FIC. The surcharge reflects the relative level of regulatory and supervisory resources that must be devoted to a bank depending on its risk profile. The surcharge factor is multiplied by the weighted total assets to compute adjusted total assets, and then adjusted total assets is multiplied by the fee factor to compute the annual fee for each bank. Banks rated "1" and "2" will not be assessed a surcharge; banks rated "3" will be assessed a surcharge that is a percentage of the weighted total assets, and banks rated "4" or "5" will be assessed a higher surcharge that similarly is a percentage of the weighted total assets. The Commission, as it deems appropriate, may amend from time to time the surcharge factor applicable to the different CAMELS ratings.

[3]Net annual budget of the FIC: based on the annual budget of the Commission as submitted to the Olbiil Era Kelulau less the total of all Base Fees to be collected from banks licensed to conduct financial activities in Palau.

3: **Assessment and payment schedule** – the Commission will compute, as provided above, the annual fee for a bank each year using the amount for total assets as reflected in the external auditors' report for the most recent year end. The Commission will notify a bank in writing by 30th June of the amount of the annual fee, and the bank then shall be required to pay the fee to the Commission in two equal installments. The first installment shall be due and payable on 1st October of the same year, and the second installment shall be due and payable on 1st April of the year immediately following.

4: **Penalty** – if a bank fails to pay in full to the Commission any installment of the annual fee by the due date, the Commission shall charge interest on the amount of unpaid fee for

each day that the fee remains unpaid. The interest rate charged shall be equal to one and one-half times the highest rate of interest that the bank charges its customers on loans as at the due date of the unpaid installment. The Commission will consider any unpaid fee plus the penalty interest arising therefrom as a charge against the capital of the bank, and will use the reduced capital amount to evaluate the adequacy of a bank's capital and its compliance to capital requirements in the Act and regulations issued by the Commission.

PART IV: EFFECTIVE DATE

1: **Effective date** – The effective date of this regulation shall be 1st September 2008.

Questions relating to this regulation may be addressed to the Financial Institutions Commission of the Republic of Palau.

Adopted July 23, **2008**

[redacted]

Governing Board
Financial Institutions Commission
Republic of Palau

Adopted August 8, **2008**

[redacted]

Honorable President
Tommy E. Remengesau, Jr.