



Financial Supervisory Commission

Practice Note No. 3 – 2004 **Bank Licensees – Maintenance of Minimum Paid-up Capital**

This Note is intended to give guidance as to the Commission's interpretation of Section 24(2) of the Banking Act 2003.

Under Section 24(2) of the Banking Act, a licensee must maintain at all times a paid up capital of not less than NZ\$2,000,000.

For the Commission to be satisfied that the \$2 million minimum capital is fully paid-up, it will be preferable for a new applicant to deposit its paid-in capital in a licensed domestic bank in the Cook Islands.

Alternatively, initial paid-up capital may be deposited in any commercial bank that is licensed as such by an appropriate government authority in the country where the named bank is domiciled.

In both cases, a certification on the amount deposited, stating that this is unencumbered, will be required. In addition, a new applicant would have to complete and submit a Confirmation Inquiry Form similar to what is required for persons who are or will be significant shareholders and associates of the proposed bank (Prudential Statement No. 1, Confidential Financial Statement Report, BKL-4).

Once a licensed bank starts operating, we recognise that capital may be used for its operations. Hence, reports submitted to the Commission, including audited financial statements should show unimpaired paid-up capital balance of not less than \$2 million. Unimpaired means deducting from paid-up capital the operating losses and other unbooked expenses/losses that cannot be absorbed by Retained Earnings/Surplus or other capital accounts.