

**Law No. 5/2011  
Dated June 15**

**Organic Law of the Central Bank of East Timor**

The purpose of the Central Banks is to safeguard monetary policy so as to maintain the price stability required for economic growth and development. They are endowed with powers to regulate and control the currency and the financial markets, license and supervise the financial institutions based in the country. In parallel with this goal, the central banks must also ensure the stability of the financial system and are co-responsible for defining the economic policies. Central banks can best serve the country if they are capable of establishing credible commitments, work in a constantly changing environment, with a sound legal and institutional basis and perform their duties in an efficient and transparent manner.

This Law hereby creates the Central Bank of the East Timor – BCTL defines its duties and relationship with the National Congress and the Government, while ensuring its institutional independence.

*The National Congress, pursuant to item 1 of Article 95 and sub items f) and g) of Article 96 of the Constitution of the Republic decrees the following which shall be enforced as law:*

**CHAPTER I  
GENERAL PROVISIONS**

**Article 1  
Definitions**

For the purposes of this law, the following terms shall have the following meanings:

- a) “Chief Internal Auditor”, provides advice to the Board of Directors and monitors the work performed by the Bank’s external auditors;
- b) “Banking and Payment Authority”, the Authority established by Regulation No. 2001/30 of the United Nations Transitory Administration in East Timor;
- c) “Bank” The Central Bank of the Democratic Republic of East Timor;
- d) “Circular Letters” and/or “Directives”, the binding regulatory instruments applicable to more than one institution, issued by the Bank in the discharge of its duties;
- e) “Audit Committee”, the committee appointed by the Board of Directors designed to supervise the internal audit department and to make recommendations within the sphere of the external audit;
- f) “Board of Directors”, the Bank’s managing board;
- g) “Legal Tender” the effect according to which the creditor of a payment obligation cannot refuse bills and coins as a means of fulfilling an obligation;
- h) “Governor”, the Chief Executive of the Bank;

- i) “Financial Institutions”, entities such as banks, insurance companies and others that carry out financial activities and which, according to the law, are under the Bank’s supervisory authority;
- j) “Minister or Ministry”, the Minister of Finance or the Ministry of Finances;
- k) “Currency” the monetary unit of a country;
- l) “Orders” the binding regulatory instruments issued by the Bank in the discharge of its duties;
- m) “International Accounting Standards” the latest international accounting standards defined by the International Accounting Standards Board;
- n) “Internal Rules” and “Decisions of the Board of Directors”, regulatory instruments designed to implement the decisions of the Bank as regards monetary policy, intermediary monetary goals, main interest rates, the availability of reserves in East Timor and the decisions related to the internal procedures;
- o) “Regulations” the regulatory acts required for the Bank to carry out its functions and discharge its duties;
- p) “Vice-Governors”, those in charge of assisting the Governor.

## **CHAPTER II NATURE, HEAD OFFICE AND DUTIES**

### **Article 2 Nature**

The Central Bank of the East Timor – BCTI, hereinafter referred to simply as the Bank, is a collective public corporation with administrative and financial autonomy and its own assets.

### **Article 3 Independence**

1. The Bank is independent and autonomous in the performance of its functions and in the discharge of its duties, pursuant to this law.
2. The Bank’s departments, employees and agents are independent and may not request or receive directions from any other entity, including the Government or other entities subordinated to the government, except in the cases expressly provided for in the law.
3. No person or entity may influence any of the Bank’s departments or employees in the performance of their functions and discharge of their duties or in any way interfere in their activities.

#### **Article 4 Purposes**

1. The Bank's main purpose is to achieve and maintain internal price stability.
2. In addition to the above, the Bank shall foster and maintain a stable and competitive system based on free market principles.
3. Without prejudice to the previous articles, the Bank shall support the Government's general economic policies.

#### **Article 5 Functions**

The Bank shall have the following functions:

- a) To define and execute the monetary policy;
- b) To define and adopt the foreign exchange regime;
- c) To carry out foreign exchange transactions;
- d) To hold and manage the official reserves in foreign currencies;
- e) To hold and manage the Government's gold reserves;
- f) To issue the currency of East Timor;
- g) To collect and prepare statistical data, pursuant to the applicable regulations;
- h) To notify the National Congress, the Government and the public about its policies, functions and operations, pursuant to this law;
- i) To establish, promote and safeguard a sound and efficient payment and securities settlement system.
- j) To regulate, license, register and supervise financial institutions, pursuant to the law;
- k) To advise the Government, within the scope of its duties;
- l) To Act as the Government's Tax Agent;
- m) To participate in domestic and international meetings as well as in international organisms or organization, within the scope of its duties;
- n) To enter into contracts and agreements and protocol with domestic and foreign entities, be they public or private;
- o) Any other duties assigned to it by law.

**Article 6**  
**Headquarters**

1. The Bank has its headquarters in Dili.
2. The Bank may have branches, branch offices, delegations or offices in other places as well as delegations abroad.

**CHAPTER III**  
**CAPITAL, RESERVE ACCOUNTS, PROFITS, LOSSES AND COVERAGE OF**  
**CAPITAL INADEQUACY**

**Article 7**  
**Capital**

1. The Bank's capital is twenty million U.S. dollars (US\$ 20,000,000) fully subscribed and paid-in.
2. The capital is held solely by the State and cannot be transferred or be subject to any embargoes whatsoever.
3. The Bank's capital can be increased upon a proposal by the Board of Directors and approved by the Government.
4. The Bank's capital may not, under any circumstance, be reduced.

**Article 8**  
**Reserve Accounts**

1. The Bank shall open and keep a general reserve account.
2. The general reserve account cannot be used except for the purpose of covering the Bank's losses.
3. The Bank shall establish reserve accounts for the purposes of revaluation as regards foreign currency, gold, financial instruments and other assets.
4. The Bank may, after consulting the Government, establish special reserve accounts for specific foreseeable expenses.

**Article 9**  
**Calculation & Treatment of Net Profits and Losses**

1. The Bank's net profits or losses shall be determined according to international accounting standards.
2. Profits to be distributed pursuant to the provisions of Article 10 shall be ascertained as follows:
  - a) By deducting from the net profits the total amount of the unrealized profits and allocating an equivalent amount to the reserve accounts for future revaluation; and

b) By deducting from the reserve accounts for future revaluation and adding to the profits to be distributed, as determined in the previous item, the amount of unrealized profits deducted from the net profits of one or more of the previous years realized during the current fiscal year;

3. The losses resulting from the future revaluation shall be transferred to the reserve account for future revaluation until these reserve accounts for revaluation show a zero balance, after which these losses shall be covered by the general reserve account and subsequently by capital.

### **Article 10 Allocation of Profits or Losses**

1. The Board of Directors shall allocate the profits within four months after the closing of the fiscal year as follows:

a) An amount equivalent to 50 per cent of the profits is credited to the general reserve account until the capital and the general reserve represent 10 per cent of the Bank's total financial assets;

b) One part of the remaining profits may, upon a proposal by the Board of Directors approved by the Government, be credited to the special reserve accounts opened pursuant to item 4 of Article 8 until the reserve accounts reach an amount considered appropriate by the Board of Directors;

c) After the amounts referred to in items a) and b) have been deducted, the remaining profits shall be used to amortize the securities issued by the Bank, and the remainder shall be transferred to the Treasury and entered as revenue in the Government's General Budget.

2. No distribution can be made of the Bank's current or retained earnings, unless so permitted pursuant to the previous item.

3. Should the bank have a net loss in a given fiscal year, the loss shall be charged first to the general reserve accounts and then to the capital.

### **Article 11 Coverage of Capital Inadequacy**

Should the amount of the Bank's assets in the monthly *pro forma* balance sheet, after the allocation of profits and losses pursuant to the previous article, fall to a level lower than the total sum of its obligations and uncommitted capital:

a) The Board of Directors, advised by the Bank's external auditors, shall assess the situation and prepare a report on the causes and extent of the shortfall;

b) After the report referred to in the previous item has been approved by the Board of Directors, the Bank shall request a capital injection from the Government to cover the deficit;

c) After the request referred to in the previous item has been received, the Government must, within no later than thirty days, transfer to the Bank the necessary amount, either in monetary units or in negotiable debt instruments with a specific maturity date, issued according to the interest rates prevailing in the market in East Timor.

**CHAPTER IV  
MONETARY AND OTHER TRANSACTIONS**

**Article 12  
Opening of Accounts**

1. In conducting its operating and financial activities, the Bank shall open and maintain cash and securities accounts in its books for banks, insurance companies and for public entities or other entities under the Bank's supervision, pursuant to the law.
2. The Bank may, as regards the opening of accounts:
  - a) Open and maintain cash and securities accounts in its books on behalf of foreign banks, central banks, international financial institutions and, if it deems appropriate, foreign governments, international organizations and donor organizations;
  - b) Open and maintain cash and securities accounts in the books of banks, insurance companies and other entities subject to the Bank's supervision, pursuant to the law;
  - c) Open and maintain cash and securities accounts in the books of central banks, foreign banks, depositary and international organizations;
  - d) Establish the conditions for opening the accounts in their books.
3. The Bank cannot open accounts for individual persons or legal entities;

**Article 13  
Custody Services**

1. The Bank, against payment of fees intended to cover its costs, may provide custody services to financial institutions and to the public in general, for bills, currencies or monetary units it may determine as well as for other negotiable instruments or securities.
2. The Bank shall define the conditions under which it provides custody services.

**Article 14  
Transactions with Securities and Negotiable Instruments**

1. In order to achieve its objectives and in the performance of its duties, the Bank may:
  - a) Operate in the financial markets, by outright purchases and sales in the spot or forwards markets, or under repurchase agreements, through loans or by contracting loans of bonds and other negotiable instruments or securities;
  - b) To conduct credit transactions with banks licensed to operate in East Timor, with duly guaranteed loans.
2. The Board of Directors shall lay down the general principles for operations with bonds, securities and negotiable instruments, including by publishing the conditions under which the Bank participates in these transactions.

**Article 15**  
**Minimum Reserves**

1. The Bank may require registered banks to hold minimum reserves in their accounts opened with the Bank, according to its goals in terms of monetary policy or stability of the payment system.
2. The Board of Directors shall issue directives determining the minimum reserve amount required pursuant to the provisions of the previous item.
3. In the case of non-compliance with the directives issued according to the previous item, the Bank shall apply fines and interest on the unpaid amounts of the minimum reserves or shall apply penalties with a similar effect.

**Article 16**  
**Other Monetary Control Instruments**

The Board of Directors shall unanimously decide on the use of other monetary control methods, as it deems fit.

**Article 17**  
**Lender of Last Resort**

1. Under exceptional circumstances the Bank may, at its own discretion and pursuant to the terms and conditions determined by the Board of Directors, intervene as a lender of last resort for a registered bank.
2. The support mentioned in the previous item may be given through financial aid to the registered bank at a higher interest rate than the current market rate.
3. The support may be reviewed from time to time and determined by the Board of Directors for periods not exceeding 91 days, renewable, and based on a program approved by the Governor specifying the corrective measures to be implemented by the borrowing bank.
4. Without prejudice to the provisions of the previous items, the Bank shall incur no obligation unless:
  - a) The registered bank is, in the Governor's opinion, solvent and can offer sufficient guarantees to ensure reimbursement of the loan, and the request for financial support is based on the need to improve its liquidity; or
  - b) The support is required in order to maintain the stability of the financial system and the Prime Minister issues, on behalf of the Government, written guarantee of repayment of the loan.
5. The Bank's Board of Directors shall determine the maximum amount of the collateral provided in guarantee of each credit transaction envisaged in the previous item.
6. Should the Bank conclude that the registered bank receiving support has not implemented the corrective measures provided for in item 1, or that these measures have not achieved the intended results, the Bank's Board of Directors shall then take the necessary measures.

7. In any case, the total terms of the loans and credit facilities granted under this Article cannot exceed one hundred and eighty days.
8. The collateral provided in sub item b) of item 4 hereof is governed by law.

## **CHAPTER V FOREIGN EXCHANGE REGIME**

### **Article 18 Foreign Exchange Regime and Agreements**

1. The Bank shall develop and adopt a foreign exchange regime after consulting the Government.
2. The Bank may, after consulting the Government, enter into foreign exchange agreements, provided it does not compromise or jeopardize in any manner whatsoever its main goal of maintaining the domestic price stability.

### **Article 19 Structure of Foreign Reserves Portfolio**

The Bank may hold in its portfolio all or some of the following foreign assets:

- a) Gold or other precious metals held under the Bank's custody, including account balances representing this gold and other precious metals;
- b) Bills and coins denominated in freely convertible foreign currencies held or under the Bank's custody;
- c) Cash or short-term interbank balances and deposits denominated in freely convertible foreign currencies, and held in the Bank's accounts, on the books of foreign central banks or international financial institutions;
- d) Readily-negotiable debt securities issued or accredited by foreign governments, central banks or international financial institutions;
- e) Bonds with international financial institutions resulting from repurchase, sale and purchase agreements and securities lending agreements in the case of the debt securities mentioned in the previous item;
- f) Special drawing rights held in the East Timor account with the International Monetary Fund;
- g) The East Timor reserve position with the International Monetary Fund.

## **CHAPTER VI CURRENCY UNIT**

### **Article 20 East Timor Currency Unit**

The East Timor currency unit shall be determined pursuant to the Constitution of the East Timor Democratic Republic.

**Article 21**  
**Issuance of currency and legal tender**

1. The Bank has the right to issue bills and coins, on an exclusive basis.
2. Without prejudice to the provisions of Article 80 of this law, only the bills and coins issued by the Bank and which have not been withdrawn from circulation are legal tender in East Timor;
3. The Bank, after consulting the Government, shall determine, through a regulation published in the Official Journal of the Republic, the face value, measurements, weight, design and security features and other characteristics of the bills and coins issued as legal tender in East Timor.
4. The Bank shall be responsible for supplying the bills and coins in East Timor.
5. The Bank, through its regulations, may limit the amount of legal tender in bills and coins.
6. The aggregate amount of the bills and coins issued by the Bank in circulation must be shown in the financial statements as liabilities.
7. The Bank's liabilities do not include the bills and coins of the inventory of national currency held by the Bank or on its behalf.

**Article 22**  
**Exchange of Currency**

The Bank may exchange the bills and coins that are legal tender in East Timor, whenever it is requested to do so.

**Article 23**  
**Damaged Currency**

1. Any currency improper for use must be withdrawn, destroyed and replaced for other bills and coins by the Bank.
2. The Bank may refuse to exchange bills or currencies whenever the respective effigies are illegible, defaced or perforated or if more than 40 per cent of its surface is missing.
3. The bills and coins referred to in the previous item must be withdrawn and destroyed with no compensation being paid to the bearer thereof.
4. Should it be proven that the missing parts of the bills or coins have been totally or partially damaged, the Bank may grant total or partial compensation under the terms and conditions it may determine and in accordance with the criteria it may establish.
5. The Bank is not required to pay any compensation for bills or coins that go missing, are stolen or destroyed.
6. The Bank may seize, with no payment of compensation, any bills whose external appearance has been changed, especially those that have been written on or

colored in, printed over, stamped or perforated or those containing any type of adhesive material.

#### **Article 24 Withdrawal of Currency**

1. The Bank may withdraw any bills or coins and issue, with no charges related therewith, bills or coins in equivalent quantities.
2. For the purposes of the previous item, the Bank shall determine, under regulation, the conditions for the withdrawal and shall define especially the time frame and place or places where the bills and coins to be replaced should be delivered.
3. Upon the expiration of the exchange period or whenever the Bank so determines, the replaced bills and coins shall cease to be legal tender.
4. The regulation defining the bills and coins comprising the legal tender shall be published in the Official Journal of the Republic.

#### **Article 25 Inventory of the Currency Reserves and the Issuance Plan**

The Bank shall directly manage the inventory of currency reserves, prepare the issuance plans and ensure the regular supply of bills and coins so as to meet the needs of East Timor.

#### **Article 26 Counterfeit Money**

1. Bills and coins that are legal tender in the East Timor or abroad, which are presented to financial institutions and other entities authorized to undertake foreign exchange transactions and which are suspected of being counterfeit must be withdrawn from circulation and sent immediately to the appropriate authorities, pursuant to the legal and regulatory provisions.
2. The Bank shall seize all bills submitted to it where counterfeiting or forgery is suspected, or where the face value thereof has been altered, and a notice of infringement must be drawn up containing the identification of the bills and of the bearer as well as the grounds for the suspicion.
3. The notice of infringement referred to in the previous item shall then be forwarded to the appropriate authorities pursuant to the penal procedural law.
4. Any person who maliciously forges, counterfeits or alters any bill or coin used as a legal tender in East Timor or abroad, as well as any checks, notes or payment cards denominated in the currency of legal tender in East Timor or in any other currency, or anyone possessing, bearing or issuing such bills, coins, checks or payment cards in the knowledge that these were maliciously made, forged, counterfeited or altered, or anyone who manufactures, possesses or bears any plate, stone, paper, ink or any other object or substance in the knowledge that these are intended to manufacture, forge, counterfeit or alter bills, coins, negotiable instruments or payment cards shall be committing a crime, pursuant to criminal law.

**Article 27**  
**Currency Replication**

1. Replication of the bills, coins, checks, negotiable instruments or payment cards, whether denominated in the legal tender of the East Timor or of any other country, as well as the production of any objects whose design emulates bills, coins, checks, negotiable instruments or security or payment cards requires the prior authorization in writing of the Bank.
2. Without prejudice to the provisions of the previous item, the Bank may, through a regulation, authorize the publication of photographic copies of bills.
3. Infringement of the provisions of the previous items constitutes an administrative offense punishable with a fine, pursuant to the law or the applicable Bank regulations.

**CHAPTER VII**  
**PAYMENTS, SUPERVISION, STATISTICS AND OTHER FUNCTIONS OF THE**  
**FINANCIAL SYSTEM**

**SECTION I**  
**SECURITIES CLEARING, PAYMENT, AND SETTLEMENT SYSTEMS**

**Article 28**  
**Services**

1. The Bank may provide services to ensure that securities clearing, payment and settlement systems are sound and efficient.
2. The Bank is hereby authorized to organize, participate in and operate securities clearing, payment and settlement.

**Article 29**  
**Licensing and Supervision**

1. It is incumbent on the Bank alone to regulate, license, register and supervise securities clearing, payment and settlement, as well as the enforcement of corrective measures and administrative sanctions within this remit.
2. The Bank, through a regulation, may also:
  - a) Require registration or licensing of any securities clearing, payment or settlement system or of any operator of securities clearing, payment or settlement systems.
  - b) Require securities clearing, payment or settlement systems and/or operators of securities clearing, payment or settlement system to comply with the security and soundness requirements and conditions established by the Bank.
  - c) Regulate and supervise the issuance and the quality of the means of payment.

**Article 30**  
**Payment Agreements**

The Bank may enter into agreements so as to facilitate the following activities:

- a) The integration of its securities clearance, payment and settlement system and pertinent agreements with other similar systems.
- b) The development of new methods and technologies for securities payment and settlement.
- c) Drafting and the periodically updating a development plan for the growth of the East Timor national payment system.

**SECTION II**  
**SUPERVISION**

**Article 31**  
**Supervisory Functions**

1. It is solely incumbent on the Bank to regulate, license, register and supervise financial institutions, including the imposition of corrective measures and administrative sanctions.
2. The Bank may inspect financial institutions' facilities in order to examine the respective accounts, books, documents and other records, so as to gather the relevant information and may also take any measures deemed necessary or advisable.
3. Financial institutions must provide the Bank, whenever requested to do so, with the data and information regarding their transactions and financial status.
4. The Bank may disclose the information obtained, in whole or in part, grouping it by class of financial institution, according to the nature of the activity, without prejudice to the confidentiality rules provided for in the law.

**SECTION III**  
**STATISTICS**

**Article 32**  
**Collection of statistical data and information**

It is the Bank's duty:

- a) To gather, compile, analyze and publish the information and statistical data required for discharging its duties;
- b) To define through a regulation the information and statistical data required, the manner in which this have to be provided and who it is required to provide it;
- c) To define through a regulation the confidentiality criteria and the applicable administrative sanctions in case of non-compliance in this respect;

- d) To cooperate with the public administration services and entities in gathering, compiling, analyzing and publishing statistical data and other relevant information;
- e) To cooperate with international agencies, entities or organizations at bilateral or multilateral level in adopting international standards for disclosure of data, so as to specifically standardize the organization of statistical data and information.

**Article 33**  
**Provision of Information**

The institutions encompassed by the regulations issued pursuant to item b) of article 32 are required to provide the information requested by the Bank.

**Article 34**  
**Disclosure**

The Bank must:

- a) Disclose the statistical data and information, without prejudice to the rules governing confidentiality, pursuant to the applicable regulations;
- b) Provide information on the methodology used in compiling it;
- c) Statistical data and relevant concepts that enable external verification of the statistical data produced by the Bank.

**SECTION IV**  
**OTHER DUTIES OF THE FINANCIAL SYSTEM**

**Article 35**  
**Credit Information System**

1. The Bank may operate, regulate, license, register and supervise the credit information systems in order to collect and disseminate credit information among financial and other institutions and may also issue regulations for the implementation thereof.
2. The information collected and held on the credit information systems referred to in the previous item can only be used for the purpose of improving bank credit quality and controlling the stability of the financial system.

**CHAPTER VII**  
**RELATIONS BETWEEN THE NATIONAL CONGRESS, THE GOVERNMENT AND**  
**THE BANK**

**SECTION I**  
**RELATIONS WITH THE NATIONAL CONGRESS**

**Article 36**  
**Liability before the National Congress**

The Governor shall be heard by the National Congress from time to time when so requested, or on its own initiative where matters involving monetary, financial and economic policy are concerned.

**SECTION II**  
**RELATIONS WITH THE GOVERNMENT**

**Article 37**  
**Banker, Financial Advisor, Tax Agent**

1. The Bank advises the Government within the sphere of its duties.
2. The Bank acts as the Government's banker.
3. The Bank may:
  - a) For the account and on behalf of the Government receive foreign loans and manage, administer and settle the Government's financial obligations and liabilities to external parties, pursuant to the terms and conditions agreed upon with the Government;
  - b) Pursuant to the terms and conditions agreed upon with the Government, act as a tax agent under the custody of the Government or of any other public entity appointed by the Government for this purpose;
  - c) Operate a registry of the bonds issued by the Government.

**Article 38**  
**Depositary and Cash**

1. The Bank accepts deposits in any currency from the Government or any other public agency, remunerated at the interest rate set on the basis of the rates prevailing in the market place.
2. As a depositary, the Bank receives and disburses funds, keeping the records of these transactions and provides other financial services related to these deposits.
3. The Bank makes payments up to the limits of the amounts deposited through payments orders related to said accounts.

**Article 39**  
**Special Funds Management**

1. As regards the management of special funds, the Bank may:
  - a) Manage the special funds owned by the State, pursuant to a management contract between the Bank and the Government;
  - b) Maintain escrow accounts where the revenue from the special funds referred to in the previous item is deposited.
2. The Government may instruct the Bank as regards the investment policy adopted by these funds, in addition to making decisions regarding its securities portfolios, and these instructions and decisions must be included in a written directive addressed to the Bank.
3. The Bank is not responsible for any reduction in the fund that may result from the implementation of the investment policy defined in the management contract or contained in the Government's written directions.
4. The Bank charges the funds referred to in item 1 of this article a management fee to cover the respective costs.

**Article 40**  
**Cooperation with the Government**

1. The Bank cooperates with the Government and other public entities to foster its goals.
2. The Governor holds regular meetings with the Minister of Finance concerning monetary and financial policy as well as other matters of common interest.
3. The Governor and the Ministry of Finance must remain up to date in relation to all matters of mutual interest.
4. The Bank may, at its own initiative, advise the Government on any matters likely to affect the achievement of its goals.
5. The Bank may at the request of the Government, provide information about its activities, except for the specific information involving supervised entities.
6. The Bank may, at the request of the Government, provide relevant information related to the receipt of funds from any origin.
7. The Government, at the request of the Bank, provides information and documents pertaining to the performance of the duties by the latter.
8. The Bank is consulted by the Government on bills of law regarding matters related to the Bank's goals or which in any way fall within the scope of its duties.

**Article 41**  
**Prohibition on granting loans to the Government**

1. The Bank does not grant direct or indirect facilities to the Government or to any other public or state-owned entity, except for intraday credits for ensuring the operation of the payment system.
2. The intraday credit must be paid before the end of the day it refers to.
3. The provision of item 1 does not apply to public banks and to other public supervised entities, which are treated in the same manner as private banks and other private entities supervised by the Bank.
4. The Bank cannot buy securities issued by the Government, except in the secondary market.
5. The provisions of this article do not apply to the funding of the State's obligations in relation to the International Monetary Fund.

**Article 42**  
**Government Directives**

1. The Minister of Finance may, if he finds it necessary and after consulting the Bank, make a recommendation to the Government regarding the coordination of the monetary and tax policies and send a copy of this recommendation to the Bank.
2. The Bank may, if it has any objection to the recommendation referred to in the previous item, submit its objections to the Bank in writing within three days after receiving the recommendation.
3. After the timeframe referred to in the previous item has elapsed, the Government may issue directives stipulating the policy to be adopted.
4. The Government shall advise the Bank in writing of the policy so stipulated and, should this policy differ from the Bank's, it shall be responsible for the adoption thereof.
5. The Bank must, upon receipt of the information referred to in the previous item, implement this policy while the directives are in force.
6. The Government directives referred to in item no. 3, together with declarations by the Government and the Bank, must be submitted to the National Congress within fifteen days after the Government has advised the Bank of the policy stipulated.

**CHAPTER IX  
ORGANIZATION AND OPERATION**

**SECTION I  
ORGANIC STRUCTURE**

**Article 43  
Departments and Duties**

1. The Governor and the Board of Directors are entities of the Bank.
2. The Governor is the chief executive and it is his duty to conduct the Bank's daily operations.
3. The Vice-Governors assist the Governor in the conduct of the Bank's daily activities.
4. The Board of Directors is the senior management body and its duties are to formulate the policies and supervise their implementation, in addition to supervising the Bank's management and operations.
5. The Board of Directors is made up of the Governor, who chairs it and by two Vice-Governors and four non-executive members.
6. The non-executive members take part in the Board of Directors and its decisions.

**SECTION II  
BOARD OF DIRECTORS AND GOVERNOR**

**Article 44  
Appointment and Term of Office**

1. The members of the Board of Directors are appointed for a six-year term of office, renewable only once.
2. The Governor is appointed by the Prime Minister, under a non-binding recommendation by the Board of Directors.
3. The Vice-Governors are appointed by the Prime Minister under a non-binding recommendation by the Board of Directors.
4. The non-executive members of the Board of Directors are appointed by the Prime Minister under a non-binding recommendation by the Board of Directors.

**Article 45  
Duties of the Board of Directors**

The Board of Directors shall have the following duties:

- a) To formulate and adopt the Bank's monetary policy and, specifically, to make decisions concerning the intermediate monetary goals, the main interest rates and the money supply in East Timor and to approve the regulations required for the implementation thereof;

- b) To formulate the foreign exchange regime;
- c) To formulate and adopt the policies that enable the Bank to perform its duties and to approve the regulations required for their respective implementation;
- d) To supervise the implementation of the Bank's policies and duties;
- e) To approve the Bank's internal rules;
- f) To decide on the general policies and approve the internal rules applicable to the Bank's administration and operations;
- g) To decide on the Bank's organization, including the opening and location of branches, representative offices and operating facilities;
- h) To approve the appointment of the Chief Internal Auditor;
- i) To determine the employment terms and conditions of the Bank's agents, including the receivers of financial institutions, auditors and correspondent banks;
- j) Determine the number of employees required and the respective employment terms and conditions, including the creation of pension plans;
- k) To approve the Bank's annual budget;
- l) To decide on the Bank's accounting policies and approve the Bank's annual report as well as other formal reports and the financial statements;
- m) To appoint the Bank's external auditors;
- n) To decide on the contracting of debts in substantial amounts by the Bank and the terms and conditions of these debts;
- o) To decide on the appropriate assets in which to invest the Bank's financial resources;
- p) To approve or decline the issuance of licenses and authorizations for securities clearance, payment and settlement systems;
- q) To approve or decline the issuance of licenses and authorizations granted to financial institutions and to revoke the licenses and authorizations of these institutions;
- r) To determine the denominations, technical visual features, issuance and handling of bills and coins;
- s) To appoint one or more advisory councils and to determine the terms and condition for appointing their members, in addition to defining their duties;
- t) To appoint one or more commissions, made up of members of the Board of Directors and other elements and to define their duties;
- u) To assess the risks and /formulate contingency plans for current operations and for the Bank's security;

- v) To approve the internal operational rules;
- w) Any other duties bestowed upon it by law.

#### **Article 46 Governor's Duties**

1. It is incumbent on the Governor:
  - a) To implement the monetary and foreign exchange policy as well as other policies of the Bank, pursuant to the regulations and decisions of the Board of Directors;
  - b) To be accountable to the Board of Directors for implementing its decisions and for managing and monitoring the Bank's administration and operations;
  - c) To determine, in advance, the sequence in which the Vice-Governors will replace him in his absences and impediments;
  - d) To adopt the appropriate measures, specifically under the form of instructions to supervised financial institutions so that see to the proper functioning of the securities clearing, payment and settlement system, in addition to taking the applicable corrective measures in this area by specifically appointing a liquidator or by applying administrative sanctions, according to the law;
  - e) To render accounts on a monthly basis to the Board of Directors regarding the Bank's operations and policies, the soundness of the financial system and the status of the currency, capital and foreign exchange markets, including all events that may have a significant impact on the Bank's administration and operations or on the enforcement of its policies, as well as on the systems and markets;
  - f) To take all measures it deems necessary or advisable for the Bank's administration or operations, including specifically the acquisition of goods and services and the appointment of Bank employees and agents;
  - g) To represent the Bank in or out of court, pursuant to the law;
  - h) To carry out all duties not assigned to the Board of Directors.
2. The Governor may, pursuant to the rules governing the functioning of the Board of Directors, delegate the performances of any of his duties to the Bank's senior executives or technical people;

#### **Article 47 Remuneration and Compensation**

1. The remuneration paid to the Governor and Vice-Governors by the Government is set at an amount equivalent to that paid for executive positions in large financial institutions, after hearing the opinion of the Board of Directors.
2. Non-executive members of the Board of Directors are entitled to compensation for attending each meeting in an amount equivalent to that paid to non-executive positions in large financial institutions, to be set by the Board of Directors based on a proposal submitted by the Governor.

3. The amount of the remuneration and compensations paid according to the previous items are included in the report mentioned in Article 58, item 2, sub item b).

### **Article 48 Eligibility Requirements**

1. The members of the Board of Directors shall be appointed from amongst East Timor citizens whose reputation, integrity and technical and professional competence are well-known and who have college degrees or extensive prior experience in financial, banking, monetary or legal matters.

2. The Governor and Vice-governor shall perform their duties on a full-time and exclusive basis and may not perform any other professional activity outside the Bank, whether remunerated or not, except in the cases where the Board of Directors exceptionally so authorizes.

3) The occupation of the position is incompatible with the performance of the duties as a:

a) Representative of the National Congress;

b) Member of the Government;

c) Any positions in the Public Administration;

d) Any positions in financial institutions operating, providing services or represented in East Timor.

4) Similarly, the occupation of the position is incompatible with holding direct or indirect equity interests of 5% or above in the authorized capital of a financial institution.

5. Without prejudice to the provisions of the previous items, they are allowed to teach at higher education institutions on a part-time basis.

6. Those who find themselves in a condition that pursuant to this law implies removal from office are not eligible for the Board of Directors.

### **Article 49 Removal from Office**

1. The Governor is irremovable and can only be removed from office in the cases provided for in the law, following a decision by the Prime Minister after hearing the Board of Directors, who will decide in the Governor's absence ;

2. The Vice-Governors and the non-executive members are irremovable and can only be removed from office following a decision by the Prime Minister based on a proposal by the Board of Directors in the event they:

a) Become ineligible to hold seats on the Board of Directors;

b) Are sentenced for an offense punishable with a prison term;

c) Are convicted as debtors in a bankruptcy or insolvency action;

d) Are disqualified from their position or are suspended from exercising their profession by the appropriate authority or by a judicial decision that has become final and unappealable;

e) Are barred from holding management positions in another organization;

f) Become involved in the practice of illegal activities;

g) Hold their office in a manifestly improper manner;

3. Without prejudice to the provisions of the previous item, the Vice-Governors and the non-executive members may, likewise, be removed from office following a decision by the Prime Minister after hearing the Board of Directors, in the event of permanent physical or psychological disability or where they fail to exercise their duties for a period exceeding three consecutive months, without the authorization of the Board of Directors.

4. The Prime Minister may, whenever there are grounds for believing that the Board of Directors acted contrary to the provisions of items 1 and 2, appoint a committee to investigate the case and prepare a report and recommendations, after which he then makes a decision.

5. The committee referred to in the previous item shall comprise three members, one of whom should hold or should have held a senior position in the judiciary, while the other two should have experience in the financial or banking area.

6. Removal from office is appealable pursuant to the law, and such appeal should be filed within fifteen days from the day the decision becomes known.

#### **Article 50 Resignation**

1. The Governor may resign upon prior written communication to the Prime Minister at least three months in advance.

2. The Vice-Governors and non-executive members of the Board of Directors may step down from their offices upon prior written communication to the Prime Minister with a copy to the Board of Directors at least three months and one month in advance, respectively.

#### **Article 51 Subsequent Jobs**

1. The former Governors and Vice-Governors cannot provide professional services to banks, insurance companies or any other supervised entities in East Timor, for one year after they cease to work for the Bank.

2. The Board of Directors shall determine a fair amount to be paid to the former members of the Board of Directors as compensation during the period referred to in the previous item.

**Article 52**  
**Vacant Positions**

Any vacancy in the Board of Directors shall be filled within sixty days through the appointment of a member who shall complete the remaining term of office of the member being replaced.

**SECTION III**  
**OPERATION OF THE BOARD OF DIRECTORS**

**Article 53**  
**Meetings**

1. The Governor or whoever replaces him in his absences or impediments, shall chair the meetings of the Board of Directors.
2. The Board of Directors shall ordinarily meet once a month and extraordinarily whenever called by the Chairman, at his initiative or upon a request in writing by two of its members.
3. The meetings of the Board of Directors shall be called in writing, and the notice shall be sent to all members, indicating the date, time, place and agenda, not later than five business days before the date scheduled for the meeting, exception being made in the emergency cases or upon the mutual consent of all members.
4. The Board of Directors shall decide with a quorum of two thirds of its members, including the Governor or whoever replaces him and at least one non-executive member.
5. Should the quorum mentioned in the previous item not be achieved, the Governor may call a new meeting, and the decisions adopted shall be ratified at the next regular meeting.
6. Each member of the Board of Directors is entitled to one vote, and in the case of a tie, the chairman shall have the casting vote;
7. The decisions of the Board of Directors shall be adopted by a simple majority of the members present.
8. The rules for the operation of the Board of Directors may permit meetings and voting through teleconference or, under exceptional circumstance, through other electronic means of communication.
9. Without prejudice to the provisions regarding the quorum in this article, the vacancy of one or more positions of member of the Board of Directors in itself does not constitute grounds for invalidating the Board of Director's acts or procedures.

**Article 54**  
**Operating Procedures and Confidentiality**

1. The meetings of the Board of Directors shall be confidential;
2. The Board of Directors may disclose to the public the result of its deliberations.

3. The decisions of the Board of Directors related to monetary or general policy shall be published.
4. The minutes of each Board of Directors meeting shall be signed by the person who chaired the meeting and by the Secretary of the Board of Directors.
5. The Secretary shall be appointed by the Board of Directors from among the Bank's top technicians who are not members of the Board of Directors.

## **SECTION IV PERSONNEL**

### **Article 55 General Provisions**

1. The Bank's employees cannot hold any other office or perform any other activity outside the Bank, whether remunerated or not, unless they have been appointed thereto by the Bank or where this involves educational or civic purposes and, in this case, provided it does not clash with the Bank's service, except with express authorization of the Board of Directors.
2. The principles of equal opportunities and non-discrimination shall be observed when hiring employees.
3. The Bank has its own staff, according to the Special Career Regimen.

### **Article 56 Admission and Dismissal**

In general terms and under the conditions approved by the Board of Directors, the Governor may hire and dismiss the Bank's employees, agents and correspondents.

## **CHAPTER X FINANCIAL STATEMENTS, REPORTS, AUDITS AND BUDGET**

### **SECTION I FINANCIAL STATEMENTS, REPORTS**

#### **Article 57 Accounting Policies, Standards and Practices**

1. The accounting, accounts and records are performed and maintained in accordance with International Accounting Standards and reflect the Bank's operations and financial situation.
2. The fiscal year shall coincide with the calendar year.

**Article 58**  
**Annual Financial Statements and Reports**

1. The Bank shall prepare its financial statements for each fiscal year.
2. The Bank, within four months after the closing of the fiscal year, shall submit to the President of the Republic, the National Congress, the Prime Minister and the Minister of Finance the following documents:
  - a) Financial Statements approved by the Board of Directors, signed by the Governor and certified by the external auditor;
  - b) A Report, approved by the Board of Directors, of the activities and operations related to the previous fiscal year, including as regards the objectives of its policies and the growth of the domestic economy;
  - c) A Report, approved by the Board of Directors, on the status of the economy during the previous fiscal year, including the prospects for economic growth for the following year, vis-à-vis the objectives of its policies and the East Timor financial system.
3. The report referred to in the previous item includes the analysis and the evaluation of the policies pursued by the Bank in the last fiscal year and a description and explanation of the policies that the Bank will follow in the next fiscal year.
4. After the financial statements referred to in sub item a) of item no. 2, are completed, the Bank shall publish them in the Journal of the Republic and on its website.
5. The reports referred to in sub items b) and c) of item No. 2 shall be published in the media to be determined by the Board of Directors.
6. The Bank, within fifteen business days after the closing of each month, shall prepare and post on its website the *pro forma* Balance Sheet related to that specific month and shall deliver a copy of it to the Prime Minister and to the Government Department responsible for the finance area.

**Article 59**  
**Other Publications**

1. The Bank shall advise the National Congress and the public in general, twice a year and whenever necessary, on the monetary policy, the achievement of its objectives and its view on the behavior of the current economic variables.
2. The Bank may publish reports and studies on matters of an economic and/or financial nature.

**SECTION II  
AUDITS AND BUDGET**

**SUBSECTION I  
INTERNAL AUDIT**

**Article 60  
Appointment and Term of Office**

1. The Bank's Chief Internal Auditor is appointed by the Board of Directors, upon a proposal submitted by the Governor, with a five-year term of office, subject to renewal.
2. Only those candidates who have an extensive professional experience in the areas of accounting or auditing and who fulfill the eligibility criteria provided for in Article 48 of this law can be appointed for the office of Internal Auditor.
3. The Chief Internal Auditor may be removed from office by the Board of Directors pursuant to the provisions of article 49 of this law.
4. The Chief Internal Auditor may resign upon prior communication to the Governor at least three months in advance.

**Article 61  
Duties of the Chief Internal Auditor**

It is the duty of the Chief Internal Auditor, assisted by the internal auditors, specifically to perform the following activities:

- a) To supervise, review the practices and procedures for the proper risk management, as well as the ongoing supervision of their implementation;
- b) To recommend to the Board of Director the adoption of practices or procedures in line with the previous item;
- c) To conduct periodic audits of the Bank's administration and operations to ensure proper compliance with the laws applicable to the Bank and the decisions of the Board of Directors;
- d) To review the Bank's periodic financial statements and documents related thereto;
- e) To prepare and deliver to the Board, whenever deemed appropriate by the Board of Directors, at least on a quarterly basis, the reports and recommendations related to the Bank's records and financial statements, the budget and accounting procedures, risk management and other internal controls, the level of efficiency and effectiveness with which the Bank operates as far as costs are concerned and any other matters within his sphere of action and areas of responsibility in relation to which a report may be requested by the Board of Directors;
- f) To perform any other activities assigned to him by the Board of Directors, provided they do not conflict with his main duties;
- g) To follow up on the work of the Bank's external auditors.

## **SUBSECTION II EXTERNAL AUDIT**

### **Article 62 External Audit**

1. The Bank's accounts, records and financial statements are audited at least once a year by independent external auditors with acknowledged experience in auditing large international financial institutions.
2. The external auditors shall be appointed by the Prime Minister following recommendation by the Board of Directors.
3. No external auditor shall be appointed consecutively for a cumulative period in excess of five years.
4. The Prime Minister may dismiss the Bank's external auditors for cause, after hearing the Board of Directors.
5. The Prime Minister may, at all times, determine that an external audit be carried out at the Bank.

### **Article 63 Audit Committee**

1. The Board of Director may, pursuant to item t) of Article 46, appoint an Audit Committee.
2. The members of this Committee do not include the Bank's Governor, Vice-Governors nor employees or agents.
3. The Audit Committee shall have the following duties:
  - a) Supervise the internal audit activities;
  - b) Recommend the appointment of external auditors as well as the sphere of action of the external audits and other services;
  - c) Evaluate, together with the external auditors, the year-end financial statements.
4. The Board of Directors shall define the responsibilities, terms and conditions of the Audit Committee.
5. The Audit Committee shall, from time to time, report to the Board of Directors.
6. The Audit Committee shall regulate its operations, pursuant to the guidelines established by the Board of Directors and the provisions of this law.

**Article 64**  
**Budget**

1. The Bank shall prepare its annual budget to be approved by the Board of Directors before the beginning of each fiscal year.
2. The approved budget shall be advised to the Prime Minister and the Minister of Finance.
3. The annual budget shall include all anticipated revenues and earnings, including those expected to be generated and those that are expected to be made available to it, regardless of their source, as well as all anticipated expenses, including depreciations and provisions.

**CHAPTER XI**  
**Supplementary Provisions**

**Article 65**  
**Orders and Regulations**

1. The Bank has the power to issue regulations within the scope of its authority and in order to perform its duties.
2. Regulations applicable to more than one institution shall be issued by way of directives or circular letters.
3. The Bank may issue binding orders solely to one institution.
4. The directives, circular letters and orders issued by the Bank shall bind the institutions to which they are addressed.

**Article 66**  
**Publication of Regulations**

1. The directives issued by the Bank shall be published in the Journal of the Republic.
2. The Bank shall decide on the publication of orders.
3. The Bank may keep a public record of the directives, circular letters and orders published.

**Article 67**  
**Administrative Penalties**

1. The Bank may apply administrative penalties to individuals or legal entities that violate the provisions of this law or of applicable laws or regulations.
2. The administrative penalties include fines and other administrative measures, such as warnings or written orders, suspension and dismissal of managers of the supervised financial institutions, revocation of licenses and other measures as specified in the law.

3. Fines may be imposed by the Bank up to the maximum amount of 200 per cent of the reference value of the transaction or financial instrument per infringement, except if otherwise provided for in the law.
4. The fines referred to in the previous items may be imposed on a daily basis per each day on which the infringement subsists until the infringement ceases to exist.
5. The Bank shall notify the individual or legal entity, describing the facts and grounds for the imposition of the administrative penalty, ensuring, however, the right to an adversary proceeding.
6. The Bank shall not be required to comply with the provisions of the previous item in relation to the penalties mentioned in item 3 of Article 15 and item 2 of Article 31 of this law.
7. The administrative offense regime shall be determined by a regulation.
8. The enforcement of any administrative penalty shall take into account the following facts:
  - a) The seriousness of the infringement;
  - b) Whether it is a repeat infringement;
  - c) Whether the depositors or third parties have sustained any damages;
  - d) Whether the person to be penalized will benefit from the ongoing conduct and the financial resources of each person;
  - e) Any mitigating circumstances;
  - f) Other factors which, due to their relevance, the Bank believes are likely to be complied with.
9. The enforcement of administrative infringements, pursuant to the provisions of this law, does not preclude civil or criminal liability.

### **Article 68**

#### **Good Management Practices**

1. The Bank shall make use of the powers bestowed upon it at arm's length and in an impartial manner, according to the good management practices.
2. The Bank shall not meet objectives other than those assigned to it nor shall it act in excess of what is necessary to achieve them.
3. The Bank's decisions must be impartial and based on rational and objective considerations, and must be executed with fairness and rigor.

**Article 69**  
**Conflict of Interests and Fiduciary Duty**

1. The members of the Board of Directors and the employees must avoid situations that give rise to conflicts of interest.
2. For the purposes of the provisions of this law, conflict of interest specifically consists of a circumstance where a member of the Board of Directors or employees have interests of a private or personal nature that may influence or purport to influence the impartial and objective performance their duties.
3. Private or personal interests of the members of the Board of Directors or employees are understood to be potential advantages for themselves, their families, their relatives up to the second degree or to their circle of friends or acquaintances.
4. No member of the Board of Directors or employee and agent may receive or accept from any source, benefits, rewards, compensation or offers that exceed the social norm or a negligible amount, whether of a financial nature or not, which are linked in any way to the Bank's activities.
5. The violation of the previous article by employees constitutes a serious offense and may be grounds for non-compensated dismissal.
6. The members of the Board of directors and the employees and agents cannot make use of any information they may have access to, either directly or indirectly, to obtain financial advantages for themselves or for third parties.
7. The members of the Board of Directors must, by the last day of the month of January each year, disclose to the Prime Minister all of their significant financial interests as well as of those with whom they have family or business ties or financial interests, whether directly or indirectly, and said statement must comply with the internal rules adopted by the Board of Directors.
8. Whenever any matter related with a financial interest referred to in the previous item is presented by one of the members of the Board of Directors, the member at issue shall inform their interest at the beginning of the discussion of this topic and shall not participate in the respective discussion and decision; however, their presence shall be taken into account for the purposes of the quorum.
9. The members of the Board of Directors and the Bank's employees have a fiduciary duty to the Bank and its clients to put the Bank's interests and those of their clients before their own monetary interests.
10. The Board of Directors shall approve the regulations designed to ensure compliance with the previous items.

**Article 70**  
**Charges and Fees**

The Bank may charge fees for the services provided, so as to cover its costs, and these must be published on its website and in other media it deems convenient.

**Article 71**  
**Forbidden Conduct**

1. Unless authorized by law, the Bank may not:
  - a) Grant any credit or make any monetary or financial offer, even in an insignificant amount;
  - b) Become involved in trading or purchase of shares from any company, including equity interests in the authorized capital of any financial institution or, in general, hold any equity interests as owner of any financial, business, agricultural or industrial company or of any other nature;
  - c) Acquire, by any means, any ownership rights to any real estate, except if deemed necessary or useful for obtaining facilities for its management and performing its activities or for the performance of its duties in general.
- 2) Without prejudice to the provisions of the previous items, the Bank may:
  - a) Grant secured loans or have a shareholding interest or participate in any other way in any organization involved in activities required or useful for the proper performance of the Bank's duties or responsibilities;
  - b) Acquire, in the course of settling the debts with the Bank, any interests or rights referred to in the previous item, provided all of these interests or rights acquired are sold at the first appropriate opportunity;
  - c) Set aside funds for personnel changes or similar agreements for the employee's benefit or protection.
3. Any of the activities mentioned in item No. 2 shall be published in the report referred to in sub item b) of item No. 2 of Article 58.

**Article 72**  
**Tax Exemption**

1. The Bank shall enjoy tax exemption pursuant to the tax law in force.
2. The Bank shall be exempt from any other tax rights and contributions from which the Ministries, the Government and other public agencies are exempt by law.

**Article 73**  
**Review of the Law**

The Bank's opinion shall be sought on the review of this law as well as on other legislative initiatives within the scope of its duties.

**Article 74**  
**Confidentiality**

1. Anyone who is or has been a member of the Board of Directors or employee may not, except when required for the performance of a duty or an obligation imposed by law, allow access to, publicize or publish information that has not made public or

which has been obtained in the performance of their duty, nor may they use this information or allow it to be used for their own benefit or that of third parties.

2. Without prejudice to the provisions of the previous item, those persons referred to above may disclose non-public information outside the Bank, according to the procedures established by the Bank, but only:

a) With the express or implied consent of the person to whom the information pertains;

b) In the discharge of the duty established by law for disclosure of information, including the duty of assisting, pursuant to the terms of the law or upon a court order;

c) To the Bank's external auditors;

d) To the regulatory or supervisory authorities or to public international financial institutions, in the discharge of their official duties;

e) If the Bank's own interests in legal actions require such disclosure.

3. The Board of Directors shall determine the classification or accessibility of the documents held or prepared by the Bank.

#### **Article 75 Credit Privilege**

1. The Bank enjoys credit privilege in relation to any credits resulting from the performance of its duties, on the monetary balances, securities or any other assets held by the Bank on behalf of the debtor, be it as guarantee or at any other pretense, at the time the credit becomes enforceable.

2. The Bank may exercise its preemptive right or its credit privilege via simple appropriation of the monetary balances, via set-off and immediate sale, at a reasonable price, of the securities or other assets held, thus satisfying its credit using the amount realized, after the expenses incurred with the sale have deducted.

3. The entitlement envisaged in this article is exercised out of court and shall not be subject to any enforcements or competing credits

#### **Article 76 Precautionary Measures**

1. No precautionary measure or foreclosure can be adjudicated nor any act ordered, within the scope of one of these measures, against the Bank or against the assets of its estate, including gold, special drawing rights, currency, credits, deposits or securities and any form of subsequent earnings, before a final decision is handed down in relation to any legal action filed at the East Timor courts of law.

2. The Bank may, in whole or in part, waive this protection, in writing, except in relation to the gold or the special drawing rights it holds.

## **Article 77 Arbitration**

In any arbitration action against the Bank or any member of the Board of Directors or any employees or against the Bank's agents in the fulfillment of their duties towards the Bank:

- a) The Arbitration Court, when reaching its decision, must take into account whether the defendant acted out of malice or if the defendant acted arbitrarily in light of the facts, the law and the relevant regulations;
- b) Members of the Board of Directors, Bank employees or agents, including any person who has held this position before, shall not be liable for the damages caused by their acts and omissions committed during or after the performance of their duties, unless they have acted maliciously;
- c) The action shall proceed through the period of the appeal and of any judicial action related to the appeal;
- d) The Arbitration Court, when justifiable, may award monetary compensation to the parties affected without prejudice to the previous decisions of the Bank on the matter.

## **Article 78 Compensation for Court Costs**

The Bank must reimburse members of the Board of Director or a Bank employees or agents for the court costs incurred in legal actions against those person in the discharge or alleged discharge of their official duties or within the sphere of their job or position covered by this law, provided this person has not been convicted for an offense perpetrated within this scope.

## **CHAPTER XII FINAL AND TRANSITORY PROVISIONS**

### **SECTION I TRANSITORY PROVISIONS**

#### **Article 79 Bills and Coins**

1. Up until the definition of a specific currency regime, pursuant to the terms of the Constitution of the Republic, the US dollar is the East Timor currency unit and the Bank:

- a) may not issue bills; however, it has the exclusive right to issue coins that have legal tender in East Timor;
- b) shall exchange the cent coins for US dollars and US dollars for cent coins, at the rate of one hundred cents for each US dollar;
- c) shall determine, through regulations, the face value and the characteristics of the cent coins;

- d) shall see to the minting of the cents, the acquisition of the foreign currency and the security and storage in safes of the Bank's bills and coins held by the Bank;
- e) shall see to the custody and destruction, when necessary, of cents and coinage;
- f) shall see to the custody and repatriation of foreign currency bills and coins.
- g) may charge a commission for exchanging the foreign currency bills and coins;
- h) may refuse to exchange the bills or coins if they are illegible, defaced or perforated or if more than 40 per cent of their surface has faded , and these bank notes or coins shall be removed from circulation with no compensation for their owner, unless the Bank grants full or partial compensation;
- i) shall not pay any compensation for lost, stolen or destroyed bills or coins and may confiscate, with no payment of compensation, those bills whose external appearance has been altered, including, specifically, bills that have been written on, painted, printed over, stamped, perforated or which have adhesive stickers attached;
- j) shall directly manage the inventory of currency reserves, shall plan emissions and ensure the regular supply of bills and coins so as to meet the need for currency circulation in the economy.

2. The bills and coins of the East Timor currency and the cent coins not removed from circulation by the Bank are legal tender at their face value for the payment of public and private debts.

3. The legal tender must be accepted at its face value in payment of all East Timor public and private debts.

4. Until such time as time the Tax Code is approved, the Bank shall be exempt from any taxes on its earnings and rights, indirect taxes and other taxes on the purchase and importation of currency.

#### **Article 80**

##### **Appointment and Initial Term of Office of the Board of Directors**

1. Once this law has come into effect, the members of the Bank's Board of Directors shall be appointed, pursuant to Article 48.

2. Without prejudice to the provisions of the previous item, the initial term of office shall have the following duration:

- a) Governor, six years;
- b) One of the Vice-Governors, five years;
- c) The other Vice-Governor, four years;
- d) Non-executive members, one, three, five and six years respectively.

3. The Governor shall be appointed after consulting the Board of Directors of the Banking and Payment Authority, and the other members of the Board of Directors shall be appointed following a non-binding recommendation of the Board of Directors of the Banking and Payment Authority.

4. On the same date mentioned in item No. 1 the members of the Board of Directors and the Management of the Banking and Payment Authority shall cease their duties.

**Article 81  
Succession**

The East Timor Central Bank shall succeed the East Timor Banking and Payment Authority established by Regulation No. 2001/30 of UNTAET, for all legal purposes.

**Article 82  
Regulations in force**

Any regulations, internal rules, guidelines, decisions or any other administrative acts issued by the Banking and Payment shall remain in force in all respects that do not contravene this law.

**SECTION III  
FINAL PROVISIONS**

**Article 83  
Revocation Statute**

1. Regulation No. 2001/30 of the UN Transitory Administration in East Timor creating the Banking and Payment Authority is hereby revoked.

**Article 84  
Coming into Effect**

This law shall come into effect 90 days following its publication.

Approved on April 13, 2011

President of the National Parliament

**Fernando La Sama de Araujo**

Enacted on June 14, 2011

For publication.

The President of the Republic

**José Ramos-Horta**