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BANK OF ZAMBIA
P O Box 30080 Lusaka
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16 March 2001

CB Circular No 13/2001

To: All Commercial Banks and
Foreign Exchange Suppliers

Dear Sirs/Madam

REVISION OF GUIDELINES FOR FOREIGN EXCHANGE SUPPLIERS

The Bank of Zambia has with immediate effect made revisions to the Guidelines for Foreign Exchange Suppliers. Specific revisions have been made in respect of:

2.1 Eligibility

The threshold for participating at the Dealing Window has been revised downwards to US\$100,000 from US\$200,000 per week.

2.2.3 Allotment

To guard against emergence of a multiple currency practice and to stabilize the exchange rate, foreign exchange will be allocated at the cut-off (marginal) rate to all successful bidders, beginning with the first bidder on the list until the amount on auction is exhausted.

Please be informed that these revisions apply to all Foreign Exchange Suppliers.

Find attached a revised copy of the detailed Guidelines for Foreign Exchange Suppliers.

Yours faithfully

A handwritten signature in dark ink, appearing to read 'A. Mwenda', is written over a horizontal line.

Dr Abraham Mwenda
Deputy Governor - Operations



GUIDELINES FOR FOREIGN EXCHANGE SUPPLIERS

1.0 OVERVIEW

To further rationalize the operations of the foreign exchange market the Bank of Zambia has made some modifications to the rules governing access and operations of the **Dealing Window**. These modifications have been motivated by the need to broaden participation, unify the market and stimulate active participation with a view to attaining and maintaining a stable and competitive exchange rate. The modifications are also a result of consultations with other stakeholders. The Bank of Zambia will continue to administer the operation and communicate the results to all the parties involved in the process. In addition, the Bank of Zambia will publicize the resultant exchange rate for the benefit of other market participants and the general public.

2.0 OPERATING GUIDELINES

2.1 Eligibility

The threshold for participation at the Dealing Window has been revised downwards to US \$100,000 from US \$200,000 per week. This means that any business entity selling foreign exchange amounting to US \$100,000 or more per week will be required to transact through the Bank of Zambia Dealing Window.

Suppliers selling less than US\$100,000 per week can deal directly with their respective banker(s) without going through the Dealing Window.

2.2 Tender Process

2.2.1 Tender Invitation

- All eligible suppliers of foreign exchange will submit to Bank of Zambia on the specified form the amounts they intend to sell by 12:30 hours on the business day immediately preceding the day of the tender.
- Setting of a reserve price will not be allowed

- Bank of Zambia will invite commercial banks to submit bids for foreign exchange (i.e. the volume and the price at which they wish to transact) by 9:30 on the tender day.

2.2.2 *Tender Results*

- Bank of Zambia will communicate the preliminary tender results to the suppliers by 11:30 hours on each trading day.
- Suppliers and Bank of Zambia will confirm the transactions by 14.30 hours on each trading day, i.e. the supplier will advise Bank of Zambia of the commercial bank account details to which the Kwacha proceeds will be credited. Similarly, the Bank of Zambia will advise the supplier of its foreign account details to which the foreign exchange should be credited.
- Bank of Zambia will in turn send confirmations to the respective buyers (commercial banks) by 15.30 hours the same day.
- Final tender results shall be communicated to suppliers and buyers soon after all the confirmations have been made.
- Thereafter the Bank of Zambia will publicize the derived auction exchange rates.

2.2.3 *Allotment*

- To guard against emergence of a multiple currency practice and to stabilize the exchange rate, foreign exchange will be allocated at the **cut-off (marginal) rate to all successful bidders**, beginning with the first bidder on the list until the amount on auction is exhausted.
- If the total bid amount received is less than the amount being offered, the Bank of Zambia will purchase the shortfall at the same cut-off rate.
- In the event that two or more successful bidders bid at the same rate, the remaining amount of foreign exchange will be allocated at the cut-off rate, on a pro-rata basis.
- In the event of an auction failure (i.e. no bids received), the Bank of Zambia can purchase the foreign exchange at its buying rate or alternatively the supplier can withdraw and come back the following day or at a later date.

2.2.4 *Settlement*

- The Bank of Zambia will close the transactions on behalf of the supplier and the bidders.

- To facilitate this process, the supplier will credit the foreign exchange to the specified Bank of Zambia foreign exchange account within 2 working days (i.e. spot transaction).
- Upon confirmation of delivery by its correspondent bank, the Bank of Zambia will credit the Kwacha equivalent to the supplier's banker--"delivery versus payment settlement" method.
- The Bank of Zambia will then settle with the commercial banks both the foreign exchange and Kwacha transactions within 2 working days.

2.3 Penalty Clause

- Once offers by suppliers have been lodged with the Bank of Zambia, no supplier will be at liberty to withdraw, except in instances where there has been an auction failure.
- Similarly, once bids by commercial banks have been lodged with the Bank of Zambia, no bidder will be at liberty to withdraw.
- Any commercial bank that fails to honour its obligation in terms of settlement will be excluded from participating in subsequent tenders.

0 CONCLUSION

For these guidelines to be effective and bear the intended results cooperation of all the players is essential. This includes strict adherence to these guidelines.

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