Bank of Zambia
P.O. Box 30080, LUSAKA
10101

Tel. 228888/228903-20

March 19, 2001

CB Circular No.: 14/2001

To: All banks and financial institutions

Dear Sir/Madam

FOREIGN EXCHANGE RISK EXPOSURES, PLACEMENTS AND TRANSACTIONS

This circular replaces CB Circulars 6/2001 and 7/2001, and makes modifications to Circular No 08/2001.

PART I

FOREIGN EXCHANGE RISK EXPOSURE

With reference to Statutory Instrument Number 57 of 1996, the Banking and Financial Services (Foreign Exchange Risk Management and Exposure) Regulations, the Bank of Zambia is effecting the following measures:

(A) Limit on overnight overall and single foreign currency risk exposure

The overnight overall foreign exchange and single currency exposure limits have been reduced from the current 25% and 20% to 15% and 10% of regulatory capital, respectively.

(B) Limit on intra-day overall and single foreign currency risk exposure

Intra-day overall foreign exchange and single currency exposure limits shall be maintained within prudent limits as established by the bank's or financial institution's board of directors in a written policy covering its foreign exchange risk management plan:

Provided that at no time shall the overall foreign exchange risk exposure and single currency exposure exceed 30% and 20% of regulatory capital, respectively.

(C) Maintenance of Supporting Documentation

Each bank and financial institution shall maintain records, which are sufficient to determine at all times its single currency and overall foreign exchange risk exposures. In addition, each bank and financial institution shall maintain a daily record showing close-of-business foreign exchange risk exposures on both single currencies and overall exposures, and a reconciliation of opening-to-closing positions.

(D) Submission of Returns

The daily returns in the format given in **Schedule 1 – Foreign Exchange Risk Exposure**, duly signed by the reporting bank's or financial institution's Chief Executive Officer and Chief Financial Officer covering five business days of the week must be submitted to the Bank of Zambia, Financial System Supervision Department, on the Monday following the end of the week to which they relate.

In the actual event or anticipation of a breach, every bank or financial institution shall without delay notify and confirm in writing to the Bank of Zambia, Financial System Supervision Department, of their foreign exchange risk exposure immediately either of this becomes known to the bank or financial institution but in any case not later than the end of the business day to which such breach relates. Such notification to the Bank of Zambia shall include a description of the underlying transactions, foreign currencies involved and any actions undertaken or being undertaken to correct the risk exposure.

(E) Penalties

Any excesses above the foreign exchange risk exposure limits set forth in this Part shall by the close of business day attract penalties of 10% of the excess, calculated on a daily basis. Notwithstanding the foregoing, each bank or financial institution shall correct all foreign exchange risk exposures, which exceed the limit by the end of the second consecutive business day. Failure to correct any excesses within the two consecutive business days allowed will attract additional supervisory action.

PART II

FOREIGN EXCHANGE PLACEMENTS BY BANKS AND FINANCIAL INSTITUTIONS

All banks and financial institutions shall with immediate effect observe the following guidelines when placing foreign exchange with counter-parties.

(A) **Foreign Exchange Placements by Banks and Financial Institutions**

1) A bank or financial institution shall be authorised at any time to place a maximum aggregate amount of 60% of its total foreign exchange placements with a related or non-related counter-party.

   Such related or non-related counter-party shall have a minimum long-term international rating of A or above.

2) A bank or financial institution shall not be allowed to place a maximum aggregate amount in excess of 40% of its total foreign exchange placements with a related or non-related counter-party that has a long-term international rating of B.

3) A bank or financial institution shall not be allowed to place a maximum aggregate amount in excess of 10% of its total foreign exchange placements in a non-rated related or non-related counter-party.

4) A bank or financial institution shall not place an amount in excess of 5% of its total foreign exchange placements in internationally recognized off-shore banking centres whose laws e.g. secrecy laws, may impede the supervision of the foreign exchange activities of banks and financial institutions by the Bank of Zambia. The aggregate of such placements should not exceed 5% of total foreign exchange placements. The offshore banking centres include, but are not limited to those listed in **Schedule 3– List of International Offshore Banking Centres**.

5) **Related organisations** include parent, subsidiary or associate companies.

6) Within 14 days after establishing a counter-party or correspondent relationship and/or making placements with such a bank or financial institution abroad, a bank or financial institution shall notify the Bank of Zambia in writing of the fact and the rating of the correspondent bank or financial institution.

7) Where any counter-party or correspondent relationship already exists at the coming into force of these guidelines, banks and financial institutions shall notify the Bank of Zambia the rating of all such counter-parties immediately.

8) International rating agencies currently recognised by the Bank of Zambia are IBCA, Standard and Poor's, and Moody's

(B) **Submissions of Returns**

The daily returns in the format given in Schedule 2 – **Report on Foreign Exchange Placements in Foreign Related and Other Organizations** duly signed by the reporting bank's or financial institution's Chief Executive Officer and Chief Financial Officer covering the five business days of the week must be submitted to the Bank of Zambia, Financial System Supervision Department, on the Monday following the end of the week to which they relate.

(C) **Penalties**

Failure by any bank or financial institution to observe the above limits shall attract a penalty charge equivalent to 10% of the daily amount in excess of the limit for the foreign exchange placements.

PART III

FOREIGN EXCHANGE TRANSACTIONS

In relation to CB Circular No. 08/2001, the directive to limit foreign currency demand deposits to 25% of total foreign currency deposits has been dropped.

PART IV

EFFECTIVE DATE

This Circular takes effect immediately. However, a grace period of up to 2 May 2001 has been given for every bank and financial institution to ensure that existing foreign exchange placements in excess of the limits set in Part I (1), (2), (3) and (4) above are observed.

Yours faithfully

Dr Abraham Mwenda
DEPUTY GOVERNOR – OPERATIONS

SCHEDULE 1

FOREIGN EXCHANGE RISK EXPOSURE

INSTITUTION: .... **AS AT:** ....

(To be completed on a daily basis and submitted to Bank of Zambia every Monday)

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	CURRENCY TYPE	USD	GBP	DEM	FFR	ZAR	NLG	ITL	EURO	JPY	OTHERS*	TOTAL (ZMK)
	EXCHANGE RATE											
1.	FOREIGN CURRENCY ASSETS											
1.1	**Balance Sheet Items**											
1.1.1	Cash and Balances with Banks Abroad											
1.1.2	Loans & Advances											
1.1.3	Investment in Govt. Securities											
1.1.4	Other Foreign Assets											
1.2	**Off-Balance Sheet Items**											
1.2.1	Undelivered Spot Purchases											
1.2.2	Forward Purchases											
1.2.3	Other Off-balance Items											
1.3	**Total Foreign Assets (1.1.1 to 1.2.3)**											
1.4	**Total Foreign Assets (Kwacha)**											
2.	FOREIGN CURRENCY LIABILITIES											
2.1	**Balance Sheet Items**											
2.1.1	Balances due to Banks abroad											
2.1.2	Loans & Advances											
2.1.3	Customer deposits											
2.1.4	Other Foreign Liabilities											
2.2	**Off-balance Sheet Items**											
2.2.1	Undelivered Spot sales											
2.2.2	Forward Sales											
2.2.3	Other Off-balance Sheet Items											
2.3	**Total Foreign Liabilities (2.1.1 to 2.2.3)**											
2.4	**Total Foreign Liabilities (Kwacha)**											
3.	NET OPEN POSITION											
3.1	Long Position in FCY (where 1.3 less 2.3 is negative)											
3.2	Long Position in Kwacha (where 1.4 less 2.4 is negative)											
3.3	Short Position in FCY (where 1.3 less 2.3 is negative)											
3.4	Short Position in Kwacha (where 1.4 less 2.4 is negative)											
4.	SINGLE CURRENCY EXPOSURE											
4.1	Net open position as a %age of regulatory capital											
5.	OVERALL FOREIGN EXCHANGE EXPOSURE											
5.1	Exposure (sum total of 3.2 and 3.4 in Column 11)											
5.2	Regulatory Capital											
5.3	Exposure (5.1/5.2)%											
5.4	Allowable Exposure (15% of Regulatory Capital)											
5.5	Over/(Under) Exposure (5.1 less 5.4)											

*Please specify currency

NAME.. CHIEF EXECUTIVE OFFICER SIGNED...................... DATE..

NAME.. CHIEF FINANCIAL OFFICER SIGNED...................... DATE..

SCHEDULE 2

REPORT ON FOREIGN EXCHANGE PLACEMENTS IN FOREIGN RELATED AND CORRESPONDENT ORGANIZATION

Amounts in Kwacha Millions

Name of bank/financial institution:.......................... For the week ending:..../....../......

		Rating and Rating Agency	Monday	Tuesday	Wednesday	Thursday	Friday	Weekly Average
	Related Organization							
1								
2								
3								
4								
5								
	Other Organizations							
1								
2								
3								
4								
5								
	Total Foreign Currency Placements							

Signature:...
(Chief Executive Officer)

Date:.................................

Signature:..
(Chief Finance Officer)

Date:...

SCHEDULE 3

LIST OF INTERNATIONAL OFFSHORE BANKING CENTRES

BERMUDA

BAHAMAS

BELIZE

PANAMA

CAYMAN ISLES

ARUBA

NETHERLANDS ANTILLES

MONTSERRAT

BARBADOS

ANTIGUA

ANGUILLA

VIRGIN ISLAND

TURKS AND CAICOS

ALDERNEY

JERSEY AND GUERNSEY

DUBLIN

ISLE OF MAN

GIBRALTAR

MONACO

LUXEMBOURG

LIECHTENSTEIN

SWITZERLAND

MALTA

CYPRUS

DUBAI

BAHRAIN

SINGAPORE

HONG KONG

MAURITIUS

LABUAN

WESTERN SAMOA

VANUATA

COOK ISLANDS

Bank of Zambia
P.O. Box 30080
Lusaka
10101

20 March 2001

To : All Managing Directors
Commercial Banks and Financial Institutions

Dear Sirs/Madam

FOREIGN EXCHANGE RISK EXPOSURE
EXPLANATORY NOTES

Further to our CB Circular No. 14/2001 of 19 March 2001, please find attached the explanatory notes for completion of Schedule 1 and determination of the relevant risk exposures.

Yours faithfully,

Abraham Mwenda (Dr)
DEPUTY GOVERNOR - OPERATIONS

EXPLANATORY NOTES FOR SCHEDULE 1

FOREIGN EXCHANGE RISK EXPOSURE

1. FOREIGN CURRENCY ASSETS

This refers to foreign currency assets recorded in the reporting banking institution's books including all foreign currency borrowings, loans, overdrafts, bills and investments.

1.1 Balance Sheet Items

1.1.1 Cash and Balances with Banks Abroad

These are cash balances denominated in foreign currency held by the institution as well as balances with correspondent banks' or the institutions' own branches in other countries.

1.1.2 Loans and Advances

These are bills discounted; loans and advances denominated in foreign currency.

1.1.3 Investment in Government Securities

This constitutes investment in instruments issued by both foreign Central and Local Government e.g. Treasury Bills and Bonds.

1.1.4 Other Foreign Assets

All other asset balances denominated in foreign currency not covered above.

1.2. Off-Balance Sheet Items

These are foreign currency items such as forward contracts, which entail an identifiable foreign currency commitment. Gross amounts of outstanding purchase contracts must be reported.

1.2.1 Undelivered Spot Purchases

Foreign exchange deals are generally settled two business days after they are made. During these two days the amount of the bought currency to be received are recorded as off-balance sheet amounts. Undelivered spot transactions refer to all outstanding spot contracts written but not delivered.

1.2.2 Forward Purchases

A forward purchase is defined as one contracted for receipt beyond two business days from the reporting date. Forward purchases refer to the gross amounts of outstanding forwards, other than those to be delivered "within spot".

1.2.3 Other Off-Balance Sheet Items

This refers to items, which involve foreign currency exposures, which are not covered above. If material, details should be given by way of footnotes.

1.3 Total Foreign Assets (this is the sum of lines 1.1.1 to 1.2.3)
1.4 Total Foreign Assets (1.3 in Kwacha)

2 FOREIGN CURRENCY LIABILITIES

This refers to foreign currency liabilities recorded in the reporting banking institution's books including all foreign currency borrowings, loans, overdrafts, bills and investments.

2.1 Balance Sheet Items

2.1.1 Balances Due to Banks Abroad

These are balances due to correspondent banks abroad or the institutions own branches in other countries.

2.1.2 Loans and Advances

These are bills discounted; loans and advances denominated in foreign currency.

2.1.3 Customer Deposits

These are deposits as defined in the Banking & Financial Services Act

2.1.4 Other Foreign Liabilities

These are all other liability balances denominated in foreign currency not covered above.

2.2. Off-Balance Sheet Items

These are foreign currency items such as forward contracts, which entail an identifiable foreign currency commitment. Gross amounts of outstanding sale contracts must be reported.

2.2.1 Undelivered Spot Sales

Foreign exchange deals are generally settled two business days after they are made. During these two days the amount of sold currency to be delivered are recorded as off-balance sheet amounts. Undelivered spot transactions refer to all outstanding spot contracts written but not delivered.

2.2.2 Forward Sales

A forward sale is defined as one contracted for delivery beyond two business days from the reporting date. Forward sales refer to the gross amounts of outstanding forwards, other than those to be delivered "within spot".

2.2.3 Other Off-Balance Sheet Items

This refers to items, which involve foreign currency exposures, which are not covered above. If material, details should be given by way of footnotes.

2.3. Total Foreign Liabilities

This is the sum of 2.1.1 to 2.2.3

2.4 Total Foreign Liabilities in Kwacha (2.3 in Kwacha)

3. NET OPEN POSITIONS

This is calculated by subtracting Total Foreign Currency Liabilities (2.3) from Total Foreign Currency Assets (line 1.3) for each currency. A positive result indicates an over bought position (+) and should be indicated in Row 3.1 while a negative position (-) indicates an oversold position and should be indicated in Row 3.3.

The net open position Zambian Kwacha is calculated by subtracting Total Foreign Currency Liabilities in Kwacha (line 2.4) from Total Foreign Currency Assets in Kwcha (line 1.4) for each currency. A positive result indicates an over bought position (+) and should be indicated in Row 3.2 while a negative position (-) indicates an oversold position and should be indicated in Row 3.4.

Whether the position is negative or positive, it is still an exposure. Therefore do not use negative or positive signs on line 3.1 to line 3.4.

The "Others" entry for currencies not individually specified should be divided to show the total for those currencies with net long positions and the total for those with net short positions separately.

4 SINGLE CURRENCY RISK EXPOSURE

4.1 Net Open Position as a percentage of regulatory capital

This is calculated by dividing regulatory capital into the long or short position for each currency (in line 3.2 or line 3.4) and multiplied by 100%.

5. OVERALL FOREIGN EXCHANGE RISK EXPOSURE

5.1 Exposure (Overall)

This is the sum of all net long positions and all net short positions recorded in line 3.2 and line 3.4, i.e. (the sum of line 3.2 and 3.4 in column 11).

5.2 Regulatory Capital

Regulatory capital as defined in the Banking and Financial Services Act.

5.3 Exposure as percentage of Regulatory Capital

This arrived at by dividing line 5.1 by 5.2 and multiplied by 100.

5.4 **Allowable Exposure**

This is 15% of regulatory capital of the a bank or financial institutions

Over/(Under) Exposure

This is arrived by subtracting line 5.1 from line 5.4. Over-exposure means actual exposure is greater than the allowable exposure and institution is required to address this matter.