

## GOVERNMENT OF ZAMBIA

### STATUTORY INSTRUMENT No. 57 of 1996

#### The Banking and Financial Services Act (Act No. 21 of 1994)

#### The Banking and Financial Services (Foreign Exchange Risk Management and Exposure) Regulations, 1996

In EXERCISE of the powers contained in section *one hundred and twenty-four* of the Banking and Financial Services Act, 1994, the following Regulations are hereby made:

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|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|
| <p>1. These Regulations may be cited as the Banking and Financial Services (Foreign Exchange Risk Management and Exposure) Regulations, 1996.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Title                 |
| <p>2. In these Regulations, unless the context otherwise requires-</p> <p>"currency" means the legal tender of any country and includes precious metals and other similar tradeable commodities;</p> <p>"fixed forward contract" means a foreign exchange bought or sold forward in advance for delivery on a fixed value date longer than spot, at a pre-determined specified rate of exchange;</p> <p>"option forward contract" means a forward exchange contract which gives the counterparty the right to exercise the contract over a defined period instead of solely on one value date;</p> <p>"foreign exchange option contract" means a contract which gives the holder the right, but not the obligation, to sell or buy an agreed sum of money on an agreed date, or at any time between agreed dates at an agreed price or rate, on payment of a non-refundable fee or premium to the writer of the option;</p> <p>"long position" means the excess of assets over liabilities in a particular currency;</p> <p>"net forward position" means all amounts to be received less all amounts to be paid in the future as a result of foreign exchange transactions which have already taken place;</p> | <p>Interpretation</p> |

"open position" means a situation where assets in a particular currency do not equal liabilities in that currency, including unhedged forward commitments to purchase or sell the currency;

"overnight position" means the holdings of any open positions in foreign currencies of a bank or financial institution at the close of each business day;

"regulatory capital" means those instruments which comprise the capital resources of a bank or financial institution, and the total of which is used by the Bank of Zambia for compliance by a bank or financial institution with the minimum capital standard and for assessing capital adequacy, and is calculated in accordance with the Second Schedule to the Banking and Financial Services (Capital Adequacy) Regulations;

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"short position" means the excess of liabilities over assets in a particular currency;

"spot exchange rate" means the latest market price for a currency;

"spot foreign exchange contract" means an agreement with a counterparty to buy or sell a given amount of one currency against the agreed countervalue of another, usually for settlement in two working days' time.

3. These Regulations shall apply to all banks and financial institutions licensed under the Act.

Application

4. (1) Every bank or financial institution shall manage its foreign exchange risk exposures within the framework of a comprehensive risk management plan, setting out its policies, procedures and other safeguards necessary to prudently manage and control exposure to foreign exchange risk. (2) The risk management plan referred to in sub-regulation (1) shall be drawn in the context of other risks and considerations and shall-

Foreign  
exchange risk  
management  
plan.

(a) take into account the ability of the bank or financial institution to absorb a potential loss;

(b) at a minimum, include-

(i) the establishment and implementation of sound and prudent foreign exchange risk management policies; and

(ii) the development and implementation of appropriate and effective foreign exchange risk management and

control procedures.

(3) The policies and control procedures referred to in sub-regulation (2) shall be reviewed and reassessed at least once in a year and shall be submitted to the board of directors of the bank or financial institution for review and approval.

(4) The bank or financial institution shall, after the policies and control procedures referred to in sub-regulation (3) have been dealt with by its board of directors in accordance with that sub-regulation, refer them to the Bank of Zambia.

5. (1) Every bank or financial institution engaged or proposing to engage in foreign exchange activities shall set forth in its risk management plan a well-articulated policy of the objectives of its foreign exchange risk management strategy, and shall include, at a minimum-

Foreign  
exchange risk  
management  
policies

- (a) a statement of risk principles and objectives governing the extent to which the bank or financial institution is willing to assume foreign exchange risk;
- (b) subject to the limits specified in regulation 7, explicit and prudent limits on the bank's or financial institution's exposure to foreign exchange risk;
- (c) the currency or currencies in which the institution is prepared to incur exposure; and
- (d) clearly defined levels of delegation of trading authorities.

6. (1) Every bank or financial institution engaged or proposing to engage in foreign exchange activities shall-

Foreign  
exchange risk  
management and  
control  
procedures

- (a) as part of its risk management plan, develop, implement and oversee procedures to manage and control foreign exchange risk in accordance with its foreign exchange risk management policies; and
- (b) be of a level of sophistication commensurate with the size, frequency and complexity of the institution's foreign exchange activities.

(2) The foreign exchange risk management and control procedures referred to in sub-regulation (1) shall include, at a minimum-

- (a) the use of accounting and management information systems to measure, monitor and reconcile, on a daily basis, foreign exchange positions, foreign exchange risk and foreign exchange gains or losses;

- (b) regular monitoring and reporting techniques to senior management;
  - (c) controls governing the management of foreign currency activities; and
  - (d) regular independent inspections or audits to assess compliance with, and the integrity of, the foreign exchange policies and procedures.
7. A Bank or financial institution's foreign exchange positions and exposures shall be calculated in accordance with the First, Second and Third Schedules. Foreign exchange exposure limits
8. (1) The Bank of Zambia may, where it considers that the financial institution of a bank or financial institution warrants a lower limit, prescribe such lower limit as it may consider appropriate. Overall currency exposure
- (2) Notwithstanding sub-regulation (1), every bank or financial institution shall-
- (a) maintain its overall foreign exchange risk exposure as at the close of each business day to a maximum of twenty-five percentum of its regulatory capital; and
  - (b) ensure that its intra-day overall foreign exchange risk exposure is maintained within the objectives set out in its risk management policies and managed prudently and responsibly;
- Provided that at no time shall the total of the foreign exchange risk exposure exceed forty percentum of the bank's or financial institution's regulatory capital.
9. (1) The Bank of Zambia may, where it considers that the financial situation of a bank or financial institution warrants a lower limit, prescribe such lower limit as it may consider appropriate. Single currency exposure
- (2) Notwithstanding sub-regulation (1), every bank or financial institution shall-
- (a) maintain its foreign exchange risk position as at the close of each business day in any single currency to a maximum of twenty percentum of its regulatory capital; and
  - (b) ensure that its intra-day foreign exchange risk position in any single currency is maintained within the objectives set out in its risk management policies and managed prudently and responsibly:

Provided that at no time shall the total in any single currency exceed thirty percentum of the bank's or financial institution's regulatory capital;

10. Every bank and financial institution which engages in foreign exchange operations shall submit to the Bank of Zambia, within ten working days following the reference month, a report of its foreign exchange positions and exposures, in the forms set out in the First, Second and Third Schedules.

Submission of reports

**FIRST SCHEDULE**  
(Regulations 7 and 8)

1.	Total Regulatory Capital (as calculated by using the Second Schedule of the Banking and Financial Services (Capital Adequacy) Regulations, Cap. 387). Attach calculation	K
2.	Overall Foreign Currency Exposure Item 3 of the Second Schedule As a percentage of Regulatory Capital (item 1 above)	K %
3.	Foreign Currency Exposure on a Per Currency Basis	
	Currency	Long (short)
		As a percentage of Regulatory Capital
	DEM	
	FFR	
	ZAR	
	GBP	
	USD	
	OTHERS (SPECIFY)	

SECOND SCHEDULE  
(Regulations 7 and 8)

Positions in Domestic Currency Equivalent of the Spot and Forward Positions of Foreign Currencies (1) (using prevailing rates quoted in the third schedule)						
Currency	Balance Sheet		Forward		Overall	
	Long	Short	Long	Short	Long	Short
DEM						
FFR						
ZAR						
GBP						
USD						
OTHERS (SPECIFY)						
NET POSITION						
OVERALL EXPOSURE						

- (1) Report all unhedged positions, including interest rate hedges, forward contracts, derivatives, etc.
- (2) The net position is the difference between the " total long" and " total short" positions.
- (3) The overall foreign currency exposure is the sum total of all long and short positions.

THIRD SCHEDULE  
(Regulations 7 and 8)

Positions in Foreign Currencies and Net Domestic Currency Equivalent Positions (- sign indicates a short position)					
Currency	Net Balance	Off Balance Sheet *(Forward)	Total	Prevailing Spot Forex Rate (at Date of this Return)	Net Domestic Currency Equivalent Position
DEM					
FFR					
ZAR					
GBP					
USD					
OTHERS (SPECIFY)					

\*Report all unhedged positions, including options, interest rate hedges forward contracts, derivatives, etc.

LUSAKA  
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