



CIRCULAR NO. 5

(AS AMENDED IN JUNE, 2000)

TO: BANKS AND FINANCIAL INSTITUTIONS IN TANZANIA

**SUBJECT: THE FOREIGN EXCHANGE EXPOSURE AND
PLACEMENTS, PURCHASES, SALES AND BALANCES**

PART I

PRELIMINARY

Short Title

1. This Circular may be cited as the Foreign Exchange (Exposure and Placements, Purchases, Sales and Balances). This circular is issued in terms of section 47 of the Bank of Tanzania Act, 1995 and section 17 of the Banking and Financial Institutions Act, 1991.

Application

2. This circular shall apply to all licensed banks and financial institutions.

Interpretation

3. In this circular, unless the context requires otherwise:

“authorised foreign exchange dealer” means a bank or financial institution authorised to operate in the Interbank Foreign Exchange Market;

“Bank” means the Bank of Tanzania established by the Bank of Tanzania Act, 1995;

“capital deficiency” means shortfall in the minimum capital;

“correspondent organisation” means a foreign bank which has correspondent relationship with a bank or financial institution in Tanzania;

“foreign currency” means any currency other than the currency of Tanzania;

“foreign currency account” means any account credited with foreign currency maintained with a bank or financial institution

which is an authorised dealer or any person authorised by the Bank to maintain a foreign currency account;

“foreign currency liabilities” include customer foreign currency deposits and interbank foreign currency borrowings;

“foreign exchange placements” means foreign exchange held/placed with other bank or financial institution outside Tanzania;

“Governor” means the Governor of the Bank of Tanzania, appointed in accordance with the provisions of Section 9 of the Bank of Tanzania Act, 1995;

“interbank foreign exchange market (IFEM) ” means foreign exchange spot, forward or such other foreign exchange trading mechanism as will be authorised to be undertaken in the United Republic of Tanzania in accordance with rules, guidelines, regulations and directives issued by the Bank from time to time;

“lateral” means that a company is on the same “level” as a bank or financial institution through common ownership, directorship, or officership;

“licence” means banking licence issued under Section 5 of the Banking and Financial Institutions Act, 1991;

“long position” means excess of purchases over sales;

“open position” means the long (above) or short (below) position at any time on which an exchange risk is run;

“OECD” means Organization for Economic and Corporation Development;

“parent” means a company which, either directly or indirectly, controls or owns or holds with power to vote, more than fifty percent of the total issued and outstanding shares of a bank or financial institution;

“person” means a natural person and includes a body of persons by whatever name or title known, corporate or unincorporate;

“related organisations” include parent, subsidiary, or lateral companies. For the purpose of these regulations, parent, subsidiary, or lateral company has to be a bank or financial institution;

“short position” means excess of sales over purchases.

PART II

STATEMENT OF POLICY

Objectives

- To allow banks and financial institutions to play an active role in the development of foreign exchange markets and instruments in the economy.
- To facilitate foreign exchange based lending by banks and financial institutions.
- To improve the conduct of monetary policy.
- To provide a basis and framework for a market determined exchange rate.
- To increase the efficiency with which foreign exchange resources in Tanzania are deployed.
- To provide a better and conducive environment for foreign investment in the financial and other sectors.
- To avoid concentration of foreign exchange placements.
- To minimize exchange risk.

PART III

ELIGIBILITY FOR FOREIGN EXCHANGE OPERATIONS

Foreign exchange lending conditions

4. Foreign exchange based lending by banks and financial institutions shall be subject to the following conditions:

- (a) meeting minimum capital requirements;
- (b) the amount of foreign exchange denominated credit facilities to be extended to customers shall be in accordance with The Concentration of Credit and Other Exposure Limits Regulations, 2000. For avoidance of doubt, the exposure to a customer shall be the aggregate of both local and foreign currency credit facilities measured against the core capital of the bank or financial institution.

(c) beneficiaries of foreign exchange credit facilities shall be limited to persons who are proven to be operating in Tanzania and for investing in Tanzania.

(d) borrowers who are covered by foreign exchange based credit facilities earning an incoming stream capable of mitigating foreign exchange exposure and those for whom the bank or financial institution has adequately performed credit analysis.

Net open position 5. The overall net open position for any bank or financial institution shall not exceed 20% of its core capital.

Foreign exchange placements with banks abroad 6. (1) A bank or financial institution shall be authorised at any time to place or deposit a maximum of sixty percent of its total foreign exchange placements with a foreign related or any other correspondent organization. Such related or correspondent organization shall have minimum long-term international rating of A or above.

(2) A bank or financial institution shall place or deposit a maximum of forty percent of its total foreign exchange placements with a foreign related or correspondent organization that has minimum long term international rating of B or above.

(3) A bank or financial institution shall be allowed to place or deposit a maximum of twenty percent of its total foreign exchange placements in a non-rated foreign related or correspondent organisation.

(4) The aggregate placement in non OECD member countries shall be restricted to a maximum of 20% of the bank's or financial institution's total foreign exchange placements

Recognised International Rating Agencies 7. International rating agencies recognised by the Bank include IBCA, Standard and Poors and Moody's.

Approval by the Bank 8. A bank or financial institution shall, prior to establishment of a correspondent relationship with a bank or financial institution abroad, seek and obtain approval from the Bank.

PART III

REPORTING REQUIREMENTS

- Weekly reports 9. (1) Every bank or financial institution shall report its foreign exchange purchases, sales, open position and average balances weekly and submit to the Bank not later than the second Monday after the reference week in the prescribed form as shown in the Second Schedule hereto.
- (2) The Report on Foreign Exchange Purchases, Sales and Balances shall be completed in terms of United States (US) Dollars by converting the other foreign currencies into US Dollars based on their mean cross rates.
- Monthly reports 10. (1) Every bank or financial institution shall submit to the Bank on monthly basis the Report on Foreign Exchange Placements in Foreign Related and Correspondent Organisations" not later than fifteen days after end of reference month in the prescribed form as shown in the First Schedule hereto.
- (2) The report shall be completed in terms of United States (US) Dollars by converting the other foreign currencies into US Dollars.
- Surprise checks 11. Notwithstanding weekly and monthly reports as required under this part, the Bank may perform surprise checks of accounting records at any time it deems fit to monitor compliance to these regulations.

PART IV

ADMINISTRATIVE SANCTIONS AND PENALTIES

- Penalty for failure to observe limit 12. Failure of any bank or financial institution to observe the limits as prescribed under this circular shall attract a penalty charge equivalent to 1/10 of one percent (i.e. 0.001) per day based on the amount in excess of the limit.
- Penalty for failure to submit returns 13. Failure of any bank or financial institution to submit any return as prescribed hereunder shall attract a penalty charge of Tshs 1.0 million per day for every day in which the failure continues.
- Misrepresentation of information 14. Misrepresentation of information in any of the returns by any bank or financial institution or deliberate submission of wrong or incorrect information shall attract the penalty imposed under section 13 and/or sanctions as prescribed under regulation

Deduction from clearing account

15. (1) The penalty charges which may be imposed under sections 13 and 14 shall be recovered by deducting from clearing account of the bank concerned.

(2) Other financial institutions shall pay penalty by bankers cheque/ draft.

Other sanctions

16. The penalty levied on any bank or financial institution under sections 13 and 14 shall be without prejudice to other sanctions or penalties which the Bank may impose on account of persistent violations of these regulations such as, but not limited to, the following;

(a) suspension from participating in the interbank clearing exchanges;

(b) suspension from accepting new foreign exchange deposits;

(c) suspension of the privilege to issue letters of credit and/or guarantees;

(d) suspension of the privilege to establish/open new branches;

(e) suspension of the credit facilities from the Bank;

(f) suspension of the declaration and/or payment of dividends;

(g) suspension and/removal from office of the director, officer and /or employee and / or perpetual disqualification from holding any position or office in any bank or financial institution under the suspension of the bank;

(h) revocation of banking licence.

PART V

REPEAL

17. Circular no. 5 on Foreign Exchange Purchases, Sales and Balances issued on 5th August, 1996 is hereby repealed.

FIRST SCHEDULE

Section 11

BOT FORM 16-4(a)

This is a monthly report

Deadline: Fifteenth day after end of the reference month

Submission: Three copies to Banking Supervision Directorate

Code: _____

(Name of bank/financial institution _____)

**REPORT ON FOREIGN EXCHANGE PLACEMENTS IN FOREIGN RELATED
AND CORRESPONDENT ORGANISATIONS**

For the month ending _____

(US Dollars .00 omitted)

	NAME OF FOREIGN RELATED AND CORRESPONDENT ORGANISATION	AVERAGE BALANCE				MONTHLY AVERAGE
		Week 1	Week 2	Week 3	Week 4	
1						
2						
3						
4						
5						
6						
7						
8						
9						
10						
	Total Foreign Currency Placements					

Signature _____
(Managing Director)

Signature _____
(Director of Finance)

Date _____

Date _____

SECOND SCHEDULE

Section 10

BOT FORM 16-4(b)
This is a Weekly report

Deadline: Second Monday after reference week.
Submission: In Triplicate to Banking Supervision Directorate
Code: _____


(Name of bank/financial institution) _____
REPORT ON FOREIGN EXCHANGE PURCHASES, SALES AND BALANCES
For the week ending _____, 199_____
(US dollars .00 omitted)

PARTICULARS	AVERAGE BALANCES
A Foreign Currency Deposits..... (Includes deposits by individuals, banks, or companies whether in Tanzania or abroad)	_____
B Foreign Currency Borrowings..... (All foreign exchange currency liabilities other than deposits and shareholders interest)	_____
C Total Foreign Currency Deposits and Borrowings. (A plus B)	_____ _____
D Off-balance Sheet Foreign Exchange items (All foreign exchange items be reported) (less 50%) Eligible Off-balance Sheet forex items	_____ _____
E Total Foreign Currency Deposits, Borrowings and Off-balance sheet items (C plus D)	_____ _____
F Available Foreign Exchange..... (All foreign exchange reported as assets of the bank/financial institution)	_____
G Actual Net Position (F minus E)	_____
H Core Capital Position..... (As reported at the end of previous month)	_____
I Maximum Allowed Net Position..... (20% of H)	_____
J Surplus (Deficit) Foreign Exchange Sold (Purchased) (G minus I)	_____
Signature _____ (Managing Director)	Signature _____ (Director of Finance)
Date _____	Date _____

This circular shall take effect on 1st September 2000

BANK OF TANZANIA
Dar es Salaam

Date: 30th June, 2000


Daudi T. S. Ballali
GOVERNOR

Regulations:

The Publication of Financial Statements Regulations, 2001

