Rwanda

Regulation of the National Bank of Rwanda determining the Foreign Exchange Exposure Limits

Regulation 2310-20 of 2018

Legislation as at 21 January 2019

FRBR URI: /akn/rw/act/reg/2018/2310-20/eng@2019-01-21

There may have been updates since this file was created.

PDF created on 21 February 2024 at 15:41.

Check for updates

Regulation of the National Bank of Rwanda determining the Foreign Exchange Exposure Limits

Contents

Rwanda

Regulation of the National Bank of Rwanda determining the Foreign Exchange Exposure Limits

Regulation 2310-20 of 2018

Published in Official Gazette 3 on 21 January 2019

Assented to on 27 December 2018

Commenced on 21 January 2019

[This is the version of this document from 21 January 2019.]

Pursuant to Law No 48/2017 of 23/09/2017 governing the National Bank of Rwanda, especially in its Articles 6, 8, 9 and 10;

Pursuant to Law N° 47/2017 of 23 /09/2017 governing the organisation of banking, especially in its articles 4 and 37;

Having reviewed the regulation N° 07/2011 on foreign exchange exposure limits;

The National Bank of Rwanda hereinafter referred to as the "Central Bank", decrees:

Chapter One
General provisions

Article One – Purpose

The purpose of this regulation is to ensure that the potential risk of loss arising from foreign exchange rate fluctuations to a bank's capital base is within prudential limits.

Article 2 – Definitions

In this Regulation, the following terms mean:

1° **Foreign currency**: means a currency other than legal tender in Rwanda;

2° **Value date**: of a transaction means the date on which it is to be executed;

3° **Spot value**: means the transaction to which it is referred is to be executed two working days from the date it is contracted or agreed.

4° **Spot transaction or spot purchase or "spot buy" or "spot sale"**: a transaction having a spot value.

5° **Same day value** : the transaction to which it is referred is to be executed on the day it is contracted or agreed.

6° **Same day transaction or "same day purchase" or "same day-buy" or "same day-sale"**: a transaction having same day value

7° "**Forward transaction**" or "forward purchase" or "forward buy" or "forward sale" means a transaction that is to be executed after more than two working days from the date the transaction is contracted or agreed.

8° "**Long position**" or "long open position" or "overbought position" of a bank in a foreign currency means the holding by the financial institution of that foreign currency for its own account in excess of all its contractual spot, same day value and forward transaction commitments in that foreign currency.

9° **Short position or "short open position" or "oversold position"** of a bank in a foreign currency means the holding by the bank of that foreign currency for its own account is less than all its contractual spot, same day value and forward transaction commitments in that foreign currency.

10° **Net open position** of a bank in a foreign currency means the net sum of all its assets and liabilities inclusive of all its spot, same day value and forward transactions and its off-balance sheet items in that foreign currency.

11° **Foreign exchange business**: any facility offered, business or transaction executed with any person involving a foreign currency inclusive of any account facility, credit extension, lending, issuance of guarantee, counter-guarantee, purchase or sale by means of cash, cheque, draft, transfer or any other instrument denominated in a foreign currency.

Chapter II
Prudential rules

Article 3 – Limit on foreign exchange open position

The overall foreign exchange risk exposure as measured using spot mid-rates and shorthand method shall not exceed +/- 20% of the bank's core capital. Any excess to the net open position shall be absorbed the following two (2) days.

The Central Bank by a Directive may review the overall exposure limits ratio in case it deems necessary or depending on size, nature and complexity of a bank.

Article 4 – Prohibited to make any transactions with a bank's related parties

Banks are prohibited to make any transactions with a bank's related parties in order to bring their foreign exchange position, except on an arm's length basis, within the limits set in article 2.

Article 5 – Limit on single currency foreign exchange risk exposure

Unless overwise provided by the Central Bank, the foreign exchange risk exposure in any single currency, irrespective of short or long position, shall be determined by the individual bank provided it remains within the overall exposure limit of +/- 20% of its core capital.

Article 6 – Limit on intra-day foreign exchange risk exposure

Intra-day foreign exchange risk exposures, both in single currencies and overall, shall be maintained within prudent limits as established by a bank's Board of Directors in a written policy covering foreign exchange risk exposure

Article 7 – Methodology of calculation

Each bank shall calculate its single currency and overall foreign exchange risk exposure daily using the methodology required by the Central Bank in appropriate formats.

Article 8 – Correction of excess foreign risk exposure

Each bank shall take every reasonable action to immediately correct any and all foreign exchange risk exposures which exceed the limits set forth in this regulation and in its board-adopted policy. Failure to correct any non-complying risk exposure by the closure of business on the following day may result in administrative sanctions as set forth in this regulation.

Article 9 – Maintenance of supporting documentation

Each bank shall maintain records which are sufficient to determine at all times its single currency and overall foreign exchange risk exposures. Each bank shall also maintain a daily record showing close-of-business foreign exchange risk exposures (both single currencies and overall) and a reconciliation of opening-to-closing positions.

Article 10 – Calculation of exposure on net open position in a single currency

The measurement of bank's exposure in a single currency involves determining if the bank has a long or short open position in that particular currency, and how large this position is.

The open position in a currency is the sum of the net spot position and the net forward position. These are explained below as follows:

1° **Net spot position**

The spot position is simply the position which appears directly on the balance sheet. The net spot position is the difference between foreign currency assets and liabilities in a particular currency. This must also include all accrued income and accrued expenses;

2° **Net forward position**

The net forward position represents all amounts to be received less all amounts to be paid in the future in a particular currency as a result of foreign exchange transactions which have already taken place. These transactions which are recorded as off-balance sheet items would include:

a) Spot transactions which are not yet settled;

b) Forward foreign exchange transactions;

c) Documentary credits, guarantees and similar commitments denominated in foreign currencies which are certain to be called upon and are likely to be irrevocable. In case of guarantees, this will arise after notice has been received by the bank;

d) Currency futures and Swaps: All amounts to be received less all amounts to be paid in the future as a result of transactions in currency futures, and also the principal on currency swaps, must be measured and included in the net forward position.

Article 11 – Calculations of Overall Foreign Exchange Risk Exposure

A calculation of Overall Foreign Exchange Risk Exposure involves measurement of risks inherent in a banking institution's mix of long and short positions in different currencies. Banking institutions will calculate the overall foreign exchange risk exposure or overall open position as follows:

1° Calculate the net open position in each currency as set out in article 9 of this regulation;

2° Find the sum of all net short positions;

3° Find the sum of all net long positions;

4° Overall foreign exchange risk exposure or overall open position is the higher of 2 and 3 of this regulation.

Article 12 – Reporting requirements

Banks shall report on their overall foreign risk exposure limits in prescribed formats and timelines in accordance with the regulation on reporting requirements

Chapter III
Sanctions and final provisions

Article 13 – Administrative sanctions

Where the Central Bank determines that a bank does not comply with this Regulation, it may impose any or all of the administrative sanctions and fines prescribed in the regulation on administrative sanctions and fines applicable to banks.

Article 14 – Repealing provisions

The regulation N° 07/2011 on foreign exchange exposure limits and all prior provisions contrary to this regulation are hereby repealed.

Article 15 – Commencement

This regulation shall come into force on the date of its publication in the Official *Gazette* of the Republic of Rwanda.