

# BANK OF UGANDA

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## CIRCULAR TO ALL AUTHORIZED DEALER BANKS

### Amendment of Prudential Guidelines on Dealer Banks' Foreign Exchange Business

The Bank of Uganda (BOU) issued Prudential Guidelines on Dealer Banks' Foreign Exchange Business in May 2001. The Guidelines prescribe, among others, an overnight foreign exchange exposure limit of not more than 25% of a bank's core capital. To calculate the foreign exchange exposure, Banks are required to submit Daily Foreign Exchange Exposure Monitoring Return which appeared as Annex 1 in the Guidelines.

This Annex 1 Return uses Net Aggregate Position method in calculating net open position in foreign currency, i.e., all long and short positions are netted against each other, irrespective of the currency in which they are denominated and disregards off-balance sheet items other than undelivered spot contracts and forward contracts.

To align BOU method for calculating foreign exchange exposure to international standards, the following sections of the above-mentioned Prudential Guidelines are hereby amended to read as follows:

#### Section 7: **Determining Overnight Foreign Exchange Exposure Limits:**

7.1 A bank's overnight foreign exchange exposure shall be calculated using the "shorthand" method, i.e.:

- (i) calculating all net position in each currency;
- (ii) arriving at the sum of all the net short positions;
- (iii) arriving at the sum of all net long positions.

The greater of the absolute value of both sums is taken as the overall open position.

7.2 The overall open position shall not exceed 25% of a bank's core capital as at the preceding quarter.

7.3 No single currency exposure limit shall be prescribed.

#### Section 11 **Required Returns**

11.1 Every authorized dealer bank shall submit to the Central Bank a "Daily Foreign Currency Exposure Monitoring Return" attached as Annex 1, not later than 7:00 am of the following day to which the return relates, by hand or by fax (258515 or 232586) to the Supervision Function.

Subsections 11.2 to 11.4 shall remain as is while subsection 11.5 is deleted and subsection 11.6 is renumbered as subsection 11.5.

All authorized dealer banks are urged to comply with the above amended sections of the Prudential Guidelines with effect from 1<sup>st</sup> November 2002.

**R.Emunu (Mrs)**  
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