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CIRCULAR TO ALL AUTHORISED DEALER BANKS

Amendment of Prudential Guidelines on Dealer Banks' Foreign Exchange Business

In October 2002, the Bank of Uganda issued a circular requiring all authorized dealer banks to calculate their net open position in foreign currencies using the "shorthand" method effective 1st November 2002. The "Daily Foreign Currency Exposure Monitoring Return" was likewise amended to effect the new method and to include other off-balance sheet items in calculating compliance with the 25% foreign exchange exposure limit.

Bank of Uganda's recent review of the Daily Forex Returns disclosed that all banks have satisfactorily implemented the shorthand method. However, some banks did not include in their calculations the following off-balance sheet items:

"Unfunded Commitments: letters of credit, acceptances, guarantees, performance bonds and similar commitments denominated in foreign currencies which are certain to be called upon and are not covered or funded by margin deposits in similar currencies."

"Other Off-Balance Sheet Items: items which involve foreign currency exposures which are not included elsewhere on the return, for example, unconditional commitments to lend in foreign currency, currency futures, currency options, etc."

The Uganda Bankers' Association (UBA) acknowledged that banks are experiencing some problems in computing the new foreign exchange exposure and requested exclusion of certain off-balance sheet items.

Following discussions with UBA, Bank of Uganda agreed to exclude from the calculation of net open position those off-balance sheet items that are funded and guaranteed by the World Bank and other multilateral lending organizations as long as the guarantee is unconditional and payable upon first demand.

In this connection, all authorized dealer banks are reminded to include all "Unfunded Commitments" and "Other Off-Balance Sheet Items" in calculating the net open position. However, those portions that are funded and guaranteed by the World Bank and other multilateral lending organizations as long as the guarantee is unconditional and payable upon first demand, may be deducted. The amount deducted and particulars of the guarantors must be disclosed by way of a footnote in the Daily Forex Returns.

All authorized dealer banks are urged to comply with this circular with effect from 13th June 2003.

J Bagenda (Mrs)
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