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Chief Executives of Commercial Banks



INTEREST PAYABLE ON SECURITIES HELD IN THE FAILURE TO SETTLE POOL

During the UBA meeting held on 20th September 2006, Bank of Uganda was requested to provide further clarification on the subject in caption.

This is therefore to clarify as follows:

- (i) Securities held in the failure to settle pool will earn interest at the 91 days WAR treasury bill rate of the most recent auction prior to re-set of the individual clearing house member's contribution.
- (ii) In accordance with Clause 4.3.2.6 of the failure to settle rules, in the event that there is utilization/encroachment on members' securities on account of a member's failure to settle, the defaulting member shall be charged interest at the ruling rediscount rate. The proceeds shall be credited to the survivor members' accounts.

This communication supersedes all earlier communication on this subject.

E. B. Kasozi
EXECUTIVE DIRECTOR OPERATIONS

Copy: Governor
Deputy Governor
Executive Directors



4.3 Failure to Settle Rules

4.3.1 Failure to Settle in a Clearing Session

In the event of failure to settle in a clearing session:

- 4.3.1.1 The Manager of the Clearing House shall give the concerned bank a provisional statement including all the latest transactions that have passed through the account.
- 4.3.1.2 The Clearing House shall adjourn for one hour (e.g. from 11.00 am to 12.00) to give the bank a chance to raise the shortfall from the money market.
- 4.3.1.3 If the bank fails to raise funds from the money market, it may contact Bank of Uganda as the lender of last resort, if it has sufficient eligible collateral.
- 4.3.1.4 Bank of Uganda will evaluate the request basing on the collateral provided by the applicant. Bank of Uganda will only lend up to 75% of the value of the collateral provided.
- 4.3.1.5 The bank will be required to call the Clearing House manager to inform him/her on whether they have raised the required funds or not.
- 4.3.1.6 If they have raised the required funds then the netting and settlement will be concluded thereafter.
- 4.3.1.7 If the bank, after all the above steps, still has insufficient funds, then the survivors pay rule will be invoked.
- 4.3.1.8 A bank that causes the invocation of "Survivors Pay Rules" will automatically be suspended from the subsequent clearing sessions.
- 4.3.1.9 The suspension shall be effective until the settlement agent advises the Clearing House management that the said bank has reinstated its collateral and paid back the portion of collateral and interest of the other members that was used up.

4.3.2 Survivors' Pay Rules

- 4.3.2.1 All member banks shall be obliged to contribute to a collateral pool.
- 4.3.2.2 The criteria for contribution to the pool shall be:

Each participating bank, other than the Bank of Uganda shall contribute equally to 75% of the highest single net debit position of a participant other than the Bank of Uganda over the last three-months. (The Bank of Uganda is excluded because it does not pose any risk to the payment system)

AND

Additionally, participating banks with net debit positions over the last three-months, other than the Bank of Uganda shall

contribute to another 75% of the highest single net debit position on pro-rata basis (i.e. calculated as a ratio of their highest net debit position over the same period).

The minimum contributions shall be advised on a fortnightly basis, using data for the last 3 months. The minimum contribution shall be held constant for two weeks.

If the collateral requirements increase, the member bank shall either transfer money from its treasury bills holding account or enter into the secondary market to top up its collateral position. If on the other hand the collateral requirements reduce, the excess amount shall be credited to the member banks' CDS holding account.

- 4.3.2.3 In the event that a member bank is unable to clear and part of the collateral is used for settlement:

The used-up collateral shall be allocated to the participant that was unable to settle up to 100% of its contribution; and

The rest of the outstanding balance shall be allocated to the other participants on the basis of their contributions. For example a bank that has contributed 15% of the collateral will also pay 15% of the collateral used for settlement when a member is unable to settle.

- 4.3.2.4 The banks shall reinstate their collateral requirements the next business day by pledging the amount of collateral that was used for settlement.
- 4.3.2.5 Before a member who was unable to settle is readmitted to the Clearing House, that bank will be required to fulfil condition 4.3.1.9
- 4.3.2.6 The interest accrued shall be calculated using the ruling rediscount rate of the Treasury bill.
- 4.3.2.7 The collateral and interest refunded shall be credited to the accounts of the members who had contributed.
- 4.3.2.8 The collateral put forward shall be interest-bearing securities. All interest accruing thereof shall be due to the bank.

4.3.3 Collateral Management

- 4.3.3.1 The eligibility collateral shall be Treasury Bills of any maturity period
- 4.3.3.2 The collateral pool shall be kept at the Bank of Uganda Central Depository System (CDS) and Bank of Uganda shall be responsible for the management of the CDS.
- 4.3.3.3 Bank of Uganda shall open a separate account for the collateral pool for ease of management and monitoring
- 4.3.3.4 The collateral value shall be 75% of the amount that can be realized on the security on rediscounting it (i.e. the margin of safety shall be 25% of the face value of the security).