

# Directives No. FXD/45/2016 Transparency in Foreign Currency Allocation and Foreign Exchange Management

**Whereas,** foreign exchange is a scarce resource that should be managed carefully to ensure its efficient and proper allocation;

Whereas, there is a need to ensure that foreign exchange is allocated in a transparent and sound manner to priority and other economic sectors without opening a room for rent seeking behavior and malpractice;

Whereas, it is necessary to require each bank to have transparent and sound foreign currency allocation and foreign exchange management guideline or procedure manual which shows the accountability of each employee of a bank involved in the foreign exchange transaction;

**Now, therefore**, pursuant to the authority vested in it by Article 20(3) and Article 27(2) of the National Bank of Ethiopia Establishment Proclamation No. 591/2008, the National Bank of Ethiopia has issued these Directives.

# 1. Short Title

These directives may be cited as *"Transparency in Foreign Currency Allocation and Foreign Exchange Management"* Directives No.FXD/45/2016.

# 2. Definitions

For the purpose of these Directives, unless the context provides otherwise:

- 2.1 "bank" means a company licensed by the National Bank to undertake banking business or a bank owned by the Government;
- 2.2 "board" means board of directors of a bank;
- 2.3 "Cash Against Document" or " CAD" means mode of payment for goods in which an authorized bank transfer title document to the buyer upon payment in cash;
- 2.4 "employee" means any person who is appointed or hired by a bank to carry out foreign exchange transaction;
- 2.5 "foreign currency" means any currency other than Ethiopian legal tender which is legal tender in any country outside Ethiopia as to which the National Bank Ethiopia has declared to be acceptable for payment in Ethiopia;
- 2.6 "foreign exchange" means any foreign currency, cheques, bills of exchange, promissory notes, drafts, securities, and other negotiable instruments, expressed in foreign currency as well as bank balances in account held in foreign currency or assets in the form of foreign account crediting or set-off arrangements, expressed or payable in foreign currencies provided they are acceptable by the National Bank;
- 2.7 "Foreign Exchange Return" means a transaction ticket produced by a bank;
- 2.8 "forex bureau" means a window of authorized bank wherein buying and selling of convertible currency from and to the public is conducted;
- 2.9 "IBD" means International Banking Department of a bank;
- 2.10 "IBD manager" means a responsible person by whatever name he/she may be called, assigned to manage foreign exchange transaction;
- 2.11 "person" means any natural or juridical person.
- 2.12 "Purchase Order" means a document that a company issues to a vendor to place an order for products. It outlines all of the details of the sale, including quantity of product, sales price, delivery date, terms, and requirements for the order to be fulfilled;
- 2.13 "transaction in foreign exchange" means:
  - a) the transfer, borrowing, lending, assignment, exchange, purchase, sale, receipt, payment or crediting of foreign exchange; and

 b) the conclusion of any contract, agreement, arrangement or understanding, as a result of which any foreign exchange is transferred, borrowed, lent, assigned, exchanged, purchased, sold, received, paid or credited within or outside Ethiopia;

#### 3. **Responsibility of the Board**

Without prejudice to the responsibilities set forth under other applicable laws governing foreign exchange transactions, a board of directors of a bank shall be responsible for;

- 3.1 developing and putting in place the overall foreign exchange operations management guidelines in line with the NBE's directives pertaining to foreign exchange transaction;
- 3.2 reviewing at least monthly a bank's overall foreign exchange exposure to ensure that it is maintained at prudent levels and is consistent with available resources;
- 3.3 ensuring that adequate resources, both technical and human, are available for evaluating and controlling these operations; and
- 3.4 ensuring adherence to the lines of authority, responsibility and limits that the Board established for measuring, managing and reporting compliance to established rules.

#### 4. **Responsibility of the Executive Management**

The Executive Management of a bank, without prejudice to the responsibilities set forth under other applicable laws governing foreign exchange transactions shall be responsible for:

- 4.1 maintaining records which are sufficient to determine at all times the bank's compliance with its own internal foreign exchange transaction policies and procedures and avail any information and documentation when requested by the National Bank of Ethiopia at any time;
- 4.2 maintaining a daily record showing close-of-business foreign exchange;
- 4.3 ensuring that proper reporting procedure is put in place between the head office and its branches on daily foreign exchange operations;
- 4.4 reconciling foreign exchange transaction accounts at least every month diligently, and with due consideration to the need to provide timely information to the National

Bank of Ethiopia concerning the bank's foreign currency open position and outstanding balances;

- 4.5 developing and putting in place adequate information systems for measuring, monitoring, controlling and reporting the bank's foreign exchange daily exposure; reports must be provided on a timely basis to the bank's board, senior management and the appropriate business line managers and there should be a system to effectively address observed deviations; and
- 4.6 establishing effective internal controls to monitor and control overall foreign exchange operations;
- 4.7 ensuring that foreign exchange accounting procedures meet the necessary standards of accuracy, promptness and completeness; and
- 4.8 maintaining a database containing up-to-date information on foreign exchange rates, list of foreign exchange purchase requests and allocations made and where applicable minutes of the allocation committee.

#### 5. Internal Audit

- 5.1 The internal audit in each bank shall conduct at least one audit semi-annually and make surprise checks when necessary to test compliance with the foreign exchange operations guidelines.
- 5.2 The findings of the audit result shall be reported to the respective bank's board as well as Senior Management of the bank, and a copy of the internal audit report must be submitted to the Foreign Exchange Monitoring and Reserve Management Directorate of the National Bank of Ethiopia at the same time of the submission of the report to the Board of Management.

## 6. Foreign Exchange Allocation and priorities

6.1 In the allocation of foreign currency a bank shall give priority to the following import items and payments, among them, on first come first served basis.

- 6.1.1 imports of essential goods, i.e., fuel, fertilizer and other agricultural inputs, pharmaceutical product, factories' requests for procurement of machineries, equipments, spare parts, raw materials and accessories; import of nutritious food for babies.
- 6.1.2 payments on imports of freight and transit services;
- 6.1.3 payments authorized by the National Bank of Ethiopia such as foreign loan, suppliers credits, interest, profit, dividend and excess sales of foreign airlines; and
- 6.1.4 salary transfer of foreign employees.
- 6.1.5 NBE could revise the above priority list as required.
- 6.2 Notwithstanding sub-article 6.1 of this Article, a bank shall sale foreign currency to its all other customers on the basis of first come first served basis.
- 6.3 A bank shall allocate foreign exchange receipt of an exporter in line with the "Retention and Utilization of Export Earnings and Inward Remittance" Directives No. FXD/11/1998.

## 7. **Prohibition**

- 7.1 A bank by no means shall allocate foreign exchange collected from an exporter to import business of the same outside the proper procedure stipulated under article 6 above;
- 7.2 A bank is prohibited from approving a purchase order under CAD without collecting full amount in Birr of the purchase order value and
- 7.3 A bank is prohibited from approving L/C application without collecting minimum of 30% of the L/C value in cash upfront;
- 7.4 A bank is prohibited from releasing the CAD documents to their customers without effecting payments to suppliers based on the modality of payments as per the international practices under such circumstance the bank shall issue utilization ticket within three days to confirm the transfer of foreign currency.

#### 8. **<u>Reporting Requirements</u>**

- 8.1 Each bank shall submit to the National Bank of Ethiopia a weekly return of its Foreign Exchange Exposure. The return shall be duly signed by the reporting bank's Senior Officer in charge or IBD and cover six business days of the week that is Monday to Saturday and submitted to the Foreign Exchange Monitoring and Reserve Management Directorate not later than Tuesday of the following week.
- 8.2 Each bank shall send the foreign currency application registration detail as per the attached format weekly through secured email address to be notified by NBE.

## 9. Applicability of Other Laws

- 9.1 Nothing in these directives shall be construed to relieve a bank or any person from complying with the provisions of other foreign exchange directives issued by the National Bank of Ethiopia.
- 9.2 No directive or established practice may, in so far as it is inconsistent with the provisions of these directives, have effect with respect to matters specifically provided for in these directives.

## 10. Transitional Procedure

Notwithstanding article 13 of these directives, a bank shall develop foreign exchange operations management guidelines or procedure within two months from the effective date of these directives and submit same to the National Bank of Ethiopia for endorsement.

# 11. **Obligation of Importers**

11.1 Importers are strictly prohibited from lodging foreign currency request application in one import application on more than one bank.

11.2 Any importer who fails to comply with these directives will be black listed from six month up to two years.

## 12. **Penalty**

- 12.1 Any bank that fails to comply with the requirements of any provisions of these directives by any means shall be subject penalty to a fine Birr 10,000(Ten Thousand Birr) for each violation.
- 12.2 Notwithstanding the provisions of sub-article 12.1 of these directives, whomever fails to comply with the provision of these directives or in any other manner violate or obstructs the implementation of these directives shall be liable under Article 26 sub-article 2 of the National Bank of Ethiopia Establishment (as amended) Proclamation No.591/2008.

# 13. Effective Date

These directives shall enter into force as of February 10, 2016.