RESOLUTIONS OF THE 28TH OCTOBER 2011 CBK/ACI MEMBERS Q&A SESSION AT MAYFAIR

1. Background of the meeting.

Sometime in August 2011, the CBK Monetary Policy Committee carried out a survey to understand why there were difficulties in providing confidence and stability of the Kenya shilling. The findings indicated that weakening of Kenya shillings was being driven by different factors both international and domestic. The survey findings on a few sampled banks showed that from April 2011 the level of activity in the foreign exchange market had increased from around USD 5 billion per month to USD 15 billion in August 2011. The two main drivers of the instability were the reverse carry transactions and the shortening of the tenure of currency swaps from 60-90 days to short tenors, hence creating volatility to the Kenya shilling exchange rate. It is in this context that extensions to the guidelines on the foreign exchange guidelines were

Following the issuance of the circulars on FX/MM Guidelines dated 13th October 2011 and on Measures to ensure smooth running of the domestic foreign Exchange Market dated 21st October 2011, ACI received various queries on operational issues and market implications of the circulars. There was also been a lot of conflicting information coming from market participants, purportedly from the CBK. This necessitated the calling of this forum by ACI.

2. Summary of the deliberations and clarifications made

- All existing trade prior to 21st Oct 2011 will be allowed to mature and offshore banks can sell spot to fund maturing swaps/forwards. Banks are required to provide a list of all outstanding trades to the CBK if they have not done so.

- Local currency remains fully convertible with no restrictions. All Spot transactions are allowed (both buy and sell). An offshore bank can call any local bank for a quote as long as offshore bank trading with local bank has Kenya shillings balances in the nostro account and the transaction is within the set guidelines.

- Nostro to nostro transfer restrictions will remain unless there is underlying customer flows/transaction.

- Banks are allowed to enter into Left Hand Swaps (LHS) with Kenya shillings leg with offshore banks with a tenor of not less than seven days.

- No restrictions on investment of local funds e.g. buying Treasury .bills/bonds. Offshore banks can trade in the secondary market for bills and bonds for any tenor. An offshore can sell spot to fund an investment or do a swap or do a swap of a tenor not less than 1 year.

- Borrowing by offshore banks either directly or through a swap for a tenor of over one year does not require any proof of underlying customer transaction.

- Dealers will be CBK's line of defence when it comes to documentation to support underlying transactions and they will have full discretion in determining what they consider to be genuine customer flow. They will be held responsible in all cases requiring proof of the underlying transaction.

- Customers are defined as any organization that is not a bank. So no restrictions to real money account, hedge funds etc.

- No restriction on Voice brokers and discussion on EBS to be channelled through KBA.

- The issued restrictions do not cover transactions where Kenya shilling is not involved.

- Intraday overdraft facilities are allowed so long they are as a result of timing differences and not trading.

- All the measures taken are temporary and will be reviewed once the market stabilises.

Signed as true and accurate recording of the resolutions of the meeting of 28th October 2011 between CBK / ACI - members Q&A session at Southern Sun Mayfair Hotel.

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(For Chairman, ACI)

Gerald Nyaoma
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