



BANK OF ZAMBIA
OFFICE OF THE DEPUTY GOVERNOR - OPERATIONS

September 03, 2010

CB Circular: No. 08/2010

To : All Commercial Banks

REVISED FRAMEWORK FOR THE COMPUTATION OF COLLATERAL VALUE FOR THE ZAMBIA ELECTRONIC CLEARING HOUSE LIMITED

1.0 Background

The National Payment System Act of 2007 and the Zambia Electronic Clearing House (ZECHL) rules impose certain powers, responsibilities and obligations on the Bank of Zambia as Overseer, Regulator and Participant in the Payment and Clearing Systems.

According to Section 23 of the ZECHL rules on Failure to Settle Arrangements, each commercial bank, as a precondition to membership, is required to deposit and maintain collateral with Bank of Zambia at the values computed by Bank of Zambia and in the form prescribed in the rules or as may be determined by Bank of Zambia.

Currently, the collateral level for each participating bank is determined by the Bank of Zambia based on net physical interbank clearing (PIC) figures provided by the ZECHL. This is done by taking the highest net settlement debit figure (rounded off to the nearest million Kwacha) in the previous month for each bank. For a new bank, the collateral requirement is based on the current month's average collateral of the middle banks, which are determined by excluding the three top and three bottom banks.

However, the Bank of Zambia has found this method of determining collateral inadequate, as it results in sharp changes from one month to another, leading to collateral shortfalls in periods when the highest debit figure in a month has dropped significantly. In addition, the current method does not take into account the Direct Debit and Credit Clearing (DDACC) net settlement figures, making collateral held by the Bank insufficient to cover its exposures in the event of failure to settle by a participant.

2.0 Revised Collateral Computation for ZECHL

In view of the above, the Bank of Zambia has adopted a new framework for the computation of collateral for ZECHL members using the two methods as follows:

- i. Three months moving average of the monthly maximum PIC and DDACC net settlement debit amount; and
- ii. Maximum of the previous month's daily PIC and DDACC net settlement debit amount.

The figures obtained from the two methods will be compared and the higher of the two values will be taken as the collateral requirement for each participating bank. For a new bank, collateral requirements will be determined by the current month's average collateral of the middle banks.

Bank of Zambia will continue to review collateral requirements for member banks at the beginning of every month. Participating banks will then have one week in which to adjust collateral held at Bank of Zambia.

It is expected that the new methods will result in the smoothening of the collateral requirement and minimise instances of collateral shortfalls.

3.0 Eligible Security

The current eligible securities include Treasury Bills, Government Bonds, Cash or Securities guaranteed by the Government of the Republic of Zambia within maturity of one hundred and eighty two (182) days. However, the ZECHL rules and the National Payment Systems Act of 2007 provide for the Bank of Zambia to determine eligible securities and tenure depending on the changes in the market. To this effect, Government Bonds will no longer be eligible for ZECHL collateral. Only Cash and Treasury Bills regardless of tenure shall now qualify as eligible security for ZECHL.

4.0 Penalties for non-compliance

Commercial banks are reminded that in accordance with Sections 18 and 19 of the National Payment Systems Act of 200, any bank that operates with inadequate collateral, shall be liable to a penalty not exceeding fifty thousand penalty units for every day that such a participant operates with insufficient collateral. Further, the Bank of Zambia may suspend any participant that operates with inadequate collateral for such period and on such terms as may be determined by the Bank of Zambia.

5.0 Implementation Date

This circular takes effect immediately.



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