

GUIDELINE ON FOREIGN EXCHANGE EXPOSURE LIMITS CBK/PG/06

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PART I: PRELIMINARY

1.1. Title - Guideline on Foreign Exchange Exposure Limits

1.2. Authorization - This Guideline is issued under section 33(4) of the Banking Act, which empowers the Central Bank of Kenya (CBK) to issue guidelines to be adhered to by institutions in order to maintain a stable and efficient banking and financial system.

1.3. Purpose - This Guideline is intended to ensure that the potential risk of loss arising from foreign exchange rate fluctuations to a bank's capital base is within prudential limits.

1.4. Definitions

- a) **“Foreign exchange business”** means any facility offered, business undertaken or transaction executed with any person involving a foreign currency, inclusive of any account facility, credit extension, lending, issuance of guarantee, counter-guarantee, purchase or sale by means of cash, cheque, draft, transfer or any other instrument denominated in a foreign currency.
- b) **“Foreign currency”** means a currency other than the legal tender of Kenya.
- c) **“Forward transaction”** or **“forward purchase”** or **“forward buy”** or **“forward sale”** means a transaction that is to be executed after more than two working days from the date the transaction is contracted or agreed.
- d) **“Long position”** or **“long open position”** or **“overbought position”** of a financial institution in a foreign currency means the holding by the financial institution of that foreign currency for its own account in excess of all its contractual spot, same day value and forward transaction commitments in that foreign currency.
- e) **“Net open position”** of a financial institution in a foreign currency means the net sum of all its assets and liabilities inclusive of all its spot, same day value and forward transactions and its off-balance sheet items in that foreign currency.
- f) **“Overall foreign currency risk exposure”** means the sum of all net balance and off-balance sheet assets or liabilities denominated in foreign currencies, expressed

as a domestic currency equivalent amount at the spot mid-rate using the shorthand method of measurement.

g) The shorthand method means the procedure for measuring the foreign exchange risk exposure by:

- i. Adding all short positions on one side and all long positions on the other side;
- ii. Comparing the two totals; and
- iii. Taking the larger of the two totals as the open position.

h) “Same day transaction” or “same day purchase” or “same day-buy” or “same day-sale” means a transaction having same day value.

i) “Same day value” means the transaction to which it is referred is to be executed on the very day it is contracted or agreed.

j) “Short position” or “short open position” or “oversold position” of a financial institution in a foreign currency means the holding by the financial institution of that foreign currency for its own account is less than all its contractual spot, same day value and forward transaction commitments in that foreign currency.

k) “Spot transaction” or “spot purchase” or “spot buy” or “spot sale” means a transaction having a spot value.

l) “Spot value” means the transaction to which it is referred is to be executed two working days from the date it is contracted or agreed.

m) “Value date” of a transaction means the date on which it is to be executed.

PART II: IMPLEMENTATION AND SPECIFIC REQUIREMENTS

2.1. Limit on ‘Overall’ Foreign Exchange Risk Exposure

The overall foreign exchange risk exposure, as measured using spot mid-rates and the shorthand method shall not exceed 10% of the institution’s core capital.

2.2 Limit on “Single” Currency Foreign Exchange Risk Exposure

The foreign exchange risk exposure in any single currency, irrespective of short or long position, will be determined by the individual institution, provided it remains within the overall exposure limit of 10% of its core capital.

2.3. Limit on “Intra-Day” Foreign Exchange Risk Exposure

Intra-day foreign exchange risk exposures, both in single currencies and overall, shall be maintained within prudent limits as established by a bank’s board of directors in a written policy covering foreign exchange risk exposure.

2.4. Calculation of Foreign Exchange Risk Exposure

Each bank shall calculate its single currency and overall foreign exchange risk exposure daily using the methodology required by CBK.

2.5. Correction of Excess Foreign Exchange Risk Exposures

Each bank shall take every reasonable action to immediately correct any and all foreign exchange risk exposures which exceed the limits set forth in this guideline and in its board-adopted policy. Failure to correct any non-complying risk exposure by the closure of business on the following day may result in administrative sanctions as set forth in this guideline.

2.6. Maintenance of Supporting Documentation

Each bank shall maintain records which are sufficient to determine at all times its single currency and overall foreign exchange risk exposures. Each bank shall also maintain a daily record showing close-of-business foreign exchange risk exposures (both single currencies and overall) and a reconciliation of opening-to-closing positions.

2.7. Market Manipulation

In order to sustain the integrity of the financial exchange market, all institutions must avoid engaging in speculative foreign exchange transactions that tend to mislead the other participants in the market and must also avoid misuse of any privileged information. To the greatest extent possible, all foreign exchange transactions should be supported by the underlying commercial activity.

Market manipulation practices include insider dealing and deliberate attempts to interfere with the market’s free and fair operations, which include but are not limited to:

- Carrying out two or more concurrent or succeeding foreign exchange deals or transactions that have or are likely to have the effect of altering or maintaining the ruling exchange rate with the intention of influencing the decision of others to either participate in a deal or otherwise.

- Making a false or misleading impression of active forex trading through any of the available communication channels.
- Carrying out forex deals that do not involve an exchange of consideration or making fictitious deals that influence the ruling exchange rate or forex flows.
- Any other conduct that unduly influences the ruling exchange rate or forex flows.

2.8 Principles of the Kenya Foreign Exchange Code¹

The Kenyan Foreign Exchange (FX) Code set of principles of good practice in the foreign exchange market has been developed to provide a common code of practice to promote the integrity and effective functioning of the foreign exchange market in Kenya. It is intended to promote a robust, fair, liquid, open, and appropriately transparent market in which a diverse set of Market Participants, supported by resilient infrastructure, can confidently and effectively transact at competitive prices that reflect available market information and in a manner that conforms to acceptable standards of behaviour.

Institutions and non-operating holding companies will be required to comply with the following principles of the Kenya FX Code:

- i. **Ethics:** Market Participants are expected to behave ethically and professionally to promote the fairness and integrity of the FX Market.
- ii. **Governance:** Market Participants are expected to have a sound and effective governance framework to provide for clear responsibility for and comprehensive oversight of their FX Market activity and to promote responsible engagement in the FX Market.
- iii. **Execution:** Market Participants are expected to exercise care when negotiating and executing transactions to promote a robust, fair, open, liquid, and appropriately transparent FX Market.
- iv. **Information Sharing:** Market Participants are expected to be clear and accurate in their communications and to protect Confidential Information to promote effective communication that supports a robust, fair, open, liquid, and appropriately transparent FX Market.

¹ The Kenya Foreign Exchange Code can be accessed at this link:
<https://www.centralbank.go.ke/wp-content/uploads/2023/03/The-Foreign-Exchange-Code.pdf>

- v. **Risk Management and Compliance:** Market Participants are expected to promote and maintain a robust control and compliance environment to effectively identify, manage, and report on the risks associated with their engagement in the FX Market.
- vi. **Confirmation and Settlement Processes:** Market Participants are expected to put in place robust, efficient, transparent, and risk-mitigating post-trade processes to promote the predictable, smooth, and timely settlement of transactions in the FX Market.

2.9 Compliance with Central Bank Foreign Exchange Guidelines and Circulars

To ensure proper management of the foreign exchange market, institutions and non-operating holding companies will be required to comply with the Central Bank's Foreign Exchange Guidelines and circulars issued by the Central Bank with regard to the conduct of the foreign exchange market in Kenya.

PART III: CALCULATION OF FOREIGN EXCHANGE RISK EXPOSURE

3.1 Calculation of Exposure on Net Open Position in a Single Currency

The measurement of an institution's exposure in a single currency involves determining if the financial institution has a long or short open position in that particular currency, and how large this position is. The open position in a currency is the sum of the net spot position and the net forward position. These are explained below as follows:

(a) Net Spot Position

The spot position is simply the position which appears directly on the balance sheet. The net spot position is the difference between foreign currency assets and liabilities in a particular currency. This must also include all accrued income and accrued expenses.

(b) Net Forward Position

The net forward position represents the current value of amounts to be received less the current value of amounts to be paid in the future in a particular currency as a result of foreign exchange transactions which have already taken place. These transactions, which are recorded as off-balance sheet items, would include:

- (i) Spot transactions which are not yet settled.

- (ii) Forward foreign exchange transactions.
- (iii) Documentary credits, guarantees and similar commitments denominated in foreign currencies which are certain to be called upon and are likely to be irrevocable. In case of guarantees, this will arise after notice has been received by the bank.
- (iv) Currency futures and Swaps: All amounts to be received less all amounts to be paid in the future as a result of transactions in currency futures, and also the principal on currency swaps must be measured and included in the net forward position.

3.2. Calculations of Overall Foreign Exchange Risk Exposure

This involves the measurement of risks inherent in an institution's mix of long and short positions in different currencies. Institutions will adopt the "shorthand method" for calculating the overall foreign exchange risk exposure or overall open position as follows:

- a) Calculate the net open position in each currency (as above).
- b) Arrive at the sum of all net short positions.
- c) Arrive at the sum of all net long positions.

Overall foreign exchange risk exposure or overall open position is the higher of (b) or (c).

PART IV: REPORTING INSTRUCTIONS

4.1 General Instructions

Institutions will complete on a daily basis, a return in the attached format (CBK/PR/6) and submit to the Central Bank by midday of the following day. The amounts reported will be the foreign currency amounts recorded in the banking reporting institution's books at the close of business at the end of each day, adjusted where necessary for transactions not posted as at the reporting date.

Structural positions, i.e. foreign currency capital assets and liabilities such as investments in subsidiaries, premises, loan capital, etc., that are of a fixed long-term nature, may be recorded by footnotes to the return rather than in the body of the return.

Specified foreign currency details will be given in the return for those currencies with a total long or total short position. Other unspecified currencies may be combined and reported in the row - “Others” of the return.

Amounts reported for each foreign currency, including forward transactions, will be translated into Kenya shillings (Ksh.) at the midpoint of the indicative spot TT buying and selling exchange rates. The exchange rates to be used will be CBK Mean rates issued daily by the Central Bank of Kenya. The exchange rates used will be recorded in the row designated “Exchange Rate”, on the return.

Forward foreign exchange rates are different from the spot rates and take into account the respective levels of interest rates. Nevertheless, the exposures will be measured by using the above-mentioned spot indicative exchange rates and not the forward rates.

4.2 Completion and Submission of Daily Return

Notes on completion and submission of the daily return are annexed to this guideline.

PART V: CORRECTIVE MEASURES

5.1 Remedial Measures

If a bank fails to comply with this guideline in a manner that results, or threatens to result, in an unsafe or unsound condition, CBK may pursue any or all corrective actions as provided under Sections 33, 34 and 55 of the Banking Act. However, before the sanctions are administered, the bank will be given the opportunity to defend itself.

5.2 Administrative sanctions

In addition to the use of corrective actions noted in 5.1 above, the Central Bank of Kenya may prohibit the non-compliant institution from engaging in any further foreign exchange activities or impose any sanctions deemed necessary.

5.3 Penalties for Violation of Guideline

Monetary penalties will be levied for violations of this guideline, as provided for in the Banking Act vide the Banking (Penalties) Regulations, 2025.

PART VI: EFFECTIVE DATE

- 6.1 Effective Date** - The effective date of this guideline shall be 1st January 2027.
- 6.2 Supersedence** - This Guideline supersedes and replaces the Prudential Guideline on Foreign Exchange Exposure Limits, CBK/PG/06 issued by CBK on 1st January 2013.

ENQUIRIES:

Any enquiries on this guideline should be forwarded to:

The Director

Bank Supervision Department

Central Bank of Kenya

P.O. Box 60000 - 00200

NAIROBI.

TEL.2860000 e-mail: *fin@centralbank.go.ke*

FOREIGN EXCHANGE EXPOSURE RETURN**CBK/PR6****INSTITUTION NAME.....****REPORTING DATE.....****Amounts in Ksh.'000'**

No.	Description	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
		USD	GBP	EURO	JPY	CHF	ZAR	OTHERS	TOTALS
	CURRENCY TYPE								
	EXCHANGE RATE								
1.	FOREIGN CURRENCY ASSETS								
1.1	Balance Sheet Items								
1.1.1	Cash and Balances with Banks Abroad								
1.1.2	Loans & Advances								
1.1.3	Investment in Government Securities								
1.1.4	Other Foreign Assets								
2.	Off-Balance Sheet Items								
2.1	Undelivered Spot Purchases								
2.2	Forward Purchases								
2.3	Other Off-balance items e.g. swaps and options								
3.	Total Foreign Assets (1.1.1 to 2.3)								
4.	FOREIGN CURRENCY LIABILITIES								
4.1	BALANCE SHEET ITEMS								

No.	Description	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
		USD	GBP	EURO	JPY	CHF	ZAR	OTHERS	TOTALS
4.1.1	Balance due to Banks abroad								
4.1.2	Deposits								
4.1.3	Loans & Advances								
4.1.4	Other Foreign Liabilities								
5.	Off-balance Sheet Items								
5.1	Undelivered Spot sales								
5.2	Forward Sales								
5.3	Other off-balance sheet items e.g. swaps and options								
6.	Total Foreign Liabilities (4.1.1 to 5.3)								
7.	NET OPEN POSITION (3 less 6)								
7.1	Long Position (where 3 less 6 is positive)								
7.2	Short Position (where 3 less 6 is negative)								
8.	SINGLE CURRENCY EXPOSURE								
8.1	Net open position as a percentage of core capital								
9.	OVERALL FOREX EXPOSURE								
9.1	Exposure (higher Total of 7.1 or 7.2 above)								
9.2	Core Capital (as per CBK/PR3								

No.	Description	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
		USD	GBP	EURO	JPY	CHF	ZAR	OTHERS	TOTALS
	Return)								
9.3	Exposure (9.1/9.2)%								
9.4	Allowable Exposure (%)								
9.5	Over/(Under) Exposure (9.3 less 9.4)								

- To be completed on a daily basis and submitted to the Central Bank of Kenya by mid-day of the following day.

AUTHORIZATION

NAME.....

DESIGNATION.....

SIGNATURE.....

DATE.....

COMPLETION INSTRUCTIONS: FOREIGN EXCHANGE EXPOSURE FORM CBK/PR6

1. Foreign Currency Assets

This refers to foreign currency assets recorded in the reporting banking institution's books.

1.1 Balance Sheet Items:

1.1.1 Cash and Balances with Banks

These are foreign currency notes and coins, balances with the Central Bank of Kenya and balances with the institution's own branches and correspondent banks.

1.1.2 Loans and Advances

These are bills discounted, loans and advances denominated in foreign currency. Loans and advances should be reported net of provisions.

1.1.3 Investment in Foreign Government Securities

This constitutes investment in foreign treasury bills and bonds issued by either foreign governments or other corporate entities. These should be reported either at fair value or amortized cost depending on the classification.

1.1.4 Other Foreign Assets

These are all other asset balances denominated in foreign currency not covered above.

2. Off-Balance Sheet Items

These are foreign currency items such as forward contracts which entail an identifiable foreign currency commitment. Gross amounts of outstanding purchase contracts must be reported.

2.1 Undelivered Spot Purchases

Foreign exchange deals are generally settled two business days after they are made. During these two days, the amount of the purchased currency to be received is recorded as off-

balance sheet amounts. Undelivered spot transactions refer to all outstanding spot contracts written but not delivered.

2.2 Forward Purchases

A forward purchase is defined as one contracted for receipt beyond two business days from the reporting date. Forward purchases refer to the gross amounts of outstanding forwards, other than those to be delivered “spot”.

2.3 Other Off-Balance Sheet Items

This refers to items that involve foreign currency exposures not covered in the above categories, such as options and swaps. If material, details should be given by way of footnotes.

3. Total Foreign Assets

This is the sum of lines 1.1.1 to 2.3

4. Foreign Currency Liabilities

This refers to foreign currency liabilities recorded in the reporting banking institution’s books.

4.1 Balance Sheet Items

4.1.1 Balances due to banks

These are balances due to the Central Bank of Kenya, correspondent banks abroad, and the institution's own branches.

4.1.2 Foreign Deposits

These are deposits denominated in foreign currency. They should include interest accrued.

4.1.3 Foreign Loans and Advances

These are loans, advances and bills discounted denominated in foreign currency.

4.1.4 Other Foreign Liabilities

These are all other foreign liabilities denominated in foreign currency not covered above.

5. Off-Balance Sheet Items

These are foreign currency items such as forward contracts, which entail an identifiable foreign currency commitment. Gross amounts of outstanding sale contracts must be reported.

5.1 Undelivered Spot Sales

Foreign exchange deals are generally settled two business days after they are made. During these two days, the amount of currency sold to be delivered is recorded as off-balance sheet amounts. Undelivered spot transactions refer to all outstanding spot contracts written but not delivered.

5.2 Forward Sales

A forward sale is defined as one contracted for delivery beyond two business days from the reporting date. Forward sales refer to the gross amounts of outstanding forwards, other than those to be delivered “spot”.

5.3 Other Off-Balance Sheet Items

This refers to items that involve foreign currency exposures which are not covered above, such as options and swaps. If material, details should be given by way of footnotes.

6. Total Foreign Liabilities

This is the sum of 4.1.1 to 5.3

7. Net Open Positions

This is calculated by subtracting Total Foreign Currency Liabilities (line 6) from Total Foreign Currency Assets (line 3) for each currency. A positive result indicates an overbought position (+) and should be indicated in Row 7.1 while a negative position (-) indicates an oversold position and should be indicated in Row 7.2. Whether the position is negative or positive, it is still an exposure. Therefore, do not use negative or positive signs on rows 7.1 or 7.2. The entry for other currencies (“Others”), which are not individually specified, should be divided to show the total for those currencies with net long positions and the total for those with net short positions separately.

8. Single currency Risk Exposure

8.1 Net Open Position as a percentage of core capital

This is calculated by dividing the long or short position for each currency (line 7.1 or 7.2) by the core capital and multiplying by 100.

9. Overall Foreign Exchange Risk Exposure

9.1 Exposure (Overall)

This is the higher of (a) the sum of all net long positions in line 7.1 or (b) the sum of all net short positions recorded in line 7.2.

9.2 Core Capital

Core capital is defined in the Banking Act and as reported in the latest submitted PR 3.

9.3 Exposure as percentage of Core Capital

This is arrived at by dividing line 9.1 by 9.2 and multiplying by 100.

9.4 Allowable Exposure

The allowable limit is 10% of the core capital of the institution. The limit is on the overall foreign exchange risk exposure for all currencies combined.

9.5 Over Exposure/Under Exposure

This is arrived at by subtracting line 9.4 from line 9.3. Over-exposure means actual exposure is greater than the allowable exposure and the institution should address this matter. Under-exposure means actual exposure is less than the allowable exposure and the institution need not address the matter.

9.6 Submission of Daily Returns

The daily returns in the format given in Form CBK/PR/6 duly signed by the reporting bank's authorised officials must be submitted to the Bank Supervision Department of the Central Bank of Kenya on a daily basis by mid-day of the following day.