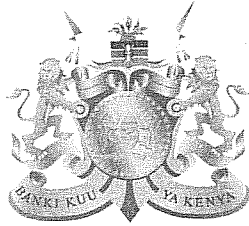


BANKI
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May 13, 2011

BANKING CIRCULAR NO. 3 OF 2011

TO: ALL CHIEF EXECUTIVES OF COMMERCIAL BANKS

IMPLEMENTATION OF EAST AFRICA CROSS BORDER PAYMENT SYSTEM (EAPS)

1. As you may be aware the Central Bank of Kenya in conjunction with the Central Banks in the East African Partner States namely; Bank of Tanzania, Bank of Uganda, National Bank of Rwanda **and** Banque de la Republique du Burundi, have for the last four years been exploring various ways to facilitate clearing of cross border payment instruments to ensure efficient trade for the East African region. Considerable effort has been employed in identifying the most suitable cross payment model. These efforts have culminated in the adoption of a multicurrency model that will connect the Real Time Gross Settlement (RTGS) systems of the partner states of EAC. The EAPS model has the following salient features:
 - a) The system uses the partner states currencies.
 - b) The central banks shall provide the infrastructure with no currency conversion within the system, since customers and their banks will agree on exchange rates and the source of the required forex outside the central banks.
 - c) The existing RTGS infrastructure has been enhanced to accommodate the different currencies of the partner states.
 - d) The system will only affect payments against pre-funded settlement accounts in the currencies of the partner states.
 - e) Trading parties will agree on the underlying commercial transactions and the settlement currency, which must be one of the partner states' currencies.

- f) Domestic laws in force under the respective partner states will apply between participants and sending central banks, while EAC Arbitration Rules of the East Africa Court of Justice will be used to settle cross border disputes.
2. The EAPS cross border module has been installed in CBK and currently User Acceptance Testing is being performed in readiness for the live date of 30th May 2011.
 3. In moving forward, it is necessary for commercial banks, who shall be the participants in EAPS, to execute and return the EAPS Participation Agreement to the Central Bank of Kenya. The Agreement outlines the contractual commitment of the parties and also contains the Operational Rules and Procedures, which furnish the procedural detail relating to participation in the system. Following execution by CBK, one copy of each agreement will be furnished to the relevant commercial bank.
 4. Enclosed are 2 hard copies of Agreement for Participation in the East African Cross Border Payment & Settlement System and the Rules and Operational Procedures.

The Agreement should be duly executed in duplicate and returned to the Central Bank before **23rd May 2011**.


JACKSON M. KITILI

**DIRECTOR, BANKING SERVICES, NATIONAL PAYMENTS SYSTEM & RISK
MANAGEMENT DEPARTMENT**