



GENERAL MANAGER

**BANK OF ZAMBIA**

P.O. Box 30080 Lusaka  
Tel: 216529/216338/215192

6 March 1996

C B Circular No. 4/96

**TO ALL BANKS AND FINANCIAL INSTITUTIONS**

Dear Sirs

Please find attached the Guideline No 1/96 on Capital and Money Market Instruments. The Guideline has been issued in accordance with section 125 of the Banking and Financial Services Act and is effective 6 March 1996.

All financial institutions are expected to comply with the requirements of this Guideline. Further queries/clarifications on the Guideline should be addressed to the undersigned.

Yours faithfully

**S. Musokotwane, Dr.**  
**ACTING DEPUTY GOVERNOR**

## GUIDELINE No.1/96

### BANKING AND FINANCIAL SERVICES (CAPITAL AND MONEY MARKET INSTRUMENTS) GUIDELINE, 1996

#### SHORT TITLE

1. These guidelines may be cited as the Banking and Financial Services (Capital and Money Market Instruments) guidelines, 1996.

#### INTRODUCTION

2. It has been observed that certain financial institutions are taking deposits from the public by issuing a form of money market instrument which they are calling a debenture with maturity periods ranging from thirty days to twelve months.
3. This is in contravention of Section 2 of the Banking and Financial Services Act (BFSA) which restricts the acceptance of deposits from the public to, registered commercial banks.
4. It has also been observed that some commercial banks have been avoiding the liquidity requirements as provided for under Section 70 of the BFSA by indirectly obtaining deposits through their subsidiary leasing companies, in the form of "debentures". The banks have been classifying these "debenture" liabilities as either bills of exchange payable or placing them in some suspense account. These "debentures" are excluded from their deposit liabilities for purposes of complying with the statutory requirements of the Act.

#### PURPOSE

5. For purposes of attaining consistency amongst financial institutions in complying with statutory requirements, it has become necessary for the Bank of Zambia to issue general guidance on the distinction between a Capital Market Instrument (CMI) and Money Market instrument (MMI) which it expects financial institutions to issue.
6. It has also become necessary for the Bank of Zambia to reclassify the current MMIs or "debenture's" on the books of some financial institutions as well as offer guidelines on the treatment of these MMIs.

#### DEFINITIONS

7. Capital Market refers to the market for long term financial assets with a time to maturity of twelve months or more. All issues of capital market instruments have to comply with the Securities and Exchange Commission (SEC) requirements.



8. Money Market refers to the market for short-term financial instruments with a time to maturity of less than twelve months.

#### TREATMENT OF MONEY MARKET INSTRUMENTS

9. A financial institution which intends to issue MMIs should submit to BOZ details of the MMI and how the bank intends to manage and account for the MMI. BOZ will determine the suitability of the MMI and if and when satisfied give written consent to the institution permitting it to deal in that particular MMI.
10. Funds raised by a financial institution through the issue of MMIs placed in a bank account shall be designated as deposits by the receiving bank, whether or not these funds are deposited by an associate company.
11. The MMIs issued to the public shall not exceed four times the primary capital of a financial institution before such issue. Financial Institutions may, however, issue MMIs up to 10 times their primary capital as long as the excess over the four times limit set for issues to the public is made to institutional investors. For purposes of this guideline primary capital shall be as prescribed by Statutory Instrument No. 184 of 1995, The Banking and Financial Services (Capital Adequacy) Regulations, 1995.
12. Any MMI issued shall be fully secured by a floating charge on the total assets of the financial institution. A copy of the floating charge document must be lodged with BOZ.
13. A financial institution intending to issue MMI in excess of four times its primary capital will have to obtain written consent from Bank of Zambia prior to the issue.
14. A register of all money market instrument holders should be maintained. Details of a particular investment in a MMI shall be made available for inspection, for transfer of ownership purposes, to subsequent investors for authentication. The Register shall contain the following:
- (a) the name of the MMI holder
  - (b) the date on which the MMI was issued
  - (c) the date on which the MMI will mature
  - (d) the denomination and value
  - (e) the interest applicable
15. Financial institutions shall account for these MMIs under current liabilities to the public section of the balance sheet.

16. A financial institution that will be in contravention of these requirements at the coming into force of these guidelines will be required to suspend new issues of MMIs until the requirement of these guidelines are met.

#### REPORTING

17. Reporting to the bank of Zambia will be done on a monthly basis as follows:

Name of bank: \_\_\_\_\_

Month ending: \_\_\_\_\_

Maturity	MMIs Issued (K'M)	Average Interest Rate
Between one month or less		
Between one and three months		
Between three and six months		
Between six and twelve months		

Primary Capital (K'M) \_\_\_\_\_

MMIs / Primary Capital (%) \_\_\_\_\_

Excess Over Limit (K'M) \_\_\_\_\_

We certify that the above information is in agreement with the underlying books and records.

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Chief Finance Officer

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General Manager