



Bank of Zambia

OFFICE OF THE DEPUTY GOVERNOR - OPERATIONS

BOZ/EXEC/DGO/psd/bp

May 23, 2023

CB Circular No. : 10/2023

To : All Heads of Commercial Banks and Payment Service Providers

NATIONAL PAYMENT SYSTEMS COLLATERAL REQUIREMENT FOR NET SETTLEMENT OBLIGATIONS ON PAYMENT SYSTEMS

1.0 Background

The Bank of Zambia is mandated, under the National Payment Systems Act and the Bank of Zambia Act, to ensure the safety and stability of the national payment systems in Zambia.

The National Payment Systems Act of 2007, requires all clearing house participants to provide or pledge adequate collateral to cover their net settlement obligations that may arise from their participation in 'clearing' under the various retail payment streams.

Currently, the collateral level for each participating bank is determined by the Bank of Zambia based on net physical interbank clearing (PIC) figures and the Direct Debit and Credit Clearing (DDACC) net settlement figures as per CB Circular No. 08/2010 "*Revised Framework for the Computation of Collateral Value for the Zambia Electronic Clearing House Limited.*"

CB Circular No. 08/2010 is being revised to ensure all net settlement obligations of participants arising from locally operated payment systems are incorporated in collateral computations and that participants' credit risk is adequately managed.

2.0 Revised Collateral Requirements

The Bank has adopted a standard framework that shall apply to all clearing houses and all net settlement obligations of participants. In this regard, CB Circular No. 08/2010, is hereby repealed and replaced by this Circular to be cited as "*National Payment Systems Collateral Requirement for Net Settlement Obligations on Payment Systems.*"

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3.0 REQUIREMENT FOR COLLATERAL

A Participant shall pledge collateral to safeguard against failure to settle for a net settlement obligation that may arise from its participation in a payment stream. The collateral shall be provided to the Settlement Agent of the Payment System, who shall be responsible for managing and administering it. If a Participant defaults on a net settlement obligation, the Settlement Agent shall have the right to liquidate the pledged collateral in order to discharge the Net Settlement Instruction (NSI) obligation for that Participant. Where the Settlement Agent has utilised the collateral of a Participant, a Participant shall provide additional collateral to meet the set collateral requirement by close of business of that particular day.

4.0 ELIGIBLE COLLATERAL

A Participant shall provide collateral in the form of cash or Treasury bills regardless of tenure.

5.0 FRAMEWORK FOR CALCULATING THE REQUIRED COLLATERAL

The Settlement Agent shall compute the value of the collateral to be provided for every month by each Participant at the higher of:

- i. Three months moving average of the monthly maximum of daily net settlement debit amounts of the Participant for all its payment streams; and
- ii. The maximum of the previous month's daily net settlement debit amounts of the Participant for all its payment streams.

For a new Participant, collateral requirement will be determined by the current month's average collateral of the middle Participants.

6.0 REVIEW OF COLLATERAL

The Settlement Agent of a Payment System shall review the collateral requirements for each Participant every month and communicate the revised collateral requirements by the first business day of each month. A Participant shall adjust collateral held by the Settlement Agent following a review within seven (7) business days.

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7.0 PENALTIES FOR NON-COMPLIANCE

A Participant that contravenes this Circular shall be liable to a penalty not exceeding fifty thousand penalty units for everyday 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.

8.0 EFFECTIVE DATE OF THE CIRCULAR

This Circular, repeals and replaces CB Circular No. 08/2010 and takes effect from June 1, 2023.



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