



BANK OF ZAMBIA

OFFICE OF THE DEPUTY GOVERNOR - OPERATIONS

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November 26, 2010

CB Circular No : 09/2010

To : All Commercial Banks

TREATMENT OF MANAGEMENT FEES AND OTHER PAYMENTS TO RELATED PARTIES

Further to Circular No. 02/2010 which suspended the payment of management fees to related parties, the Bank of Zambia wishes to advise that it has concluded its review taking into account the representations received from commercial banks.

The review has indicated, notwithstanding the sufficient guidance available under both the Bank of Zambia's prudential reporting, income tax and the generally accepted accounting practice, that commercial banks report certain expenditures as management fees, although clearly they are not. Therefore it is important that commercial banks report expenditures under correct business activity lines and any classification, reporting and accounting of expenditure as management fees will be residual and exceptional.

Consequently, commercial banks are directed to ensure that any payment of management fees to related parties are for payments in respect of managerial, administrative, technical or consultative service or any service of a like manner.

Further, it is not permissible for banks to renew or enter into contracts or other arrangements which oblige them to incur management fees without prior approval of the Bank of Zambia.

Further, although commercial banks may continue to incur and pay for the expenditures listed below, in order to ensure that the prudential reporting truly reflects the nature or purpose of the expenditure, it is not permissible to report or classify such expenditures as management fees. Further, it is not permissible for banks to renew or enter into contracts or other arrangements which oblige them to incur these expenses without prior approval of the Bank of Zambia:


- (i) Fees payable in respect of accessing and benefiting from centralized or shared technology based solutions/data processing services;
- (ii) Software licence and support fees;
- (iii) systems development costs;

- (iv) Remunerations expenses (including salaries, allowances, air travel, relocation/repatriation costs) payable in respect of employees seconded from the group/head office; and
- (v) Pre-operations expenses incurred by the group/head office in setting up subsidiaries in Zambia.

In reviewing a commercial bank's request to incur or pay management fees and other payments to related parties, the Bank of Zambia shall have regard to the following:

- (i) Role of current expertise in banks;
- (ii) Paying bank must demonstrate need;
- (iii) Demonstration of concrete evidence of the services rendered;
- (iv) Existence of a clear basis for determining the fees and the methodology of allocating cost of shared services must reflect the paying bank's consumption of the services;
- (v) Fees do not constitute a large proportion of the bank's total non-interest expenses;
- (vi) Fees should not be an excuse to unduly distort the bank's tariff structure;
- (vii) Paying bank has financial capacity to bear the cost;
- (viii) Paying bank must be compliant with all statutory capital adequacy requirements; and
- (ix) Minority shareholders must be fully informed of the arrangements and their implications.

Commercial banks are further advised that CB Circular No. 02/2010 is hereby withdrawn with immediate effect.


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