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EXCHANGE CONTROL DIRECTIVE RV175/2020

22 June 2020

The Chief Executive Officer
Bank
Location
Street
HARARE

ATTENTION: ATTENTION

Dear Sir/Madam,

DIRECTIVE ISSUED IN TERMS OF SECTION 35 (1) OF THE EXCHANGE CONTROL REGULATIONS STATUTORY INSTRUMENT 109 OF 1996

1. BACKGROUND

1.1 Reference is made to the Press Statement issued by the Governor on 17 June 2020 on the introduction of a Foreign Exchange Auction Trading System. In order to operationalize the foreign exchange measures contained in the Press Statement, Authorised Dealers are advised as follows: -

2. FOREIGN EXCHANGE AUCTION TRADING SYSTEM

2.1 Authorised Dealers are advised that with effect from 23 June 2020, foreign currency trading shall be conducted through the Foreign Exchange Auction Trading System (Auction). This shall be done through a bidding system where bidders shall submit bids for the available foreign currency indicating preferred bid rates.

2.2 The foreign currency sold at the Auction, shall only be for settlement of foreign payments and shall be from the following sources: -

- i. Offshore lines of credit arranged by the Reserve Bank;
- ii. Surrender portion of export receipts; and
- iii. Liquidation of export receipts after the 30-day retention period.



2.3 Authorised Dealers are advised that all foreign currency liquidations shall be effected at the prevailing market rate as determined through the Auction System.

3. Composition of the Adjudication Committee

3.1 Authorised Dealers are advised that the foreign currency bids and determination of winning bidders on the Auction shall be administered by an Auction Adjudication Committee comprising officials from the Ministry of Finance and Economic Development and the Reserve Bank of Zimbabwe.

4. FOREIGN CURRENCY BIDDING ARRANGEMENTS

4.1 Bidding procedures and qualifying criteria

- 4.1.1 The following guidelines shall apply on the submission of bids on behalf of their clients to the Reserve Bank;
- i. Bidders shall submit their bids as individuals, firms, and public enterprises through their Authorised Dealers (Refer to Annexure I);
 - ii. Bidders shall submit only one bid per auction. In cases where a bidder submits more than one bid, all the bids shall be rejected;
 - iii. All bids shall be in United States Dollars (US\$);
 - iv. The auction shall only accept bids for a minimum amount of US\$50,000 and a maximum of US\$500,000 from each bidder, per auction;
 - v. Corporate bidders should submit valid ZIMRA tax clearance certificate;
 - vi. Foreign currency shall be allotted to the winning bids according to the Import Priority List;
 - vii. Foreign currency shall be allotted at winning bidder's own bid rate;
 - viii. Successful bids shall be allotted in full but if funds are not enough, allotments shall be on a pro-rata basis; and
 - ix. A weighted average rate will be calculated based on allotments and the average rate will be used as the market exchange rate until a new weighted average is determined at a subsequent auction.

4.2 Submission of bids to Authorised Dealers for processing

4.2.1 Authorised Dealers are required to ensure that all bidders complete the requisite approved Bid Form (Refer to Annexure II). The following information should be provided by all bidders:-

- i. Name of Authorised Dealer;
- ii. Name of Applicant and Economic Sector;
- iii. Applicant ZIMRA BPN Number/ ID Number for individuals;
- iv. Type of Transaction/ Purpose;
- v. Bid Amount (US\$);
- vi. Bid Rate;
- vii. The Zimbabwe Dollar (ZW\$) equivalent;
- viii. Valid ZIMRA Tax Clearance Certificate; and
- ix. Relevant supporting documents e.g invoice.

4.3 Submission of collated bid information to the Reserve Bank

4.3.1 Authorised Dealers shall submit the following information to the Reserve Bank under the Foreign Currency Auction System:-

- i. Name of Authorised Dealer;
- ii. Name of Applicant;
- iii. Bid Amount in US\$;
- iv. Bid Rate;
- v. Zimbabwe Dollar (ZW\$ Equivalent)
- vi. Purpose; and
- vii. Sector Category.

4.3.2 Authorised Dealers are advised that bidders with **(i)** overdue export receipts, **(ii)** unacquitted foreign payments (Bills of Entry Imports) and **(iii)** positive Nostro Foreign Currency Balances (FCAs) shall not be eligible to participate on

the Auction and should be disqualified at Authorised Dealer level, unless if they are applying for top-up.

4.3.3 In addition, Authorised Dealers shall **not** submit bids for applicants without the sufficient Zimbabwe Dollar (ZWL) equivalent to fund the foreign payment.

4.4 **Bidding Timelines & Publication of Results**

4.4.1 The Foreign Exchange Auction shall be conducted every Tuesday. In instances where the auction date falls on a public holiday, the Foreign Exchange Auction shall be conducted on the next business day which is not a public holiday.

4.4.2 The cut-off time for submission of bids will be 0900 hours on the day of the Auction and Authorised Dealers are required to adhere to the set times for submitting bids to the Foreign Exchange Auction.

4.4.3 The Foreign Exchange Auction results shall be released and published by 1630 hours on the day of the Auction. The following information shall be published:-

- i. The amount of foreign currency on offer (US\$);
- ii. Total Number of Bids;
- iii. Total Amount of Bids Received (US\$);
- iv. Amount Allotted in (US\$);
- v. Number of Rejected Bids;
- vi. Highest Bid Rate Accepted: US\$/ZW\$;
- vii. Lowest Bid Rate Accepted: US\$/ZW\$; and
- viii. Weighted Average Auction Rate : US\$/ZW\$.

4.5 **Margins for Authorised Dealers and Bureaux De Change**

4.5.1 Authorised Dealers shall continue to fund foreign currency payments on the interbank market in between auction days at the prevailing market rate determined through the Foreign Exchange Auction System.

4.5.2 Authorised Dealers shall apply a margin of up to 2.5% above or below the prevailing market rate for foreign currency market purchases and sales. Bureaux de Change shall apply a margin of up to 3.5% above or below the prevailing market rate for foreign currency market purchases and sales.

5. MEASURES TO SUPPORT THE FOREIGN EXCHANGE AUCTION SYSTEM

5.1 Application of the Priority List for Foreign Currency Payments

5.1.1 Authorised Dealers are advised that for effective utilisation of foreign exchange, the Priority List Guideline for foreign currency payments shall apply for the allotment of foreign exchange both on the Foreign Currency Auction and the interbank bank market.

Table 1: Guidelines for Utilisation of Foreign Exchange

CATEGORY	FOREIGN CURRENCY PAYMENTS
<p><u>Category One</u></p> <p>70%</p> <p>Productive and essential goods and services</p>	<ul style="list-style-type: none"> i. Imports of raw materials, machinery and spare parts for local production (value addition) that directly substitute import of essential finished goods, ii. Imports of critical and strategic goods such as basic food stuffs and fuel, health and agrochemicals granted these goods are not available locally, iii. Importation of packaging material not available in Zimbabwe, iv. Mining consumables, v. Goods and services not locally available for Tourism Operators vi. Medical consumables and fees, vii. Payments for services not available in Zimbabwe, viii. Commercial vehicles and agricultural equipment, ix. University and College fees x. Loan repayments, xi. Remittance of rental income from properties financed from offshore, xii. Remittance of pension income for non-resident Zimbabweans who formally emigrated from Zimbabwe
<p><u>Category Two</u></p>	<ul style="list-style-type: none"> i. Disinvestment proceeds and dividend remittances, ii. Capital remittances for cross border investments,

CATEGORY	FOREIGN CURRENCY PAYMENTS
30%	iii. Capital remittances from disposal of local property, iv. Funding of offshore credit cards, v. Importation of other consumer goods and/or services not readily available in Zimbabwe including non-commercial vehicles

5.2 Dual Pricing System for Goods and Services

5.2.1 For transparency and full disclosure purposes, with effect from 24 June 2020, all businesses shall be required to display a foreign exchange rate board showing the prevailing exchange rates or to display prices in both ZW\$ and US\$.

5.3 Reinstatement of the 30-Day Liquidation Period

5.3.1 Authorised Dealers are advised that in line with the Press Statement of 08 June 2020 on the resolutions of the Monetary Policy Committee (MPC), effective 01 July 2020, the 30-day limit of liquidating surplus foreign exchange receipts from exports shall be effective to allow for more foreign exchange to be released onto the auction market through the Central Bank.

5.4 Overdue Export Receipts

5.4.1 Authorised Dealers are advised that the CEPECS flagging framework that had been temporarily suspended through Exchange Control Circular No. 3 of 2020, shall be reinstated with effect from 22 June 2020.

5.4.2 All exporters are expected to comply with the stipulated repatriation period for export earnings across all sectors. Exporters with overdue export receipts shall be disqualified from participating on the auction system.

- 5.4.3 Authorised Dealers are therefore directed to ensure that their administrative processes for acquittal of export declaration forms are efficient in discharging responsibilities under the CEPECS system.
- 5.4.4 Authorised Dealers are reminded that exporters with overdue export documentation shall not be entitled to retain export proceeds in the FCAS. Export receipts by exporters with overdue export documentation, shall be liquidated at the prevailing market rate and the foreign currency shall be available for the Auction.

6. EXCHANGE CONTROL REPORTING FRAMEWORK

6.1 Daily Interbank Purchases and Sales Return

- 6.1.1 The Daily Interbank Purchases and Sales Return has been amended to cater for the introduction of the Auction system as a source of funding (see Annexure III). Authorised Dealers shall be required to submit to Exchange Control the FCA Balances Return, declaring client balances at 1000hrs a day prior to the auction date (see Annexure IV).

6.2 Enhancements to the CEBAS System

- 6.3 Authorised Dealers are advised that the Computerized Exchange Control Batch Application System (CEBAS) shall be enhanced to reflect the Foreign Exchange Auction as an additional source of funding for foreign payments. This is to allow the proper coding of payments funded through the Foreign Exchange Auction.
- 6.3.1 Authorised Dealers are advised that the import flagging framework that was temporarily suspended through Exchange Control Circular No. 3 of 2020, has been reinstated with effect from 23 June 2020.

7. ENHANCED COMPLIANCE MONITORING

- 7.1 Authorised Dealers are advised that failure to comply with these regulations or directions as contained in this Exchange Control Directive and any other regulations, constitutes a violation of Exchange Control provisions. Incorrect coding or false and misleading declarations is a punishable offence.
- 7.2 Authorised Dealers who shall be found in violation of Exchange Control regulations and policies, shall be penalised in terms of Section 5 of the Exchange Control Act [Chapter 22:05] and Section 37 (i), (ii), and (iii) of the Exchange Control Regulations, Statutory Instrument 109 of 1996, which call for, among other penalties, the withdrawal of Authorised Dealership licence.
- 7.3 Similarly, any entity found participating on the Auction for the sake of currency manipulation shall be disqualified from participating from the Auction System and shall be penalised in terms of Section 5 of the Exchange Control Act.

Yours Sincerely



F. Masendu

Director

EXCHANGE CONTROL

Cc: Exchange Control Head
Treasury Head