

**25- INSTRUCTIONS CONCERNING ISLAMIC BANKS
FOREIGN EXCHANGE TRANSACTIONS**

- A) Circular No.(2/IBS/107/2003) Concerning Islamic Banks Foreign Exchange Transactions.
- B) Circular No.(2/BS, IBS/195/2006) concerning the cancellation of the rules and controls applicable to FX transactions, and allowing banks to resume those activities while complying with certain regulations.

GOVERNOR

*Ramadhan 15, 1424 H
November 10, 2003*

**Instructions No. (2/IBS/107/2003)
To All Islamic Banks**

THE CHAIRMAN,

Islamic Banks Foreign Exchange Transactions

As you are aware, the local banks satisfy all of their customers needs of US Dollar through purchase of this currency from the Central Bank . In return, banks are obliged to sell the dollars collected from their customers to the Central Bank, thus keeping their US dollar position against KD unchanged at the end of every working day.

In this respect, the following procedures shall be adopted :

- 1) Islamic banks may submit their applications to Central Bank requesting the trading of KD against FC's on the basis of two working days value, provided that the respective bank has obtained the relevant foreign exchange trading limits with the Central Bank.
- 2) Islamic banks may buy the US Dollar from the Central Bank, to cover their customers purchases, at the official exchange rates announced by the Central Bank, but only for customers purchases on that day. In the event banks defer the coverage of their customers transactions to a subsequent date, then they will have to cover those transactions from alternative sources.

Further, the Central Bank will not cover the transactions with other parties, which must be covered from the respective bank's own resources. Accordingly, Islamic banks may deal with foreign banks, and may offer KD buying and selling rate against the US Dollar on the basis of two business days value, provided that they cover their requirements for such deals in reliance on other sources than the Central Bank.

- 3) The Islamic banks should not exceed the trading limits set by the Central Bank. They should advise the Central Bank of any excess of such limits and send the foreign currencies report of the same day to the Central Bank.

In the event there is FC surplus with any of the banks, such a bank will be obliged to sell the US Dollars surplus to the Central Bank of Kuwait in order return to compliance with the established trading limits.

In case there is deficit in FC, The Central bank shall not provide the US Dollars to the respective banks to cover the deficit. The Central Bank of Kuwait may also suspend selling US Dollars or reduce the FC trading limits to the banks which have exceeded the established trading limits.

- 4) The applications submitted to the Central Bank should include the local interbank FC trading limits, in addition to daily settlement limits for KD trading on the basis of two working days value. Such limits should be within reasonable levels and commensurate with bank's ability to obtain sufficient settlement funds from the local market, while observing the limits set for them by Central Bank of Kuwait for FC trading.
- 5) The Islamic banks may accept KD deposits from foreign banks in accordance with the rules of their articles of association, but they cannot deposit KD with those banks.

With my best wishes,

SALEM ABDUL AZIZ AL SABAH

GOVERNOR

*Ramadhan 20, 1427 H
October 12, 2006*

**Circular No. (2/BS, BSI/195/2006)
To All Local Banks**

THE CHAIRMAN,

This has reference to Central Bank of Kuwait instructions issued in early 1990s regarding banks FX transactions, which included the relevant rules and controls that were necessitated by the circumstances the Kuwaiti banking sector experienced as a consequence of the events during that period.

Considering local banks tangible progress in recent years and the integrated systems they have put in place for risk management, and since the factors underlying the mentioned rules and controls are no longer there, we would like to advise you that it has been resolved, with effect from above date, to cancel those rules and controls and to allow local banks to resume the following activities.

- 1) All local banks are hereby allowed to deposit KD with foreign banks, and to swap FCs against KD with those banks, in addition to Outright Transaction, and FX Forward Transaction, with the understanding that local banks will be selecting highly rated foreign banks to deal with.
- 2) While taking into account the nature of the Islamic Banks activity, local banks may practice other FCs related transactions, such as (Options), (Financial Futures), (Interest Rate Futures “IRS”) and Forward Rate Agreements “FRA”, for hedging or trading purposes. In case your bank practices such transactions for trading purposes, you will have to comply with sound banking practices and relevant regulatory controls for this activity. You are also kindly requested to provide Central Bank of Kuwait with a copy of your policy approved by your board of directors and applied in this regard, including the dealing limits and the staff authorized to execute those transactions, so that Central Bank of Kuwait can review the mentioned policy and provide you with our comments. The existing limits will be maintained until the limits included in the subject policy are considered by Central Bank of Kuwait.

25- INSTRUCTIONS CONCERNING ISLAMIC BANKS FOREIGN EXCHANGE TRANSACTIONS

B) Circular No.(2/BS, IBS/195/2006) concerning the cancellation of the rules and controls applicable to FX transactions, and allowing banks to resume those activities while complying with certain regulations.

- 3) All other Central Bank of Kuwait instructions that may be in conflict with this circular, are hereby cancelled.

Central Bank of Kuwait trusts that local banks will practice these activities and transactions within the guidelines that give first priority to upgrading the performance of the banking and financial system to the benefit of the national economy.

With my best wishes,

SALEM ABDUL AZIZ AL SABAH