

25- INSTRUCTIONS CONCERNING BANKS DEALING IN FOREIGN EXCHANGE TRANSACTIONS

- A) Letter on the procedures for banks, dealing in foreign exchange transactions.
- B) Circular concerning the rules governing US\$/KD SWAP transactions.
- C) Circular concerning Central Bank of Kuwait covering of customer's purchases in US dollar in the same day.
- D) Circular No.(2/BS,IBS/195/2006) concerning the lifting of rules and controls applied in early 1990s concerning banks dealing in FX transactions , allowing local banks to resume and practice those activities, while observing certain conditions.

*Rabi Al-Awal 24,1415 H
August 31,1994*

GOVERNOR

THE CHAIRMAN OF KUWAIT BANKING COMMITTEE

Banks dealing in foreign exchange transactions

As you are aware, the Local Banks Presently satisfy their customers US Dollars needs 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 making their US Dollars position against KD unchanged at the end of every working day.

Effective the 5th of September 1994, the following procedure shall be adopted :

- 1- Banks, which have complied during the last six months with the established limits of Foreign Exchange trading limits⁽¹⁾ as per the weekly Foreign Currencies trading report sent to the Central Bank, may submit their applications to the Central Bank to request trading in KD against Foreign Currencies on the basis of two working days value, in accordance with the following conditions :
 - A- The respective bank must obtain the foreign exchange trading limits established by the Central Bank.
 - B- The applicant bank must have adhered to the trading limits previously determined by the Central Bank and has not exceeded them during the previous six months.
- 2- The Local Banks may continue to purchase US Dollars from the Central Bank to cover their trading transactions executed with their customers, as presently exercised. However the Central Bank shall not cover the transactions completed with other parties, which must be covered by the respective bank's own resources, Accordingly, local banks may deal with foreign banks and offer them KD selling / purchasing rates against US Dollars on the basis of two working days value, provided the requirements of such transactions are covered by reliance upon other resources than the Central Bank Of Kuwait.⁽²⁾

(1) Allow to exercise transactions with foreign banks was introduced by the circular No.(2/BS,IBS/195/2006) issued on 12/10/2006 .

(2) Circular issued on 8/5/2003 concerning covering Central Bank Of Kuwait of transactions of local Bank's customer in Us Dollar .

- 3- The local 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 Foreign Currency 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 to become again compliant with the established trading limits.

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

- 4- Local banks may not offer forward KD rates against US Dollars except for their local customers and for commercial purposes, or for Government projects only. Accordingly, forward rates may not be offered to foreign banks in any case, whatsoever.
- 5- The applications submitted to the Central Bank should include the interbank Foreign Currency 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 the bank's ability to obtain sufficient settlement funds from the local market, while observing the limits set for them by The Central Bank Of Kuwait for Foreign Currency trading.
- 6- Local banks may accept KD deposits from foreign banks, but cannot deposit KD with those bank, nothing that Foreign Currency SWAP Operations remain prohibited.

With my best regards,

SALEM ABDUL AZIZ AL SABAH

Thu Algi'da 12,1418 H

March 11,1998

THE GENERAL MANAGER ,

“Circular to all banks”

Please note that the Central Bank Of Kuwait has decided to allow local banks to exercise the US\$/KD SWAP transactions, according to the following regulations:

- a. These transactions will be confined to the local banks only which shall not enter into such transactions with foreign banks.⁽¹⁾
- b. The maturity period of such transactions shall not exceed one year.
- c. Interest rate exposure and other related risks, must be monitored.

Please note the aforesaid and adhere thereto.

Yours faithfully,

Hamad Abdul Mohsen Al Marzouq

Manager Of Supervision Department

⁽¹⁾Allow to exercise with foreign banks , the lifting all rules and controls established in by the circular No. (2/BS,IBS/195/2006) issued on 12/10/2006 .

* Circulated to all local banks

GOVERNOR

Rabi Al-Awal 7, 1424

May 8, 2003

THE CHAIRMAN ,

Circular to all local banks and Kuwait Finance House

This has reference to the Central Bank of Kuwait's letter dated 31/8/1994 addressed to Union of Kuwaiti Banks in respect of local banks' foreign exchange trading, particularly the Central Bank's coverage of the transactions concluded by local banks' customers in USD.

We would like to inform you that, with effect from above date, the Central Bank's of Kuwait coverage of the purchases of local banks' customers at the official exchange rates announced by the Central Bank of Kuwait, will be limited only to purchases effected by those customers on the respective day.

In the event local banks and Kuwait Finance House postpone the coverage of customers' transactions to a later date, then such transactions will have to be covered from alternative sources.

With my best regards,

SALEM ABDUL-AZIZ AL-SABAH

GOVERNOR

*Ramadhan 20, 1427H
October 12, 2006*

THE CHAIRMAN ,

(Strictly Confidential)
Circular No. (2/BS, IBS/195/2006)
To All Local Banks

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 the 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

25- INSTRUCTIONS CONCERNING BANKS FOREIGN EXCHANGE TRANSACTIONS
D)Circular No.(2/BS,IBS/195/2006) concerning the lifting of rules and controls applied in early 1990s concerning banks dealing in FX transactions , allowing local banks to resume and practice those activities, while observing certain conditions.

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.

- 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.

SALEM ABDULAZIZ AL-SABAH