

Foreign Exchange Bureau: Security and Formation Requirements

Description

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The National Bank of Ethiopia (NBE) issued a Directive that is cited as “The Foreign Exchange Directive No. FXD/01/2024”(hereafter the Directive). The aim of the Directive is to create a more ‘open and competitive foreign exchange market that can attract substantial foreign exchange inflows, ensure efficient resource allocation, and foster greater transparency in foreign exchange transaction activity’. The Directive repealed all previous foreign exchange directives and circulars issued by the NBE and replaced by this Directive. The effective date of this Directive is as of July 29, 2024. Here below we shall briefly see the definitions of forex bureaus, operation and transaction, formation and security requirements for bank-affiliated forex bureaus and independent forex bureaus, with a brief conclusion at the end.

Definitions

The Directive defines ‘foreign exchange market’ and ‘forex bureau’ as follows:

“Foreign exchange market” means a market where spot foreign exchange transactions are conducted at either the retail level (between bank and client or between forex bureau and client) or wholesale level (among banks). “Forex Bureau” means a window of an authorized bank where the purchase and sale of foreign currency cash notes from and to the public is conducted, or an independent (non-bank) company authorized by NBE to conduct specific foreign exchange transactions similar to that of a banks’ forex bureau.

Operation

Foreign exchange bureaus may operate either as a specialized window of banks or as independent (non-bank) foreign exchange bureau. Bank-based foreign exchange bureaus shall undertake foreign exchange transactions subject to a number of requirements that will be discussed here below. Similarly, independent (non-bank) foreign exchange bureaus shall undertake foreign exchange transactions subject to a number of requirements to be discussed here below.

Transactions

A forex bureau shall engage in the buying and selling of major convertible currencies on the basis of freely negotiated rates with its customers. A forex bureau shall engage in spot transactions only, with immediate delivery of currencies bought or sold. All forex bureau are required to sell and/or buy cash notes at displayed exchange rates before any subsequent change. All foreign exchange buying and selling transactions by a forex bureau shall be done using forms authorized by the NBE. All forex bureau shall exercise every care to check the authenticity of currencies they buy and use counterfeit detecting machines when exchanging foreign currency cash notes. Hence, a forex bureau shall display in a prominent manner:- a). its buying and selling rates for cash notes; b). business hours, a forex

bureau can establish its service hours based on the customer requirements and appropriateness to the business; c) post a notice to the effect that all customers are entitled to get a receipt for all transactions to proof the legality of exchange.

Formation Requirements

Bank-affiliated forex bureau are formed with the necessary security requirements. However Independent foreign exchange bureau have a number of requirements, in addition to that of the security and related requirements set for bank-affiliated forex bureau. Independent Forex Bureau License will be issued if the bureau is a) an established business entity, set up in whatever legal form; b) that is owned by an Ethiopian national, Non-Resident Ethiopian, and/or Foreign Citizen of Ethiopian Origin; c) Fulfills the minimum capital requirement of Birr 15 million d) provide a Security Deposit of Birr 30 million to be placed in a blocked account (which can be interest-earning) at any bank; e) Ensure that sufficient insurance is procured to fully cover the maximum cash holdings that will be at the forex bureau site at any given time. Independent Foreign Exchange Bureau are to engage solely in the business of buying and selling foreign exchange cash notes and are not to engage in any other area of banking activity.

Security Requirements

Security requirements for forex bureaus include a) suitable premise in all respects to carry on the business of a forex bureau and that meets safety and security standards set out by the Authorized bank; b) Name plate indicating the physical address of the forex bureau; c) Necessary device/equipment to detect counterfeit notes d) Provide list of names and designations of the forex bureau staff; and e) Ensure that the staffs of the forex bureau are people of integrity, credibility and competence, with no record of fraud, dishonesty, and corruption; f) situated in a separate and secure place of business but accessible to customers. g) located outside the premises of the Authorized Bank must have: i. a security arrangement strong enough to properly protect its premise, staff and property; ii. use of CCTV camera monitoring systems; iii. fire extinguishers installed at vantage points within the premises; iv. A fireproof safe/vault under the control of more than one person. v. The duplicate keys should be stored off the premises.

To sum up Ethiopia has liberalized the foreign currency exchange market to be determined by market based exchange rates. Operators in selling and buying hard currency are bank affiliated forex bureaus and independent forex bureaus. The Directive attached strict security requirements for licensing such forex offices. The business sector of forex bureaus is reserved for Ethiopian nationals and diasporas who hold identification card known as yellow card. This may last till the liberalization of the banking sector, which then may open such forex bureaus open for operations to licensed foreign banks or as the case may be for all foreigners.

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