BANK OF UGANDA

FINANCIAL MARKETS DEPARTMENT

RULES GOVERNING THE LOMBARD AND THE REDISCOUNT WINDOW

1.0 BORROWING FROM THE CENTRAL BANK/ THE LOMBARD WINDOW

1.1 The Lombard window at the Bank of Uganda currently acts as the lender of last resort facility.

1.2 All the applications for borrowing from the Central Bank should be addressed to the Executive Director Operations (EDO), a copy of which shall be advanced to the Director Financial Markets for monitoring purposes.

1.3 The following are the requirements for accessing the facility:-

- Loan amount: The applicant will have automatic access to a loan where the amount applied for is **not more than** 25% of the Cash Reserve Requirement (CRR) of the Commercial bank for that maintenance period.[1]

- Where the amount applied for is more than 25% of the Commercial Banks' CRR, the Governor of the Central Bank uses his discretion to accept or reject the loan application.

- Eligible collateral for all borrowings is Government Treasury securities i.e. Treasury Bills and Treasury Bonds.

- The Bank extends full face value of the funds applied for to the applicant customer against Treasury Securities with less than 91 days to maturity or up to 75% of the face value of the collateral instruments with days to maturity of 91 days or more.

- The term of the loan shall not exceed three months[2].

- When commercial banks borrow from the Lombard window they are charged interest at the prevailing Bank Rate.

- The application should be received at the Bank of Uganda by 3.30pm of the business day. This is to allow for processing of the funds before close of the RTGS[3].

1.4 Settlement of funds is done on the same day as the day on which the application is received.

1.5 If the request is rejected, the Executive Director Operations or a representative informs the applicant bank by telephone or sending of an email or through a formal letter.

1.6 Where specific amounts are approved, the Bank of Uganda through the Director National Payments System will cause the account of the borrowing bank to be credited immediately.

1.7 On the date of Expiry of the Loan (maturity date), the Commercial Bank Clearing Account at the Bank of Uganda shall be debited with the principal amount borrowed and the interest accrued.

1.8 These procedures are meant to ensure that all requests from commercial banks are handled in a timely manner by crediting the a/c with the amount requested or communicating the rejection of the request as and when it is given.

2.0 THE REDISCOUNT WINDOW

2.1 This facility is such that the Bank Of Uganda stands ready to buy Treasury securities at the Rediscount Rate with the following characteristics:

- The security has less than 91 days to maturity
- The securities are under the full ownership of the applicant Customer.
- The Bank of Uganda shall apply the prevailing Rediscount Rate to compute the forfeited interest.
- Ownership of the security is transferred to the Bank of Uganda

2.2 All applications for rediscounting will be addressed to the Executive Director Operations, a copy of which is advanced to the Director Financial Markets for monitoring and information purposes.

2.3 Before any approvals /authorisations, the BOU shall confirm the eligibility of all Treasury securities and verify that all terms and conditions for rediscounting have been met.

2.4 The applicant bank is credited with the Rediscount proceeds (*tax is deducted on the computed interest earned)*

2.5 Ownership of Treasury Securities is transferred to the custody of the Bank of Uganda on the Central Securities Depository (CSD)

3.0 HOW TO COMPUTE PROCEEDS FROM REDISCOUNTING T-BILLS

Let **FV** denote the maturity value of the affected CSD instrument account holdings

RDR denote the prevailing BOU Rediscount rate

DTM be the number of days remaining to maturity in the standard year

The rediscount proceeds are defined as:

$$Bills\_Rediscount\_Proceeds = FV\left[\frac{1}{\left(1+\left(\frac{RDRXDTM}{365}\right)\right)}\right]$$

Illustration for T-Bills

Example 1. Rediscounting Treasury Bills

Supposed that on 22-June-2009 the CSD instrument account holder requests to rediscount personal holdings with a maturity value of 3,000,000 /- from a CSD instrument whose security name is TBILL-91-22-SEP-2009 when there are 30 days remaining to maturity and the prevailing rediscount rate quoted by the Bank of Uganda is 10.06%.

$$Bills\_Rediscount\_Proceeds = FV\left[\frac{1}{\left(1+\left(\frac{RDRXDTM}{365}\right)\right)}\right]$$

$$Bills\_Rediscount\_Proceeds = 3{,}000{,}000\left[\frac{1}{1+\left(\frac{10.06\%*30}{365}\right)}\right]$$

= **2,975,397.94** ***(The proceeds are subject to withholding tax).***

5.0 HOW TO COMPUTE PROCEEDS FROM REDISCOUNTING T-BONDS

Let **FV** denote the maturity value of the affected CSD instrument account holdings

RDR denote the prevailing BOU Rediscount rate

DTM be the number of days remaining to maturity in the standard year

The rediscount proceeds are defined as

$$Bond\_Rediscount\_Proceeds = \frac{FV + COUPON}{(1+RDR/2)^{DTM/182}}$$

where ***Coupon*** is final remaining coupon payment till maturity of the bond.
Withholding tax is then computed on the difference between the bond's last valuation and the rediscount proceeds.

These rediscounting formulae for T-Bills and Bonds replace the old formulae and are effective from March 24, 2016.

Notes:

1)-Maintenance period is an averaging period in which Commercial banks are required to hold a proportion of their deposits with the Central Bank.
2)-Term of the Loan is subject to BOU discretion and policy changes.
3)-RTGS-Real Time Gross Transfer.