

Njuguna Ndung'u: Review of Forex Bureau guidelines

Remarks by Prof Njuguna Ndung'u, Governor of the Central Bank of Kenya, at the workshop on the review of Forex Bureau guidelines, Kenya School of Monetary Studies, Nairobi, 24 February 2011.

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The Directors and Principal Officers of Forex Bureaus;

Distinguished Guests;

Ladies and Gentlemen:

1. It gives me great pleasure to be here today to officially open this consultative workshop that will comprehensively review the Forex Bureau Guidelines. At the outset, I would like to take this early opportunity to express my sincere appreciation to all forex bureaus represented here and to those that took time to study the proposals made and submitted comments on the guidelines. This has allowed the Central Bank of Kenya team to revise them considerably.

2. ***Ladies and Gentlemen,*** forex bureaus were first licensed in January 1995 to foster competition in the foreign exchange market and to narrow the exchange rate spread through this micro-structure of the market. As you are aware, the forex bureau sub sector has experienced rapid growth since it was first established with the number of operating bureaus having increased from 48 in 1998 to 126 as at December 2010. This rapid growth has to do with units in the market and also the volume of their trading. But this has also come with challenges. While the initial objectives have largely been met, it has become necessary to take stock of achievements and challenges so far.

3. ***Ladies and Gentlemen:*** in the last few years, the Central Bank has carried out comprehensive on-site and off-site review of the operations of forex bureaus. The review exercises have revealed major weaknesses in the operations of some of the bureaus that include;

- Engaging in unauthorized business activities;
- Non-compliance with the legal and regulatory requirements such as the Central Bank of Kenya Act and the laws that govern taxation; and
- Limited understanding of regulations and weak capacity in management of the bureaus.

It is in light of this that Central Bank embarked on the process of identifying gaps in the regulatory framework and reviewing the guidelines in order to streamline the sub-sector, facilitate growth and ensure that all the players operate in accordance with the law.

4. The revised guidelines also seek to deal with the various challenges; strengthen the corporate governance structure and financial position of the bureaus; enhance competition in the foreign exchange market and more importantly re-define the basic tenets of this market. From the comments and discussions we have held, we know that forex bureaus in line with the market dynamism, would like to expand their sphere of operations by offering more services and more products. In this regard and like any other good investment, the desire calls for enhancement of capital to be employed. In addition, the guidelines must be reviewed to align them with the provisions of the existing laws, like the Proceeds of Crime and Anti-Money Laundering Act 2009, which came into operation on June 28, 2010. This law together with the guidelines define the reporting methods of transactions by institutions.

5. ***Ladies and Gentlemen,*** despite the numerous challenges experienced in the forex bureau sub-sector in the recent past, the Central Bank recognizes the important role the

sector plays in the economy by offering foreign exchange at competitive rates and providing employment to many Kenyans. But the market can only expand and thrive if rules and guidelines are followed. In this case, only those investors who are ready and willing to conduct their business within the set rules will be allowed to remain in the market. As we align ourselves with the dynamics of the market, adherence to the rules of the game become more important and critical for the survival of the market.

6. To enhance market discipline and encourage constructive engagement with the regulator and so develop the market, I urge the owners of forex bureaus to strengthen the Kenya Forex Bureaus Association (KFBA). This will entail reviewing the constitution of the association, putting in place a code of conduct and allocating more resources to the secretariat. The main objective of the initiative is to develop a vibrant market, to promote and uphold professionalism, enhance high ethical standards, foster self-regulation and above all keep the line of engagement with the regulator alive so that market vulnerabilities or any challenges can be addressed. For these reasons, membership to the KFBA has been made mandatory and a pre-requisite for license renewal.

7. **Ladies and Gentlemen**, the workshop has been organized with one major objective of facilitating a consultative process. I therefore urge you all to actively participate fully and build consensus on the content of the guidelines before they are finalized. The Central Bank believes that this approach will foster an inclusive enabling environment for the growth and development of the forex bureau sub-sector.

8. Finally, let me once again reiterate that the Central Bank of Kenya as a financial regulator of this market and as an agent of developing this market will continue to pursue policies and guidelines that create a conducive environment for growth of the financial sector, encourage provision of financial services to the majority of the population at affordable cost and enhance the safety and soundness of the financial system.

9. With these few remarks, **ladies and gentlemen**, it is now my honour and pleasure to declare this workshop officially open and presuppose a fruitful engagement.

Thank you and God bless you all.