



**Islamic Government of Afghanistan
Da Afghanistan Bank**

Foreign Currency Auction Regulations

Part A - General

§ 1.1 Authority

These regulations on foreign currency auctions conducted by Da Afghanistan Bank are pursuant to the authority granted to Da Afghanistan Bank by Chapter VI and other provisions of the Decree Law of Da Afghanistan Bank and are issued in furtherance of the guidelines set forth in Exhibit F to these regulations.

§ 1.2 Definitions

Unless the context indicates otherwise:

Afghani means the legal currency of Afghanistan and is sometimes referred to as Af. (singular) or Afs. (plural).

Afghanistan means the Islamic Republic of Afghanistan.

Announcement means notice of an auction as prescribed by Da Afghanistan Bank.

Auction means a bidding process by which Da Afghanistan Bank sells foreign currency to eligible bidders.

Bank means the same thing as that term is defined in the Banking Law of Afghanistan.

Bid means a written offer to purchase foreign currency in an auction and must be presented as prescribed in these regulations

Bid amount means the total amount of foreign currency desired by a bidder.

Bid price means the rate of exchange offered to purchase foreign currency in exchange for Afs.

Bidder means a foreign exchange dealer as defined herein or a bank as defined herein holding a valid license from Da Afghanistan Bank.

Bid form means a pre-printed auction form used by bidders and distributed by Da Afghanistan Bank.

Bid to cover ratio means the total amount bid for foreign currency divided by the total amount of foreign currency awarded to bidders. For illustration and by way of example only, if the total amount bid by all bidders is US \$50,000,000 and the total amount of foreign currency awarded to successful bidders during the auction is US \$5,000,000, the bid to cover ratio would equal 10 to 1. A bid to cover ratio indicates the amount of demand in the market for the foreign currency being auctioned.

Business day means any day other than Friday or such other day on which Da Afghanistan Bank is not open for business.

Cash collateral account means a blocked deposit account maintained at Da Afghanistan Bank in the name of the bidder with a minimum balance of US \$ 10,000 (ten thousand US Dollars).

Eligible bidder means a bidder in good standing holding a valid business license and such other license required by Da Afghanistan Bank and a cash collateral account at Da Afghanistan Bank. Da Afghanistan Bank has sole discretion in determining what constitutes good standing but, at a minimum, a bidder must be current with any and all fees due and owing to Da Afghanistan Bank.

Foreign exchange dealer means any person who engages in the business of buying and selling foreign currencies, forward exchange contracts, options, swaps or other derivative contracts involving a foreign currency, or arranging for payments in foreign currency, or any other person licensed by Da Afghanistan Bank for such purpose.

Foreign currency means the legal currency of a country other than Afghanistan.

License means the official document or permit issued pursuant to the laws of Afghanistan authorizing a person to conduct business.

Minimum bid means the lowest bid amount allowed in a bid.

Maximum bid means the highest bid amount allowed in a bid.

Person means any natural person, any legal person, any province and any political subdivision, agency or instrumentality of a province in Afghanistan.

Sealed bid means a bid for an auction delivered in a sealed envelope.

Settlement means full payment in Afs for the total amount due Da Afghanistan Bank from a successful bidder in exchange for foreign currency as a result of an auction.

Successful bidders mean bidders that are awarded winning bids.

US Dollar means legal currency of the United States of America, sometimes referred to as US \$.

Part B. Auction Process

§ 2.1 Auction Announcement

Da Afghanistan Bank will provide public notice at least two days prior to an auction. The announcement will list the time and place of an auction, bid requirements, method of auction to be held, time period for settlement, and other information. The announcement and these Regulations establish the terms and conditions of an auction. To the extent that the provisions stated in an announcement are inconsistent with the provisions stated in these Regulations, the provisions of an announcement will control. Therefore, bidders should read an announcement in conjunction with these Regulations. See Exhibit A for a sample announcement.

§ 2.2 Submission of Bids

- (a) *Form.* Except as otherwise provided, bids must be submitted in an approved format on a preprinted form provided by Da Afghanistan Bank. See Exhibit B for form and instructions. A bid submitted on any other form may be accepted or rejected at the sole option of Da Afghanistan Bank.
- (b) *Place.* Bids are submitted on a bid form directly to Da Afghanistan Bank's Monetary Operations Department at the bank's offices at Ibn Sina Watt, Kabul.
- (c) *Time.* A bid is considered timely if received prior to the deadline for receipt as stated in the auction announcement.
- (d) *License.* Da Afghanistan Bank will check each bid and confirm that the bidder holds a valid license.
- (e) *Cash Collateral Account.* No bid will be accepted unless the bidder can demonstrate that it has opened a cash collateral account with a minimum balance of US \$ 10,000 (ten thousand US Dollars). No cash collateral account will be accepted the morning of an auction.
- (f) *Bid Price.* Each bid must state clearly the bid price.
- (g) *Bid Amount.* Each bid must state clearly a bid amount equal to or higher than the minimum bid amount, and no higher than the maximum bid amount, as stated in the auction announcement. Each bid amount must be expressed in multiples of one thousand, and expressed in numbers and in words. If a conflict exists between numbers and words, the words will control.
- (h) *Delivery.* Each bid must be placed in a sealed envelope. The name and license number of the bidder must appear on the outside of each sealed envelope. An official of Da Afghanistan Bank will assign each envelope containing a bid a unique number. Thereafter, bids shall be referred to solely by that number.
- (i) *Unauthorized, Late or Erroneous Bid.* Da Afghanistan Bank is not responsible for any unauthorized bid or for any delays, errors, or omissions in the submission of bids.

- (j) *Legal Effect.* Each bid is final and irrevocably binding on the bidder. Once a bid has been submitted, no information in the bid form may be changed without the consent of Da Afghanistan Bank. See Exhibit C for a sample bid form a hypothetical bidder.

§ 2.3 Certifications

By submitting a bid, each bidder is deemed to have certified that it has read and is in compliance with these Regulations and with the terms stated in the auction announcement. Further, each bidder is deemed to have certified that it:

- (a) is providing accurate and complete information;
- (b) holds a current and valid license;
- (c) has a minimum balance of US\$ 10,000 in a cash collateral account with Da Afghanistan Bank;
- (d) has no outstanding obligation to Da Afghanistan Bank as a result of previous auctions; and
- (e) is in good standing with Da Afghanistan Bank to the best of its knowledge and belief.

§ 2.4 Opening Bids and Announcing Successful Bidders

- (a) *Opening Bids.* Da Afghanistan Bank will designate an authorized official to open bids on the day of an auction.
- (b) *Winning Bids.* Da Afghanistan Bank will award bids to successful bidders based on the method of auction stipulated in the auction announcement. See Exhibit D for the currently pertaining auction method. Da Afghanistan Bank may announce from time to time auction methods other than those described in Exhibit D.
- (c) *Allocation.* Da Afghanistan Bank will allocate an amount of foreign currency among successful bidders consistent with the method of auction stipulated in the auction announcement.
- (d) *Award Notice.* The results of the auction will be announced in public and each successful bidder will be informed that his bid was accepted.
- (e) *Results.* If disagreement occurs regarding the results of an auction among the bidders and Da Afghanistan Bank, or between a bidder and Da Afghanistan Bank, Da Afghanistan Bank has sole discretion to resolve any and all issues.

§ 2.5 Decorum

Proper decorum must be maintained during the auction process. Inappropriate behavior during the auction process will not be tolerated. After one warning, anyone not observing proper decorum may be required to leave the site and his bid will disqualified

§ 2.6 Public Notice of Auction Results

Da Afghanistan Bank will publish the result of each auction as described in Exhibit E.

Part C- Settlement

§ 3.1 Payment by Successful Bidders

- (a) *Timing.* Full payment by successful bidders (or settlement) must occur within the time period stated in the announcement.
- (b) *Method of Payment.* Cash or cash equivalent in Afs in an amount consistent with the auction results must be paid at the site specified by Da Afghanistan Bank in its announcement. When the full Af amount is received, Da Afghanistan Bank will issue to successful bidders cash or cash equivalent in foreign currency in an amount consistent with the auction results.
- (c) *Partial Settlement.* Partial settlement will not be allowed.
- (d) *Fees.* Da Afghanistan Bank may elect to charge fees for its services as specified in its announcement.

§ 3.2 Failure to Settle

A successful bidder who fails to settle in accordance with this section may choose to do so upon payments of a cancellation fee of US \$ 20,000. Da Afghanistan Bank may elect to take possession of a bidder's cash collateral account if he fails to settle and does not pay the cancellation fee. Da Afghanistan Bank may also revoke his auction privileges or his license, or both.

Part D. Rights and Remedies

§ 4.1 Reservation of Rights

- (a) In its announcement Da Afghanistan Bank will indicate the amount of Afs it plans to sell, but Da Afghanistan Bank reserves the right to sell more or less Afs, if the bids and market conditions warrant an increase or decrease from the amount specified in its announcement.
- (b) Da Afghanistan Bank also reserves the right to decline all bids and decide not to sell any currency if the bids and market conditions are not satisfactory.
- (c) Da Afghanistan Bank reserves the right to terminate an auction if it feels that collusion among the bidders or other malfeasance has occurred.
- (d) Decisions by Da Afghanistan Bank under this Section shall be final.

§ 4.2 Remedies

When a person fails to comply with these Regulations, Da Afghanistan Bank will consider the circumstances of such failure and determine an appropriate remedy. Such remedy may include prohibiting the person from participating in future auctions.

Exhibit A – Public Announcement of Auction

Da Afghanistan Bank will auction US \$ _____ (_____ million US Dollars) to eligible bidders at its Monetary Operation Department at Ibn Sine Watt, Kabul, on _____, (20_). The auction will be governed by the Da Afghanistan Bank Foreign Currency Auction Regulations. Specific terms of the auction are as follows:

Eligibility

Only an eligible bidder is allowed to participate in this auction.

Submission of Bids

- a. Form - Bids must be submitted on a bid form provided by Da Afghanistan Bank. The bid form must be complete and accurate. An incomplete or inaccurate bid, or a bid submitted on any other form may be accepted or rejected at the sole option of Da Afghanistan Bank.
- b. Place - Bids are submitted directly to the Da Afghanistan Bank's Monetary Operations Department in Kabul.
- c. Time – Each bid must be submitted **BEFORE** ___(time) on the day of the auction. **ANY BID RECEIVED AFTER THIS TIME WILL NOT BE ACCEPTED.**
- d. License – Da Afghanistan Bank will check each bid and confirm that the bidder holds a valid license.
- e. Cash Collateral Account - No bid will be accepted unless the bidder can demonstrate that it has opened a cash collateral account with a minimum balance of US \$ 10,000 (ten thousand US Dollars). No cash collateral account will be accepted the morning of an auction.
- f. Bid Price - Each bid must state clearly the bid price.
- g. Bid Amount – Each bid amount must state a bid amount equal to or higher than the minimum bid of _____ and be stated in multiples of one thousand. A bid amount must be expressed in numbers and in words. If a conflict exists between numbers and words, the words will control.
- h. Delivery - Each Bid must be placed in a sealed envelope. The name and license number of the Bidder must appear on the outside of each sealed envelope. Each bid envelope will be assigned a unique number given to the bidder by an official of Da Afghanistan Bank, and thereafter bids will be referred to solely by that number.
- i. Unauthorized, Late or Erroneous Bid - Da Afghanistan Bank is not responsible for any unauthorized bid or for any delays, errors, or omissions in the submission of bids.
- j. Legal Effect – Each bid is final and is irrevocably binding on the bidder. Once a bid has been submitted, no information in the bid form may be changed without the consent of Da Afghanistan Bank.

Auction Process

- a. Opening Bids – The bids will be opened in private at approximately (time of day) of the auction.
- b. Winning Bids – Da Afghanistan Bank will award bids to successful bidders based on the highest rate bid. (See Exhibit D for further information on auction method).
- c. Allocation – Da Afghanistan Bank will allocate the amount to be awarded among successful bidders.
- d. Award Notice – Each successful bidder will be informed that his bid was accepted.

Settlement

Payment by Successful Bidders

- a. Timing - settlement must occur on or before the Thursday following the date of the auction.
- b. Method of Payment - cash or cash equivalent in Afs consistent with the auction results must be paid at the Monetary Operation Department of Da Afghanistan Bank. When the full Af amount is received, Da Afghanistan Bank will issue an amount of foreign currency consistent with the auction results.
- c. Partial Settlement – partial settlement will not be allowed.

Failure to Settle

A person may choose not to settle subject to the terms and condition of 3.2 of the Foreign Currency Auction Regulations of Da Afghanistan Bank.

Exhibit B - Blank Bid Form

| | |
|--|--|
| To Be Completed by Bidder: | |
| 1. Full Name | |
| 2. License Number | |
| 3. Main Place of Business | |
| 4. Bid Price - Exchange Rate of Afs to the US Dollar | |
| 5. Bid Amount - Amount of US Dollars Requested | |
| 6. Date of Submission | |
| 7. Signature | |
| | |

| | |
|---|--|
| For Internal Use Only (to be completed by Da Afghanistan Bank): | |
| Total Amount of Afs to be paid at settlement | |

By submitting this bid, I hereby certify that I:

- a. am in compliance with the Regulations for Foreign Currency Auctions,
- b. am in compliance with the terms stated in the auction announcement,
- c. have provided accurate and complete information,
- d. hold a current and valid license,
- e. have a minimum balance of US\$10,000 in a cash collateral account with Da Afghanistan Bank,
- f. have no outstanding obligations to Da Afghanistan Bank as a result of previous auctions, and
- g. am in good standing with the Da Afghanistan Bank to the best of my knowledge and belief.

Instructions

To Be Completed by Bidder:

- | | |
|--|--|
| <ol style="list-style-type: none"> 1. Full Name: 2. License Number of Bidder: 3. Main Place of Business: 4. Bid Price - Exchange Rate of Afs to one US Dollar: 5. Bid Amount - Amount of US Dollars Requested: 6. Date of Submission 7. Signature | <p>Name of the bidder as shown on the DA AFGHANISTAN BANK license.</p> <p>License number issued by Da Afghanistan Bank.</p> <p>Bidders main place of business.</p> <p>State the exchange rate offered in terms of the number of Afs against one US Dollar (words and numbers).</p> <p>State the total amount of US Dollars desired (words and numbers).</p> <p>Date the Bid Form is submitted to Da Afghanistan Bank</p> <p>Signature of the person authorized to sign for the bidder.</p> |
|--|--|

For Internal Use Only (to be completed by Da Afghanistan Bank):

Total Amount of Afs to be paid at settlement **do not complete this part.**

Certifications

Read carefully the certifications on the bid form. If the bidder is unable to certify to all of the items listed, it must not deliver a bid without consent of Da Afghanistan Bank

Exhibit C - Sample Bid Form

| | |
|--|--|
| To Be Completed by Bidder: | |
| 1. Full Name | Abdul Mohammad Ali Money Exchange |
| 2. License Number of Bidder | 6543 |
| 3. Main Place of Business | Kandahar |
| 4. Bid Price – Exchange Rate of Afs to one US Dollar | 50.00 |
| 5. Bid Amount - Amount of US Dollars Requested | \$500,000 (Five Hundred Thousand US Dollars) |
| 6. Date of Submission | September 23, 2003 |
| 7. Signature | (Signed) Abdul Mohammed Ali |

| | |
|---|----------------------------------|
| For Internal Use Only (to be completed by Da Afghanistan Bank): | |
| Total Amount of Afs to be paid at settlement | 25.000,000 (Twenty five Million) |

By submitting this bid, I hereby certify that I:

- a. am in compliance with the Regulations for Foreign Currency Auctions,
- b. am in compliance with the terms stated in the auction announcement,
- c. have provided accurate and complete information,
- d. hold a current and valid license,
- e. have a minimum balance of US \$ 10,000 in a cash collateral account with Da Afghanistan Bank,
- f. have no outstanding obligations to Da Afghanistan Bank as a result of previous auctions, and
- g. am in good standing with the Da Afghanistan Bank to the best of my knowledge and belief.

Exhibit D – Current Auction Method

Sealed bids are to be opened in private and sorted on a list in descending order (highest bid price to lowest bid price). Bid prices and bid amounts are reviewed and confirmed with the bidders. The Governor (or his designee) will compare bid prices and award the amount bid to each of the highest consecutive bidders until the full amount available is awarded. Bid amounts will be allocated among successful bidders until the total amount of available foreign currency is sold. In selecting successful bidders and allocating bid amounts, the Governor (or his designee) will select bidders consecutively at the highest level on the sorted bid list. Those selected bidders will be awarded the amounts bid by each one and to be paid at the rate each one bid. Under this method, different bids may be awarded to successful bidders at different prices.

Example: US \$ 1,000,000 auction

| Bidder | Bid Price | Bid Amount | Settlement Price | Settlement Amount |
|-----------------------------|-----------|---------------------|------------------|-------------------|
| Successful Bidders | | | | |
| 1 | 50.60 | \$ 200,000 | 50.60 | \$ 200,000 |
| 2 | 50.55 | \$ 500,000 | 50.55 | \$ 500,000 |
| 3 | 50.51 | \$ 100,000 | 50.51 | \$ 100,000 |
| 4 | 50.00 | \$ 200,000 | 50.00 | \$ 200,000 |
| Total | | \$ 1,000,000 | | |
| Unsuccessful Bidders | | | | |
| 5 | 49.95 | \$ 500,000 | 0 | 0 |
| 6 | 49.90 | \$ 400,000 | 0 | 0 |
| 7 | 48.80 | \$ 1,000,000 | 0 | 0 |

Exhibit E – Results of Auction
Notice to the Public Concerning the Results of the
Foreign Exchange Auction held on (date)

Da Afghanistan Bank announces the following results:

The *total number of bids* submitted was _____ (number).

The *total number of successful bidders* was _____.

The *cut off price (lowest successful bi)* was _____ Afs to one US Dollar.

Successful bidders were awarded a total of US \$ _____.

The *average amount awarded to successful bidders* was US _____ (words)

The *highest bid price* received was _____ Afs to 1 (One) US Dollar.

The *lowest bid price* received was _____ Afs to 1 (One) US Dollar.

The *average bid price* was _____ Afs to 1 (One) US Dollar.

The *highest bid amount* received was US \$ _____.

The *lowest bid amount* received was US \$ _____.

The *average bid amount* was US \$ _____ .

Disqualified bids are not included in these results.

Kabul, [date]

[name]

Governor

Da Afghanistan Bank

Exhibit F – Operational Guidelines for Conduct of Foreign Currency Auctions

In line with its goal of meeting the evolving financial and monetary needs of the Afghan economy, Da Afghanistan Bank is initiating several reforms in the foreign exchange auction process. The long term goal is to move toward an electronic, real time, ongoing market in foreign exchange that can be accessed from all parts of the country by financial institutions, private businesses in international commerce, and individuals desiring to sell or purchase foreign exchange in large amounts. Such a market is the future, but Afghanistan is already progressing in that direction and the reforms described below will support and encourage this process.

Da Afghanistan Bank has determined that now is the appropriate time to move away from current open outcry auction system with a single price for all and equal (or nearly equal) shares for all participants to a more normal financial auction system including the following characteristics:

- The sealed bids submitted by auction participants will be treated as explicit contractual offers and will be accepted or rejected by the DAB at the price and for the amount of their bids.
- Auction participants will not have a chance to adjust or change their bid and must be prepared to make payments and accept delivery of currency as per the amounts and rates stated in their bids.
- DAB will accept all legal bids and will evaluate them as to amount and rates bid, deciding without further negotiation as to the allocation of currency auctioned among the winning bids.
- The winning bids will be determined by the highest rates offered in the bids and each winning bidder will be awarded the amount bid until the full amount DAB decides to auction off is reached.
- Prior to the auction the DAB will indicate the amount it plans to sell, but the DAB reserves the right to sell more or less if the bids and market conditions warrant an increase or decrease from the amount indicated.
- Although it is unlikely to occur, the DAB reserves the right to decline all bids and decide not to sell any currency if the bids and market conditions are not satisfactory.
- Bidders may submit up to two bids to be considered separately by the DAB with the result that a double bidder could end up being awarded the full amount of both bids, could win only the bid with highest rate, or might not win on either bid.
- The results of the auction will be posted at the DAB central office and on DAB's Internet site and will show the rates and amounts of the successful bids.
- The results will also show the high rate bid, the median rate, the cut-off rate, and the low rate for the information of participants and other interested parties.
- Each of the bids will be given a unique number and the winners will be informed by the DAB of the amount they have won, but no bidder will be identified by name.
- Bidders need not be physically present but may send authorized representatives; however, the legally responsible bidder must sign the sealed bids.
- The DAB has decided to continue to limit minimum bids to \$50,000.

- Each bid is limited to a maximum of no more than ten percent of the total announced amount to be auctioned.
- It should be emphasized that no negotiating will take place once the sealed bids are verified and submitted.
- DAB auction officials will rank the bids by price and determine the amounts awarded in a separate location with no bidders physically present.
- Before individuals or institutions can participate in the auction process, they will be obliged to sign legally binding agreements indicating that they understand the process and they are prepared to fully honor any and all bids they submit.

It is intended that this new auction system will be more efficient in terms of bidders time and effort, that it will better meet the evolving needs of the growing financial sector in Afghanistan, and that over time it will encourage the development of a broad, transparent, and efficient foreign exchange market.