

P U B L I C A T I O N  
N O T I C E

# Bank of Tanzania Introduces Electronic Matching System

*for the Interbank Foreign Exchange Market*

Circular Issued | 28 April 2026

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## Overview

The Bank of Tanzania (BoT) has issued a landmark circular mandating the implementation of an Electronic Matching System (EMS) within the Interbank Foreign Exchange Market (IFEM). Addressed to all licensed commercial banks and non-bank institutions, the circular marks a significant structural reform in Tanzania's foreign exchange market architecture, with implications spanning monetary policy, market operations, and financial stability.

## Key Features of the Electronic Matching System

The EMS introduces a suite of automated and rule-based mechanisms that fundamentally modernise how interbank foreign exchange trading is conducted in Tanzania. These include:

- **Automated Trade Confirmation Matching** – Eliminating manual reconciliation and reducing settlement risk.
- **Price-Time Priority Execution** – Ensuring trades are executed fairly based on best price and order sequence.
- **Mandatory USD/TZS Interbank Trading on the Platform** – All spot foreign exchange transactions within the IFEM involving the Tanzanian Shilling and the US Dollar must be conducted exclusively through the EMS.
- **Anonymous Order Matching** – Reducing counterparty bias and promoting arm's length dealing.
- **Centralized Electronic Forex Trading** – Consolidating market activity onto a single, transparent, and auditable platform.

The system aligns with Principle 43 of the IFEM Code of Conduct 2024, which governs automated trade confirmation matching systems for market participants.

## Scope and Participation

All licensed commercial banks in Tanzania automatically qualify as System Participants and are required to publish firm quotes and associated volumes on the EMS during trading hours, commencing 18th May 2026.

Non-bank institutions – particularly large exporters – may participate in the EMS strictly in the capacity of foreign exchange sellers. Participation requires prior approval from the Bank of Tanzania, subject to full compliance with applicable operational and regulatory requirements.

## Extended Market Trading Hours

To enhance liquidity and operational efficiency within the IFEM, the market closing time has been revised from 3:00 PM to 4:00 PM (EAT), with trading hours now running from 09:00 AM to 04:00 PM (EAT).

## Regulatory and Supervisory Implications

The implementation of the EMS significantly strengthens the BoT's market surveillance and regulatory oversight capabilities. Through the platform's centralised and transparent architecture, the regulator is now better positioned to:

- Detect and address abnormal or suspicious bid-ask spreads in real time.
- Identify and investigate potential collusion among market participants.
- Monitor and curtail speculative foreign exchange activity that may distort market pricing.
- Track and act on suspicious foreign exchange flows that could pose systemic or financial integrity risks.

This represents a material enhancement to the BoT's ability to enforce orderly market conduct and safeguard foreign exchange market stability.

## Broader Economic Significance

Beyond operational efficiency, the EMS reform carries broader macroeconomic implications. By institutionalising price transparency and fair trade execution, the system is expected to improve exchange rate price discovery, reduce information asymmetry between market participants, and support a more stable and predictable foreign exchange environment – all of which are critical to Tanzania's monetary policy transmission and overall financial system resilience.

## Lyson Law Observation

While the EMS represents a meaningful modernisation of Tanzania's foreign exchange architecture, several aspects of the framework warrant closer scrutiny. The observations below are offered constructively, with a view to highlighting implementation risks, regulatory ambiguities, and second-order effects that the Bank of Tanzania and market participants will need to manage carefully if the reform's benefits are to materialise without unintended consequences.

### Implementation and Regulatory Challenges

Several features of the EMS framework raise practical and legal questions that the Guidelines, as currently structured, do not appear to fully resolve.

- **Compressed Implementation Timeline** – Issuing the circular on 28 April 2026 with a mandatory go-live on 18 May 2026 leaves market participants approximately three weeks to integrate trading systems, train front and back-office staff, complete user acceptance testing, and align internal compliance protocols. This lead time is materially shorter than is typical for reforms of comparable depth, and increases the likelihood of operational disruptions in the early weeks of trading.
- **Asymmetric Participation Rights** – Non-bank institutions, including large exporters, are admitted to the platform only as foreign exchange sellers. This produces a structurally one-sided market in which significant corporate users cannot directly hedge or rebalance

positions, and must continue to rely on bilateral bank relationships for purchases. The asymmetry risks distorting price discovery and may push large corporates toward offshore or non-bank alternatives.

- **Ambiguity in Approval Criteria** – The circular refers to compliance with 'operational and regulatory requirements' as the gateway to non-bank participation, but does not specify the criteria, timelines, or grounds for refusal. The absence of objective, published eligibility standards risks creating discretionary entry barriers that could be challenged on administrative law grounds, and may chill applications from otherwise eligible exporters.
- **Narrow Currency and Product Scope** – The mandate covers only TZS/USD spot transactions. Market activity may therefore fragment, with bilateral or off-platform trading continuing in parallel and potentially undermining the very transparency the reform seeks to achieve.
- **Firm-Quote Obligations and Spread Behaviour** – Requiring banks to publish firm quotes throughout trading hours imposes inventory and pricing risk in a market that remains structurally thin and prone to one-way flow pressure. Banks may respond defensively with wider spreads, larger minimum trade sizes, or rationed quote volumes, eroding some of the headline transparency gains the platform is designed to deliver.
- **Anonymity versus AML/CFT Obligations** – Anonymous order matching, while desirable for neutralising counterparty bias, must be reconciled with banks' obligations under the Anti-Money Laundering Act, Cap. 423 and the Financial Intelligence Unit reporting framework. The Guidelines should clarify how know-your-counterparty due diligence, sanctions screening, and suspicious transaction reporting will operate where counterparty identity is masked at the point of trade.
- **Business Continuity and Single Point of Failure** – Centralising all interbank TZS/USD spot activity on one platform inherently introduces concentration risk. The circular does not publicly disclose disaster recovery arrangements, fallback trading protocols during outages, or service-level commitments. Transparent contingency arrangements should be agreed with participants before reliance on the platform deepens.
- **Surveillance Powers and Due Process** – The expanded surveillance capabilities of the Bank – including detection of 'abnormal' spreads, 'potential collusion,' and 'speculative' activity – are powerful tools. However, the corresponding investigatory and sanctioning procedures, evidential thresholds, and rights of appeal available to participants are not articulated in the present circular. Clear procedural safeguards will be important to protect participants from arbitrary or inconsistent findings.
- **Cost Burden on Smaller Banks** – System licensing, IT integration, dedicated connectivity, and staff training represent meaningful fixed costs. Smaller commercial banks may struggle to recover these costs across a thinner trading book, potentially accelerating consolidation pressures within the banking sector and reducing diversity of access for customers.

### **Risk of Disintermediation: Could Customers Move Away from Banks?**

A central concern of any foreign exchange reform is whether the formal banking channel will retain customer demand or whether activity will migrate to parallel or informal markets. Several features of the EMS framework warrant particular attention in this regard.

- **Migration to Bureaux de Change and Mobile Money** – Tanzania already has an active bureau de change sector and a sophisticated mobile money ecosystem. If formal bank channels become slower or are perceived as more rigid under the new platform, these alternatives may absorb retail and small-corporate foreign exchange activity, with corresponding reductions in deposit retention and fee income for banks.
- **Offshore Hedging and Treasury Relocation** – Large corporates that cannot access the EMS as buyers may centralise hedging through offshore subsidiaries or with foreign correspondent banks, effectively moving foreign exchange volumes out of the Tanzanian formal system altogether and weakening, rather than strengthening, the depth of the onshore market.
- **Chilling Effects from Surveillance Tightening** – Aggressive or inconsistent interpretation of 'speculative' or 'suspicious' activity could deter legitimate corporate hedging, pre-funding, and inventory management. Customers concerned that ordinary commercial flows may be reclassified as suspicious may prefer to settle obligations outside the banking system.

On balance, while wholesale disintermediation of the formal banking sector is unlikely in the near term, the cumulative effect of these dynamics could meaningfully shift retail and SME foreign exchange activity toward bureaux de change, mobile money operators, and parallel arrangements unless actively monitored and addressed.

## Recommendations

To strengthen the framework and mitigate the risks identified above, the following measures may merit consideration by the Bank of Tanzania and market stakeholders:

- Publishing detailed operational, technical, and eligibility standards for non-bank participation, with clear timelines for application review and reasoned decisions where approval is withheld.
- Adopting a phased implementation calendar with a defined soft-launch period during which firm-quote obligations and sanctions are calibrated to reflect early-stage system stability.
- Extending non-bank participation to two-way trading once operational readiness has been demonstrated, subject to appropriate prudential safeguards.
- Publishing transparent business continuity, disaster recovery, and fallback trading arrangements before market reliance on the platform deepens.
- Codifying surveillance procedures, evidential standards, and participant rights of appeal in a dedicated supervisory framework issued for public consultation.
- Coordinating with the Tanzania Bankers Association to monitor retail and SME spreads in the early months of operation, and to address rationing or pricing pressures before they drive customers to informal channels.
- Maintaining open dialogue with bureaux de change, fintechs, and mobile money operators on how formal and complementary channels can co-exist to broaden, rather than narrow, financial inclusion.

Taken together, these refinements would help ensure that the EMS achieves its intended objectives of transparency, efficiency, and orderly market conduct, while preserving the central role of licensed banks as the trusted gateway for foreign exchange activity in Tanzania.

### **Reference**

*Guidelines for the Electronic Matching System, 2026* are available at: <https://www.bot.go.tz/Publications/Filter/40>

Signed by Governor Emmanuel M. Tutuba under the authority of the Bank of Tanzania Act, 2006.