

(Last revised: March 19, 2008)

REGULATION ON CALCULATING AND CONTROLLING RESERVE REQUIREMENTS

One. General provisions

1. This regulation shall be pursued for setting reserve requirements on bank deposits and for monitoring its maintenance with the purpose of controlling money supply by the Bank of Mongolia and of satisfying bank liquidity demand.
2. The terms used in this regulation shall be interpreted as follows:

“Deposits” mean balances of tugrug and foreign currency denominated current, demand and time deposit accounts and other reservable liabilities held by business entities, organizations, individuals and Government and recorded in the balance sheet of a bank as shown in Appendix 1 of this regulation.

“Reserve requirement rate” means a percentage rate determined by the Bank of Mongolia in order to set the required reserves on deposits held at a bank.

“Reserve requirement” shall be the sum of reserves calculated from average balance of deposits of a bank using the percentage rate of reserve requirements set by the Bank of Mongolia

“Available reserves” means balance of tugrug denominated current account of a bank with the Bank of Mongolia.

“Available reserves in foreign currency” means balance, expressed in tugrugs, of current account in foreign currency with the Bank of Mongolia, travel cheques and bank vault cash in foreign currency.

“Computation period” means a period covering the average data of balance of current account and this will be 2 weeks.

“Reserve requirement maintenance period” means the period set by the Bank of Mongolia over which reserve requirements will be fulfilled and this will be 2 weeks.

3. All banks, who have received banking licenses from the Bank of Mongolia, shall comply with this regulation.

4. A bank shall maintain a certain portion of its deposits as required reserves in accordance with the percentage rate set by the Bank of Mongolia.
5. A bank shall fulfill reserve requirements for tugrug and foreign currency separately and shall, at the end of each transaction day, maintain no less than 50 percent of the reserve requirement for both tugrug and foreign currency with the Bank of Mongolia.
6. The reserve requirement rate in both tugrugs and foreign currency shall be set by the Resolution of Governor of the Bank of Mongolia.
7. The Bank of Mongolia may remunerate banks' required reserves. The remuneration rate shall be set by a Resolution of the Governor of the Bank of Mongolia. Remuneration will not be paid to banks that did not meet reserve requirements.
8. Required reserves are computed on the basis of 14-day period beginning from every first Wednesday and ending at every second Tuesday. ("computation period"). Balances of non-business days shall be taken by the previous business day's balances.
9. The reserve maintenance period shall also cover 14-day beginning on Wednesday and ends on every second Tuesday.
10. The data on deposits with local branches of a bank shall be submitted to the Bank of Mongolia by bank's headquarter located in Ulaanbaatar City.

Two. Determining Tugrug Reserve Requirements and Ensuring Compliance

11. Reserve requirements shall be determined by setting daily minimum balances of tugrug denominated current account of a bank with the Bank of Mongolia.
12. A bank shall submit a report of average reserves accumulated over the maintenance period as shown in Appendix 1 of this regulation within 5 work days after the end of each maintenance period to the Monetary Policy and Research Department of the Bank of Mongolia.
13. Monetary Policy and Research Department shall determine reserve requirements or daily minimum balance of tugrug denominated current account of a bank with the Bank of Mongolia at the third 14 days following the start of a given computation period pursuant to appendix 2 of this regulation and based on the data submitted by a bank. This procedure will include the following:
 - a) A sum of value in the third column of Appendix 1 shall be taken as the average balance of current account of a bank during the reserve computation period.
 - b) Reserve requirements or the minimum balance of tugrug denominated current account with the Bank of Mongolia shall be calculated by the percentage rate of tugrug reserve

requirements set by the Bank of Mongolia based on average balance of current account of a bank during the reserve computation period as set out in subparagraph 13 (a).

- c) The amount of required reserves in tugrug, calculated according to section “b” of this article, shall be approved by the Director of the Monetary Policy and Research Department and banks shall be notified within 4 work days before the next maintenance period begins.

14. Monetary Policy and Research Department shall consolidate and monitor calculations of tugrug reserve requirements for a banking sector in accordance with Appendix 3 of this regulation. This process will include the following:

The Bank of Mongolia will compare actual end-of-day balance of tugrug denominated current account of a bank with the average reserve balance of tugrug denominated current account required to be maintained as set out in paragraph 13 of this regulation for the purpose of determining required-reserve deficiencies or surpluses. If a bank meets reserve requirements and has a surplus, it will be considered that the bank has excess liquidity equal to its surplus amount.

15. Monetary Policy and Research Department shall assess the daily reserve requirements as of a particular day and cumulative sum in accordance with Appendix 3 of this regulation and prepare a consolidated table in accordance with Appendix 4 for the purpose of using it on the implementation of monetary policy.

Three. Determining Foreign Currency Reserve Requirements and Ensuring Compliance

16. Foreign currency reserve requirements shall be calculated in accordance with Appendix 2 based on data provided by banks in accordance with Appendix 1.

17. This procedure will include the following:

- a) A sum of value in the third column of Appendix 1 shall be taken as the average balance of foreign currency denominated current account during the reserve computation period.
- b) Foreign currency reserve requirements or the minimum balance of foreign currency denominated current account with the Bank of Mongolia shall be calculated by the percentage rate set by the Bank of Mongolia based on the average balance of current account of a bank during the reserve computation period as set out in subparagraph (a) of paragraph 16 and these reserve requirements shall be maintained during the third 14 days from the start of the computation period.
- c) The amount of required reserves in foreign currency, calculated according to section “b” of this article, shall be approved by the Director of the Monetary Policy and Research Department and banks shall be notified within 4 work days before the next maintenance period begins.

18. The Monetary Policy and Research Department shall, in accordance with Appendix 3 of this regulation, calculate required reserves on a daily basis as well as on average over the maintenance period, and shall be responsible for consolidating and monitoring throughout the entire system. This procedure will include the following:
 - a) Foreign currency reserve requirements can be met by the average balance of foreign currency denominated current account with the Bank of Mongolia and by banks' vault cash. The share of banks' vault cash in compliance shall not exceed 50 percent.
 - b) The Bank of Mongolia will compare the total reserve balance of foreign currency required to be maintained with the actual balance of foreign currency denominated current account of a bank with the Bank of Mongolia, cash in vault, and travel cheques in foreign currency for the purpose of determining required-reserve deficiencies or surpluses.

Four. Supervision and Actions to be taken By The Bank of Mongolia

19. Monetary Policy and Research Department shall supervise the fulfillment of reserve requirements by individual bank.
20. The Bank of Mongolia shall take the following actions if a bank fails to meet the reserve requirements:
 - a) Impose a penalty on a deficiency in required reserves (the penalty shall not exceed the rate, which is 5 percentage point above the highest interest rate of the Bank of Mongolia's credit to banks).
 - b) The calculated penalty shall be debited directly from the current account of a bank with the Bank of Mongolia.
21. Penalty for not meeting both daily and average reserve requirements for tugrug and foreign currency shall be approved by the Resolution of the Governor of the Bank of Mongolia, and notified to each bank in accordance with Appendix 5.
22. Notification of deduction of penalty for not meeting reserve requirements from the bank's current account at the Bank of Mongolia shall be sent to the related banks from the Payment and Accounting Department of the Bank of Mongolia.
23. Monetary Policy and Research Department shall submit an action proposal to the Board of Directors of the Bank of Mongolia on taking coercive measures against banks who failed to meet the reserve requirements for more than 3 consecutive months.
24. Both Supervision Department and Monetary Policy and Research Department of the Bank of Mongolia shall monitor each bank's compliance with providing timely and accurate information on current account balance that is required for calculating reserve requirements.

25. In case a bank provides incorrect information on its deposits balance of the computation period, penalties shall be imposed in accordance with Article 49 of Banking Law.
26. Monetary Policy and Research Department shall inform the Governor of the Bank of Mongolia on the compliance of reserve requirements and liquidity positions on a regular basis.

Appendix 1: Regulation on Calculating and Controlling Reserve Requirements

**Data on deposits balances for 14 days starting from/.../ (day/month/year) to
/.../ (day/month/year) of bank
 Deposits in local currency (tugrugs)**

(in thousand tugrugs)

	No.	Items	Calendar days (day 1 through day14)				14 day average	
			2					3
			Day 1	Day 2	...	Day 14		
Deposits in local currency (tugrugs)	1	Balances of current accounts of state enterprises and private sectors / 211100, 212100/						
	2	balances of demand deposit accounts of state enterprises and private sectors / 222110, 222210/						
	3	balances of time deposit accounts of state enterprises and private sectors /221110, 221210/						
	4	balances of current accounts of individuals, foreign residents and non-residents /213100, 215100 /						
	5	balances of demand deposit accounts of individuals, foreign residents and non-residents /222310, 222461/						
	6	balances of time deposit accounts of individuals, foreign residents and non-residents /221310, 221610/						
	7	balances of current accounts of financial institutions /214110, 214120, 214210, 214220, 214310, 214320, 214410, 214420, 231510*/						
	8	balances of demand deposit accounts of financial institutions / 221421, 221422, 222411, 222412, 222431, 222432, 222441, 222442, 231520*/						
	9	balances of time deposit accounts of financial institutions / 221411, 221412, 221431, 221432, 221441, 221442, 222421, 222422/						
	10	balances of Treasury current accounts /216100/						
	11	balances of Treasury demand						

		deposit accounts /222471/					
	12	balances of Treasury time deposit accounts /221710 /					
	13	balances of demand deposit accounts of other sources / 222481/					
	14	balances of time deposit accounts of other sources /221810/					
	15	balances of accounts of other sources /217100, 241100*, 241310, 241400*, 241200*, 242000*, 243000*, 223600*, 223900*, 246100*, 246300*, 246400*/					
Deposits in foreign currency	1	balances of current accounts of state enterprises and private sector/211200, 212200/					
	2	balances of demand deposit accounts of state enterprises and private sector/222120, 222220/					
	3	balances of time deposit accounts of state enterprises and private sector/221220, 221120/					
	4	balances of current accounts of individuals, foreign residents and non-residents/213200, 215200/					
	5	balances of demand deposit accounts of individuals, foreign residents and non-residents/222320, 222462/					
	6	balances of time deposit accounts of individuals, foreign residents and non-residents/221320, 221620/					
	7	balances of current accounts of financial institutions/214130, 214140, 214230, 214240, 214330, 214340, 214430, 214440, 231510**/					
	8	balances of demand deposit accounts of financial institutions/222413, 222414, 222423, 222424, 222433, 222434, 222443, 222444, 231520**/					
	9	balances of time deposit accounts of financial institutions /221413, 221414, 221423, 221424, 221433, 221434, 221443, 221444, 231400/					
	10	balances of Treasury current accounts/216200/					

	11	balances of Treasury demand deposit accounts/222472/					
	12	balances of Treasury time deposit accounts/221720/					
	13	balances of Treasury demand deposit accounts/222482/					
	14	balances of time deposit accounts of other sources/221820/					
	15	balances of accounts of other sources/217200, 241320, 241100**, 241400**, 241200**, 242000**, 243000**, 223600**, 223900**, 246100**, 246300**, 246400**/					
Foreign currency cash in vault	1	balance of foreign currency cash in vault and travel cheques/112000, 113200, /					

* - denominated in tugrug

** - denominated in foreign currency

Appendix 2 to Regulation on calculating and controlling reserve requirements

Approved by: (name), Director of Monetary Policy and Research Department of Bank of Mongolia

Calculation of reserve requirements of banks

Period: from/.../ (day/month/year) to/.../ (day/month/year)

(in thousand tugrugs)

No.	Banks	In tugrugs			In foreign currency		
		Average balance of reserve requirements (sum of third column in Appendix 1)	Percentage rate of reserve requirements	Reserve requirements or minimum reserve requirements in tugrug current account with the Bank of Mongolia	Average balance of reserve requirements (sum of third column in Appendix 1)	Percentage rate of reserve requirements	Reserve requirements in foreign currency
0	1	2	3	4	5	6	7=5*6/100
1							
2							
3							
4							
...							

Calculation by: (name), Economist

Appendix 3 to Regulation on calculating and controlling reserve requirements

Fulfillment of reserve requirements ofbank
 Period: from/.../ (day/month/year) to/.../ (day/month/year)

(in thousand tugrugs)

Calendar days of maintenance period	In tugrugs				In foreign currency				
	Minimum required balance of current account of a bank with the Bank of Mongolia (in the 4 th column of Appendix 2)	Available reserve or actual balance of current account with the Bank of Mongolia	Fulfillment of reserve requirements per day (+) surplus (-) deficit	Cumulative fulfillment of reserve requirements (+) surplus (-) deficit	Reserve requirements in foreign currency (7 th column of Appendix 2)	Available reserve in foreign currency or actual balance of foreign currency current account with the Bank of Mongolia	Cash in vault, travel cheques	Fulfillment of reserve requirements per day (+) surplus (-) deficit	Cumulative fulfillment of reserve requirements (+) surplus (-) deficit
0	1	2	3	4	5	6	7	8	9
... of ... (month)									
... of ... (month)									

Calculation done by:..... (name), Economist

Reviewed by: (name) Director of Monetary Policy and Research Department of the Bank of Mongolia

Appendix 4 to Regulation on calculating and controlling reserve requirements

Consolidated calculation of provision of reserve requirements in both local and foreign currency of banks

(in tugrugs)

Date	Anod		Golomt		etc	TOTAL			
	Daily	Cumulative				Daily	Cumulative	Daily	Cumulative

(in foreign currency)

Date	Anod		Golomt		etc	TOTAL			
	Daily	Cumulative				Daily	Cumulative	Daily	Cumulative

Reviewed by: (name) Director of Monetary Policy and Research Department of the Bank of Mongolia

Calculation by (name), Economist

Appendix 5 to Regulation on calculating and controlling reserve requirements

Penalty for failure to meet the reserve requirement by bank
 Period: from/.../ (day/month/year) to/..../ (day/month/year)

(in thousand tugrugs)

No	Banks	Deficit of reserve requirements		Penalty imposed for deficit of reserve requirements		TOTAL
		In tugrugs	In foreign currency	In tugrugs	In foreign currency	
1						
2						
3						
4						
...						

Reviewed by:.....(name), Director of Monetary Policy and Research Department of Bank of Mongolia

Calculation done by (name), Economist