

REGULATION ON CENTRAL BANK OVERNIGHT REPO FINANCING

One. General Provisions

1.1 The purpose of this regulation is to regulate the relations that may arise out of or in connection with overnight repo financing issued by the Bank of Mongolia to commercial banks with the purpose of implementing monetary policy and bringing the interbank market rate to its target level in accordance with the articles 10.1 and 14 of the Law on Central Bank (Bank of Mongolia).

1.2 The terms used in this regulation shall be interpreted as follows:

1.2.1 “Central bank overnight repo financing” means a standing financing instrument issued under the condition to repurchase the security holdings of commercial banks at a predetermined price after a specified period and it is issued by the Bank of Mongolia to commercial banks during the period from the closing of “Banknet” system until the opening of “Banknet” system on the following working day.

1.2.2 “Purchasing price” means the amount paid on the day of purchase by the Bank of Mongolia to a commercial bank selling their holding of securities on a repurchase agreement. Purchasing price shall be the amount that subtracts risk premium from the market price of the particular security.

1.2.3 “Repurchasing price” means the amount that adds price differential to the purchasing price specified in article 1.2.2 of this regulation.

1.2.4 “Price differential” means the difference between the repurchasing price and the purchasing price and it shall be calculated by the following formula:

$$P_d = P_p * R_r * \frac{d}{360}$$

P_d – Price differential

P_p – Purchasing price

R_r – Overnight repo rate (annual)

d – Duration of overnight repo financing

1.2.5 “Coupon bills” refers to securities with regular interest rate payments in every period negotiated between the two parties until the maturity of security.

Unofficial translation

(In any event of discrepancies between the Mongolian and English version, the Mongolian version shall prevail)

1.3 The list of securities to be purchased by the Bank of Mongolia through overnight repurchase agreement shall be determined by the Risk Management Unit of the Bank of Mongolia (hereinafter referred to as RMU) and approved by the Resolution issued by the Governor of the Bank of Mongolia.

1.4 The relations that may arise out of or in connection with overnight repo financing shall be regulated by respective provisions of the General Agreement on Selling Securities with Terms of Repurchase approved by the Governor of the Bank of Mongolia and bound by the Bank of Mongolia and commercial banks in addition to this regulation.

Two. Conditions for overnight repo financing

2.1 The duration of overnight repo financing shall be from the closing of “Banknet” system until the opening of “Banknet” system on the following working day.

2.2 The percentage rate on overnight repo financing shall be approved by the Resolution issued by the Governor of the Bank of Mongolia.

2.3 The collateral on overnight repo financing shall be securities included in the list specified in article 1.3 of this regulation.

Three. Main principles of overnight repo financing

3.1 Commercial banks who have fulfilled the following conditions are entitled to use overnight repo financing instrument:

3.1.1 Has fulfilled the reserve requirement imposed by the Bank of Mongolia for the last three months;

3.1.2 Has not committed any errors in the payment and settlement system.

3.2 The Bank of Mongolia shall not issue overnight repo financing to commercial banks which have placed overnight deposit at the Bank of Mongolia.

3.3 The transaction to issue overnight repo financing by the Bank of Mongolia shall be the commercial bank’s last transaction on a particular day and the transaction to return the overnight repo financing shall be the commercial bank’s first transaction on a particular day.

3.4 Purchasing prices and repurchasing prices shall be expressed in togrog.

3.5 The method of “Real calendar days/360” is used when calculating the rate on overnight repo financing or price differential.

Unofficial translation

(In any event of discrepancies between the Mongolian and English version, the Mongolian version shall prevail)

- 3.6 The condition to transfer the ownership of securities to be purchased by the Bank of Mongolia through overnight repurchase agreement shall be fully legally binding.
- 3.7 The Bank of Mongolia shall conclude repurchase agreement with commercial banks that includes the security number, type, piece, annual interest rate, number of days of ownership, date of purchase, date of repurchase and repurchasing price when each repurchase agreement transaction is concluded in accordance to the annex of the “General agreement on selling securities with repurchasing terms” approved by the Governor of the Bank of Mongolia and that is binding between the Bank of Mongolia and commercial banks.
- 3.8 If the following day of the date of purchase specified in the agreement falls on a public holiday or a weekend, the overnight repo financing shall be considered to be continuing in duration and its rates are calculated according to calendar days.
- 3.9 The selling bank has the right to receive coupon payments during the period of overnight repurchase agreement. This provision is only applicable for securities with coupon payments.
- 3.10 The maturity of securities other than Central bank bills (hereinafter referred to as CBBs) and Government bills (hereinafter referred to as GBs) being sold to the Bank of Mongolia on an overnight repurchase agreement shall be at least 3 working days after the date of repurchase.
- 3.11 The Bank of Mongolia reserves the right to decline issuing overnight repo financing to a particular bank due to the monetary policy objectives and guidelines.

Four. Issuance procedure of overnight repo financing

- 4.1 Commercial banks which have satisfied the conditions specified in article 3.1 of this regulation shall send their request for the issuance of overnight repo financing via the Interbank Electronic Trading System (hereinafter referred to as IETS) between 17:00 and 17:10 to International Department of the Bank of Mongolia (hereinafter referred to as ID). If banks are unable to send their request via IETS, the request can be made through fax or official document.
- 4.2 The Bank of Mongolia shall keep information relating to the requests for the issuance of overnight repo financing received from commercial banks secure.
- 4.3 The Bank of Mongolia shall not consider requests received after the period specified in article 4.1 of this regulation.
- 4.4 The commercial banks’ request for the issuance of overnight repo financing shall include the following information:

- 4.4.1 Date of issuance of overnight repo financing;
 - 4.4.2 Name of the commercial bank;
 - 4.4.3 Amount of overnight repo financing to be issued;
 - 4.4.4 Signature of an authorized representative of the commercial bank (when the request is made through fax or official document).
- 4.5 Commercial banks shall not be allowed to withdraw their request for the issuance of overnight repo financing once they enter it into the IETS and approve it.
- 4.6 The Bank of Mongolia shall consider the request that was approved on the IETS to be the official and effective stand of the particular bank. The commercial bank shall be responsible for any operational risks that may arise out of unauthorized access to the IETS and unintended request being made on behalf of the commercial bank.
- 4.7 ID shall review the requests from commercial banks and deliver the decision whether or not to issue overnight repo financing via IETS before 17:15 to Payment and Accounting Department of the Bank of Mongolia (hereinafter referred to as PAD).
- 4.8 ID shall initiate an agreement on overnight repo financing with commercial banks in accordance with the Annex to the General Agreement on Selling Securities with Terms of Repurchase and deliver a copy of the agreement to PAD.
- 4.9 PAD shall transfer the overnight repo financing to the commercial bank's current account as the last transaction of the particular bank on a particular day and perform respective accounting procedures.
- 4.10 PAD shall deduct the amount of overnight repo financing, together with its interest rate from the commercial bank's current account when "Banknet" system opens on the following working day.

Five. Transferring intraday credit into overnight repo financing

- 5.1 An intraday credit shall be transferred into overnight repo financing based on the commercial bank's request to transfer the credit issued based on an intraday repurchase agreement into overnight repo financing.
- 5.2 The amount of credit to be transferred to overnight repo financing as specified in article 5.1 of this regulation shall be equal to the balance of outstanding intraday credit of the particular bank.
- 5.3 The relations arising out of or in connection with the credit transferred from intraday credit to overnight repo financing shall be regulated by all provisions of this regulation.

Six. Accounting of overnight repo financing

- 6.1 The accounting of Central bank overnight repo financing shall be done in accordance with effective “Regulation on accounting procedures of the Bank of Mongolia” approved by the Resolution issued by the Governor of the Bank of Mongolia.
- 6.2 On the day of purchase specified in the agreement, the transaction by the Bank of Mongolia to transfer the purchasing amount to the commercial bank’s account and the transaction by the commercial bank to transfer its holding of securities to the Bank of Mongolia shall be made simultaneously. If the transaction of repurchase agreement is unable to be made simultaneously, it shall be done within the same day the repurchase agreement is initiated.
- 6.3 On the day of repurchase specified in the agreement, the repurchase agreement shall be concluded when the transaction by the commercial bank to transfer the repurchasing amount to the Bank of Mongolia and the transaction by the Bank of Mongolia to return the commercial bank’s holding of securities are made simultaneously. If the transaction of repurchase agreement is unable to be made simultaneously, it shall be done within the same day the repurchase agreement is concluded.
- 6.4 If any party has not fulfilled its duties that are stated in the repurchase agreement, penalty measures shall be taken as specified in the article 5.2 of the General Agreement on Selling Securities with Terms of Repurchase approved by the Governor of the Bank of Mongolia and bound by the Bank of Mongolia and commercial banks.
- 6.5 PAD shall record the balance of overnight repo financing in the daily report on Bank of Mongolia’s outstanding balance of claims and debts.

Seven. Miscellaneous

- 7.1 Any conflict arising out of or in relation to the provisions of this regulation shall be resolved by parties negotiating and reaching a mutually accepted resolution. In the case of not achieving mutually accepted resolution, the conflict shall be resolved by the court of Mongolia.
- 7.2 Any person who has violated the provisions of this regulation shall be penalized according to the respective laws and regulations of Mongolia.