

REGULATION ON CENTRAL BANK REPO AUCTION

One. General Provisions

1.1 The purpose of this regulation is to regulate the relations that may arise out of or in connection with issuing financing to commercial banks through repo auction with the purpose of implementing monetary policy by the Bank of Mongolia in accordance with the article 10.1 and 15 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 repo auction” means an open market operations to issue financing to commercial banks under the condition to repurchase the security holdings of commercial banks at a predetermined price after a specified period.

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 – Repo rate (annual)

d – Duration of repo financing

The method of “real calendar days/360” is used when calculating the price differential.

1.2.5 “Coupon securities” means a security with regular interest rate payments payable in certain period intervals that is negotiable between two parties until the maturity date 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 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 financing issued through repo auction 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. Main principles of financing issued through repo auction

- 2.1 Commercial banks who have fulfilled the following conditions are entitled to participate in the repo auction announced by the Bank of Mongolia:
 - 2.1.1 Has fulfilled the reserve requirement imposed by the Bank of Mongolia for the last three months;
 - 2.1.2 Has not committed any errors in the payment and settlement system.
- 2.2 Purchasing price and repurchasing price shall be expressed in togrog.
- 2.3 The rate on fixed rate repo auction shall be approved by the Resolution issued by the Governor of the Bank of Mongolia.
- 2.4 The lower limit of the rate on variable rate repo auction shall be the Policy rate of the Bank of Mongolia.
- 2.5 The duration of financing issued through repo auction shall be up to 7 days.
- 2.6 The condition to transfer owning rights of the security to be purchased by the Bank of Mongolia through repurchase transaction shall be legally binding.
- 2.7 The Bank of Mongolia and the commercial bank shall document a repurchase agreement that comprises of number, type, quantity being purchased, annual rate, duration, purchasing date, repurchasing date, purchasing price and repurchasing price of the security in accordance to the Appendix of the General Agreement on Selling Securities with Terms of Repurchase when each repurchase transaction occurs.
- 2.8 The selling bank is entitled to receive the coupon payments during the effective period of repo transaction agreement. This clause is only applicable for coupon securities.
- 2.9 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 a repurchase agreement shall be at least 3 working days after the date of repurchase.

Three. Conducting repo auction

Decision to conduct repo auction

3.1 Monetary Policy and Research Department of the Bank of Mongolia (hereinafter referred to as MPRD) shall make the proposal to conduct repo auction based on monetary policy projection and liquidity forecasting of commercial banks.

3.2 The Governor of the Bank of Mongolia shall make the decision on the type of repo auction to be held by validating the repo auction notification based on the proposal by MPRD.

Repo auction notification

3.3 International Department of the Bank of Mongolia (hereinafter referred to as ID) shall deliver the approved repo auction notification at 9:30am to commercial banks via the Interbank Electronic Trading System (hereinafter referred to as IETS). In the event of IETS not functioning, the repo auction notification can be delivered via fax or email.

3.4 The repo auction notification shall be inclusive of the following information:

- 3.4.1 Date of the auction;
- 3.4.2 Time of the auction and submission time of bids;
- 3.4.3 Auction number;
- 3.4.4 Type of the auction;
- 3.4.5 Maturity;
- 3.4.6 Repurchasing date;
- 3.4.7 Amount;
- 3.4.8 Minimum interest rate (expressed in percent, in two decimal points, per annum).

Conducting repo auction

3.5 ID shall conduct the repo auction based on bids submitted by commercial banks.

3.6 Repo auction shall be of the following type:

- 3.6.1 Fixed rate auction without allotted volume;
- 3.6.2 Variable rate auction with allotted volume.

3.7 The Bank of Mongolia shall conduct repo auction on Monday. If a public holiday falls on a Monday, the repo auction shall be conducted on the following working day.

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3.8 The Bank of Mongolia reserves the right to conduct repo auction on days other than Monday with the purpose of reducing unexpected liquidity fluctuations on the interbank market.

Repo auction bids

3.9 Commercial banks shall prepare their auction bids in accordance to the format specified in the annex of this regulation and submit the auction bids to ID via IETS within the specified time on the auction notification. In the event of IETS not functioning, the auction bids can be submitted via fax or official written document.

3.10 The Bank of Mongolia shall preserve the confidentiality of information regarding the auction bids.

3.11 A commercial bank is allowed to submit up to 3 auction bids with different interest rates when participating in variable rate repo auction.

3.12 Once the auction bids are entered into the IETS and validated, commercial banks are not allowed to modify or withdraw the auction bids.

3.13 The Bank of Mongolia reserves the right to reject to accept and/or invalidate any auction bids that do not comply with the requirements specified in this regulation.

3.14 Once the Bank of Mongolia rejected to accept an auction bid as specified in article 3.13 of this regulation, that particular commercial bank is no longer allowed to replace and/or revise their auction bid during the particular auction.

Allotment and result of auction

3.15 The Bank of Mongolia shall accept auction bids that comply with the requirements specified in this regulation and allocate the amount based on the following principle:

3.15.1 If the auction is held in the form as specified in article 3.6.1 of this regulation, the allotment shall be done in line with the bids submitted by banks.

3.15.2 If the auction is held in the form as specified in article 3.6.2 of this regulation, the allotment shall be done in a descending order of interest rates offered by banks, starting with the bank that offered the highest interest rate. If several banks offered the same interest rate and the sum of bank's bids exceeded the amount announced by the Bank of Mongolia for the particular repo auction, the allotment shall be done in accordance to the principle specified in article 3.15.3 of this regulation.

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3.15.3 Ratio based allocation of repo auction shall be calculated according to the following formula.

$$P = B * \frac{V2}{V1}$$

P – Amount to be allocated to a particular bank

V1 – Total amount of all bids submitted by banks

V2 – Total amount of bids offered by a particular bank

B – Amount announced by the Bank of Mongolia for the particular auction

3.16 The transaction shall be done after ID delivering the results of the auction to Payments and Accounting Department of the Bank of Mongolia (hereinafter referred to as PAD) via IETS.

3.17 ID shall conclude repo agreement with the commercial banks whose bids have been successfully accepted in accordance to the annex of “General agreement on selling securities with repurchasing terms” and deliver a copy of the agreement to PAD.

3.18 The Bank of Mongolia shall inform the results of the auction to commercial banks via IETS as soon as the repo auction is closed. A commercial bank shall only be notified the results of its own auction bids. If the auction is held in the form as specified in article 3.6.1 of this regulation, the results of auction shall include total amount of submitted bids and the amount of accepted bids. If the auction is held in the form as specified in article 3.6.2 of this regulation, the results of auction shall include the weighted average, the highest and the lowest interest rates in addition to the above information.

Termination of repo auction

3.19 The Bank of Mongolia reserves the right to solely terminate auction owing to technical problems, conspiracy among the banks participating in the auction and other reasons. The Bank of Mongolia shall respect the market principle and fairness and may not disclose the grounds for termination.

3.20 In the event of repo auction termination, the Bank of Mongolia shall notify the date and time of next auction to commercial banks.

Four. Accounting of financing issued through repo auction

4.1 The accounting of financing issued through Central bank repo auction 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.

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- 4.2 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.
- 4.3 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.
- 4.4 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.
- 4.5 PAD shall record the balance of financing issued through repo auction in the daily report on Bank of Mongolia's outstanding balance of claims and debts.

Five. Miscellaneous

- 5.1 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.
- 5.2 Any person who has violated the provisions of this regulation shall be penalized according to the respective laws and regulations of Mongolia.

APPLICATION FORM FOR CENTRAL BANK REPO AUCTION

Date...

Auction number...

1. Bank title:
2. Title, type and number of pledged asset:
3. Face value of pledged asset:
4. Maturity of pledged asset (days):
5. Trading date of pledged asset on the primary market:
6. Maturity date of pledged asset:
7. Number of days the asset being held by the particular bank:
8. Amount applied for:
9. Interest rate bid (applicable only for variable rate auction):

Submitted by the commercial bank official: (signature)
(stamp)

Received by the Bank of Mongolia official: (signature)

Time of bid submission: