

## REGULATION ON CENTRAL BANK BILLS TRADING

### ONE. General Provision

- 1.1 The purpose of this regulation is to govern operations related to the sale of securities issued by the Bank of Mongolia for the purpose of conducting monetary policy as stated in article 10, section 1 and article 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 bills** (hereafter referred to as CBB) is a central bank's monetary policy instrument for open market operations which is traded at a discount and repaid at the face value after a specified timeframe.
  - 1.2.2 **Maturity term** of the CBB means a period starting from the traded date through the repayment date.
  - 1.2.3 The **CBB rate** means a discounted rate at which the CBBs are traded. It is expressed in basis points.
  - 1.2.4 The **policy rate** is the rate of CBBs with a maturity of seven-days.
  - 1.2.5 **Trading notification** is a document indicating terms and conditions of a CBB sale that is approved by the Governor of the Bank of Mongolia.
  - 1.2.6 The **discount price** means a calculated/purchasing price of discounting the face value at the discount rate, pro rata temporis.
  - 1.2.7 The **face value** means the amount to be paid on the maturity date of the CBBs.
  - 1.2.8 **Fixed rate tender** is a volume tender, where commercial banks submit their proposals indicating the amount to be purchased at the fixed rate announced by the Bank of Mongolia.
  - 1.2.9 **Variable rate tender** means security sales, where the Bank of Mongolia preannounces the allotted volume and commercial banks submit their bids at various interest rates and amounts. The CBBs are allotted first to the bidder that proposed the lowest interest rate.

1.2.10 **Interbank E-trading system** means an electronic system used to process trading at the interbank market between the Bank of Mongolia and commercial banks.

1.3 CBBs shall be issued for up to one (1) year maturity in the form of book entry. The face value of each CBB will be one million (1,000,000) togrog.

1.4 No asset loss provision funds shall be made for CBBs.

1.5 The following banks shall be eligible to participate in the CBBs trading.

1.5.1 A commercial bank that is operating in Mongolia and a signatory to the “General Agreement on E-trading of Central Bank Securities”;

1.5.2 A bank that has fulfilled the reserve requirement set by the Bank of Mongolia for the past 3 months;

1.5.3 No error has been made by the bank in the payment and settlement systems.

1.5.4 The amount of CBBs to be purchased by the bank is equal to subtracting the amount of daily reserve requirement in accordance to the “Regulation on calculating and controlling reserve requirements” from the balance of the bank’s current account in local currency with the Bank of Mongolia and adding back the amount of CBBs returned to the bank. This is represented by the following formula:

$$S_t^{CBB} = (R_t - \alpha \cdot RR_t) + CBB_t$$

whereby:

$S_t^{CBB}$  – amount of CBBs the bank is entitled to purchase

$R_t$  – balance of the bank’s current account in local currency with the Bank of Mongolia

$\alpha$  – rate of daily reserve requirement as stated in the article 5 of “Regulation on calculating and controlling reserve requirements”

$RR_t$  – amount of reserve requirement set for the bank

$CBB_t$  – amount of CBBs returned to the bank.

1.6 CBBs can be sold in the following forms:

1.6.1 Sale/purchase of CBBs to banks through primary market operations;

1.6.2 Secondary market operations by banks where they sell and buy their holdings of CBBs to each other before the maturity date, conclude repurchase agreement and the Bank of Mongolia provides financing to banks by performing repo transactions.

## **TWO. Organizing CBBs primary market operations**

- 2.1 CBBs trading shall be conducted by following the forms of (i) fixed rate volume tender and (ii) variable rate tender. Fixed rate tender can be undertaken with or without preannounced volumes.
- 2.2 Sales of CBBs with a maturity of seven-days or less shall be traded through one of the following forms and the form of trading will be announced in the trading notification of CBBs:
- 2.2.1 Fixed rate tender without preannounced volumes;
  - 2.2.2 Fixed rate tender with preannounced volumes;
  - 2.2.3 Variable rate tender with interest rate bids being submitted within a certain interval;
  - 2.2.4 Variable rate tender with upper limits on interest rate bids and without preannounced volumes.
- 2.3 Sales of CBBs with maturities other than specified in the article 2.2 of this regulation shall be traded through variable rate tender.
- 2.4 With regards to the forms of trading in articles 2.2.1 and 2.2.2 of this regulation, the percentage yield represented by the difference between the face value and the discount price shall be equal to the Policy rate of the Bank of Mongolia. The rate interval used in the article 2.2.3 of this regulation shall be generated symmetrically from the Policy rate or the yield represented by the difference between the face value and the discount price. The policy rate and the rate interval shall be approved by the Governor of the Bank of Mongolia. With regards to the forms of trading in article 2.2.4 of this regulation, the upper limit on the yield represented by the difference between the face value and the discount price shall be equal to the Policy rate.
- 2.5 If the repayment date of CBBs falls on a public holiday, the trading of CBBs shall be conducted on the preceding working day.
- 2.6 In the case where 7-days CBBs are issued with maturities of 5-9 days as specified in article 2.5 of this regulation, the trading shall be conducted following the same procedure as for CBBs with maturities of 7-days.
- 2.7 The Monetary Policy and Research Department (hereinafter referred to as the MPRD) shall present the proposal to limit the maturity of the CBBs, the forms of trade and the amount to be traded to the Governor of Bank of Mongolia based on the monetary policy targets, performance of and outlook for macroeconomic and financial indicators as shown

in Annex 1A and Bank of Mongolia's liquidity forecasting as shown in Annex 1B. Trading notification shall be approved by the Governor of Bank of Mongolia.

**2.8 Fixed rate tender with preannounced full allotment** shall be conducted as follows:

2.8.1 The trading notification to issue CBBs that is approved by the Governor of Bank of Mongolia shall be sent to commercial banks by 9:30 a.m. on the day of trading via the Interbank E-trading system in accordance with Annex 2 of this regulation.

2.8.2 Commercial banks shall submit their bids to purchase CBBs at the rate announced by the Bank of Mongolia from 9:30 a.m. to 11:00 a.m. on the day of trading via the Interbank E-trading system in accordance with Annex 3 of this regulation.

2.8.3 Allocation of CBBs shall be done in line with the bids received from commercial banks.

**2.9 Fixed rate tender with preannounced volume limitation** shall be conducted as follows:

2.9.1 The trading notification to issue CBBs that is approved by the Governor of Bank of Mongolia shall be communicated to commercial banks by 9:30 a.m. on the day of trading via the Interbank E-trading system in accordance with Annex 4 of this regulation.

2.9.2 Commercial banks shall submit their bids to purchase CBBs at the rate announced by the Bank of Mongolia from 9:30 a.m. to 11:00 a.m. on the day of trading via the Interbank E-trading system.

2.9.3 Bids to purchase CBBs from a particular bank shall not exceed the total announced amount of CBBs.

2.9.4 If the total bids from commercial banks do not exceed the announced amount, the allocation of CBBs shall be conducted in line with the bids received. In the case where the total bids exceeds the issuance, the CBBs shall be allocated to commercial banks by the ratio of issuance to total bids.

2.9.5 Allocation based on proportion shall be done according to the following formula:

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

*P – Amount to be allocated to a particular commercial bank*

*V1 – Total bids received from commercial banks*

*V2 – Bid received from a particular commercial bank*

*B – Total announced amount*

**2.10 Variable rate tender** of CBBs shall be conducted as follows:

*Unofficial translation*

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

- 2.10.1 The MPRD of the Bank of Mongolia shall develop and submit a proposal on the terms of CBB issuance, including maturity and volume based on the “Bank of Mongolia’s liquidity forecasting” as shown in Annex 1B to the Governor of Bank of Mongolia one working day prior to the trading date.
- 2.10.2 The department of the Bank of Mongolia in charge of conducting CBBs trading shall communicate the trading notification to issue CBBs that is approved by the Governor of Bank of Mongolia to commercial banks by 9:30 a.m. on the day of trading via the Interbank E-trading system as shown in Annex 5.
- 2.10.3 Commercial banks shall submit their bids on the amount of CBBs to be purchased and on the interest rate from 9:30 a.m. to 11:00 a.m. on the day of trading via the Interbank E-trading system.
- 2.10.4 Commercial banks’ bidding rate shall be rounded to two decimal places.
- 2.10.5 A commercial bank is allowed to submit up to 3 different bids on the CBB interest rate. The sum of these 3 bids shall be the total bids from that particular bank.
- 2.10.6 The Bank of Mongolia shall rank the bids on interest rate received from commercial banks from the lowest to the highest. The allotment shall be made starting with those offered the lowest interest rate and until all the allotted amount have been allocated. In the case where several commercial banks submit identical bids on interest rates and total bids from commercial banks exceed the allotted amount, the allocation shall be made according to the formula specified in article 2.9.5 of this regulation.
- 2.11 Once bids are entered into the Interbank E-trading system and validated, commercial banks shall not be able to modify or withdraw their bids.
- 2.12 If the interest rate bids submitted by commercial banks during variable rate tender are suspected to be unfair or flawed, the Bank of Mongolia has the right to cancel the particular CBBs trade.
- 2.13 In the case where the trading of CBBs fails to be conducted at 11:00 a.m. due to *force majeure* conditions or a failure in electronic trading system, the Bank of Mongolia is able to prolong the trading period. Such notice should be disseminated to commercial banks via Interbank E-trading system or by phone call.
- 2.14 The transaction shall take place after the department of the Bank of Mongolia in charge of conducting CBBs trading reports the result of the trading by 12:00 p.m. on the day of trading to the Payments and Accounting department (hereinafter referred to as the PAD) as specified in Annex 7 of this regulation.
- 2.15 The discounted price of CBB shall be expressed in togrogs.

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2.16 The yield of CBB shall be calculated by the following formula:

$$i = \frac{F - P}{P} * \frac{360}{t}$$

The discount price based on the yield of CBB shall be calculated by the following formula:

$$P = \frac{F}{\left[1 + i * \left(\frac{t}{360}\right)\right]}$$

i = Үнэт цаасны төлөгдөх өдөр хүртэлх t хугацааны өгөөжийн хувь, жилээр

t = Үнэт цаасыг арилжаалсан өдрөөс төлөгдөх өдөр хүртэлх хугацаа

F = Face value of CBB

P = Discount price based on the yield of CBB

2.17 The accounting of CBBs trading shall be done in accordance with the effective “Regulation on accounting procedures of the Bank of Mongolia” approved by the Resolution issued by the Governor of the Bank of Mongolia.

### **THREE. Secondary market operations of CBBs**

3.1 Commercial banks are allowed to sell and purchase or to conclude repurchase agreements to sell and purchase unmatured CBBs among each other. “General agreement on selling securities with repurchasing terms” shall regulate any relations arising from repurchase agreements concluded among commercial banks.

3.2 The secondary market trading of CBBs shall be conducted via IETS. The Bank of Mongolia shall participate with the role to intermediate trading between commercial banks. The Bank of Mongolia shall not charge any intermediation fee.

3.3 The Bank of Mongolia shall pay the face value of CBBs to their last holder on the day of maturity.

3.4 The Bank of Mongolia shall not bear any material liability that could arise from selling and pledging transactions of CBBs between commercial banks.

3.5 The Bank of Mongolia shall be able to issue repo financing of CBBs. The relations arising out of repo financing of CBBs shall be governed by the effective “Regulation on Central bank overnight repo financing”, “Regulation on Central bank repo auction” and “General agreement on selling securities with repurchasing terms” approved by the Resolution of the Bank of Mongolia.

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Annex 1A to the Regulation on CBBs Trading

Approved. GOVERNOR  
dd/mm/yyyy

.....

**PROPOSAL ON TRADING OF CBBs**

1	Upper limit on CBB rates	xx percent
2	Lower limit on CBB rates	xx percent
3	Upper limit on the amount of CBB to be issued (pieces)	xxx
4	Lower limit on the amount of CBB to be issued (ширхэгээр)	xxx
5	Maturity	xx days

.....,

Director of .....department

.....

**MACRO-ECONOMIC AND FINANCIAL INDICATORS /additional information/**

	Name of indicators	Value	
		Ulaanbaatar	National
1	Inflation: xx month Monthly change Change from the beginning of year Annual change		
2	Exchange rate <b>movement</b> : xx month Monthly change Change from the beginning of year Annual change		
3	<b>Change</b> in monetary aggregates: Money supply (M2): xx month Monthly change Change from the beginning of year Annual change Money (M1): Monthly change Change from the beginning of year Annual change		
4	Economic growth: xxxx year performance		
5	Interbank market rate: xx month Monthly change Annual change		
6	Bank's deposit rate: xx month Monthly change Annual change		
7	Bank's lending rate: xx month Monthly change Annual change		

Annex 1B to the Regulation on CBBs Trading

			Average
			yyyy.mm.dd-mm.dd
<b>1</b>	<b>Supply by non-central bank organisations</b>	<b>(a+b+c+c*)</b>	<b>xxx</b>
<b>a</b>	<b>Changes in currency in circulation</b>		xxx
<b>b</b>	<b>Changes in net foreign assets</b>		xxx
	<i>Selling of US dollar (-)</i>		xxx
	<i>Purchasing of US dollar (+)</i>		xxx
	<i>Forward transaction of togrog (-)</i>		xxx
	<i>Forward transaction of US dollar (+)</i>		xxx
<b>c</b>	<b>Changes in net government credit</b>		xxx
	<i>Revenue (-)</i>		xxx
	<i>Expenses (+)</i>		xxx
	<i>Government bonds/Maturing bonds (+)</i>		xxx
	<i>Government bonds/Bonds to be newly issued (-)</i>		xxx
<b>c*</b>	<b>Changes in capital of other financial organisations</b>		xxx
	<i>Revenue (-)</i>		xxx
	<i>Expenses (+)</i>		xxx
<b>2</b>	<b>Expected available reserves of local currency /opening balance/</b>		xxx
<b>3</b>	<b>Demand for local currency reserves</b>	<b>(d+e)</b>	xxx
<b>d</b>	<b>Demand for Reserve requirement</b>		xxx
<b>e</b>	<b>Demand for Excess reserves</b>		xxx
<b>4</b>	<b>Local currency reserves in excess of its demand /Central bank will supply reserves (-), Central bank will demand reserves (+)/</b>	<b>(2-3)</b>	xxx
<b>5</b>	<b>Supply of reserves by the Central bank (+), Demand of reserves by the Central bank (-)</b>	<b>(f+g+h+i+ +j+k+l)</b>	xxx
<b>f</b>	<b>Overnight repo financing</b>		xxx
	<i>return (-)</i>		xxx
	<i>issue (+)</i>		xxx
<b>g</b>	<b>Overnight deposit</b>		xxx
	<i>return (+)</i>		xxx
	<i>issue (-)</i>		xxx
<b>h</b>	<b>Financing issued through repo auction</b>		xxx
	<i>return (-)</i>		xxx
	<i>issue (+)</i>		xxx
<b>i</b>	<b>US dollar swap</b>		xxx
	<i>return (-)</i>		xxx
	<i>issue (+)</i>		xxx
<b>j</b>	<b>Local currency swap</b>		xxx
	<i>return (+)</i>		xxx
	<i>issue (-)</i>		xxx
<b>k</b>	<b>Collateralised credit</b>		xxx
	<i>return (-)</i>		xxx
	<i>issue (+)</i>		xxx
<b>l</b>	<b>Other financing</b>		xxx
	<i>return (-)</i>		xxx
	<i>issue (+)</i>		xxx
<b>6</b>	<b>Changes in CBBs /(+) for increase in CBBs, (-) for decrease in CBBs/</b>	<b>(m+n)</b>	xxx
<b>m</b>	<b>Changes in CBBs with maturity of seven-days</b>		xxx



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	<i>Newly issued (*)</i>		xxx
	<i>Return</i>		xxx
<b>n</b>	<b>Changes in CBBs with maturity of 4 weeks</b>		xxx
	<i>Newly issued (*)</i>		xxx
	<i>Return</i>		xxx
<b>7</b>	<b>Net financing by the Central bank</b>	<b>(5-6)</b>	xxx
<b>8</b>	<b>Expected available reserves of local currency /final balance/</b>	<b>(2+7)</b>	xxx
<b>9</b>	<b>Final position</b>	<b>(4+7)</b>	Xxx

**TRADING NOTIFICATION TO ISSUE CENTRAL BANK BILLS**

Date...

Trading number...

It is hereby to notify that fixed rate tender of Central bank bills without preannounced volumes shall be conducted on ...

Duration: ... days

Date of transaction: ...

Maturity date: ...

Discount rate: ... percent

Face value: ... togrog

**APPLICATION FORM TO PARTICIPATE IN THE TRADING  
OF CENTRAL BANK BILLS**

Bank title: .....

Trading number: ...

Duration: ... days

Date of transaction: ...

Date of maturity: ...

Amount of securities to be purchased: ... piece

Face value of securities to be purchased: ... togrog

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

Received by the Bank of Mongolia official: ..... (signature)

Submission time:

Annex 4 to the Regulation on CBBs Trading

**NOTIFICATION**

Date...

Trading number ...

It is hereby to notify that fixed rate tender of Central bank bills with preannounced volumes shall be conducted on ...

Amount of securities to be traded: ... togrog

Duration: ... days

Date of transaction: ...

Date of maturity: ...

Discount rate: ... percent

Face value: ... togrog

**NOTIFICATION**

Date: .../.../...

Trading number ...

It is hereby to notify that variable rate tender of Central bank bills shall be conducted on ... following the principle of variable rate tender.

Amount of securities to be traded: ... togrog

Duration: ... days

Date of transaction: ...

Date of maturity: ...

Face value: ... togrog

**APPLICATION FORM TO PARTICIPATE IN THE TRADING OF  
CENTRAL BANK BILLS**

Bank title: .....

Trading No.: ...

Term: ... days

Value date: .../.../...

Maturity date: .../.../...

	Discount rate	Quantity	Discounted value	Face value
1				
2				
Total				

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

Received by the Bank of Mongolia official: ..... (signature)

Submission time:

**TRANSACTION ORDER**

TO: PAYMENT AND ACCOUNTING DEPARTMENT

TRANSACTION DETAILS: Transaction of trading No. ... of ...-weekly CBBs with the face value of 1 000 000 (one million) togrog each shall be conducted based on the following conditions. These are:

	Name of the bank	Discount rate (%)	Face value of a single CBB	Discount price of a single CBB	Quantity	Selling price (₮)	Discount	Repurchasing price (₮)
1								
2								
...								
	Total							

Value date: ...

Maturity date: ...