

## **FOREIGN EXCHANGE SPOT TRADING REGULATION OF THE BANK OF MONGOLIA**

### **ONE. GENERAL PROVISIONS**

1.1. The purpose of this regulation is to define the guiding principles of the Central Bank of Mongolia (the Bank of Mongolia)'s intervention in the domestic foreign exchange market in order to ensure the stability and efficiency of domestic foreign exchange market, to mitigate the foreign exchange rate fluctuations caused by short term the supply-demand gap, to define rights and monitor duties of the participants.

### **TWO. BASIC PRINCIPLES**

2.1. The intervention amount, exchange rate and methods of intervention of the Bank of Mongolia shall be decided by meeting of the "Foreign Exchange Trading Operational Council" and the Department in charge of money market operations shall organize foreign exchange trading.

2.2. The members of the Foreign Exchange Trading Operational Council shall be approved by the order of the Governor of the Bank of Mongolia.

### **THREE. INTERVENTION METHODS**

3.1 The Bank of Mongolia shall organize foreign exchange spot trading in the following ways.

3.1.1 Auction;

3.1.2 Intervention through Foreign currency online trading system (FCOTS);

3.1.3 Direct dealing.

3.2 Department in charge of money market operations may conduct foreign exchange trading with government organizations, international organizations that has accounts within the Bank of Mongolia and other organizations in accordance with third appendix of this regulation within the framework of relevant laws and regulations.

### **FOUR. AUCTION**

4.1 The scheduled auction day, currency pairs, total number of bids to be submitted to the auction and the maximum and minimum amount of each bid shall be approved by the order of the Governor of the Bank of Mongolia.

4.2 If the scheduled auction day falls on a public holiday, the auction shall be held on the previous business day.

- 4.3 If it is required, the Bank of Mongolia reserves the right to cancel auctioning and hold the auctioning on another day apart from the provision 4.1 of this regulation. In such case, the commercial banks will be notified via electronically or telephone promptly.
- 4.4 Eligible participants of the auction are domestic commercial banks operating in Mongolian territory under a license from the Bank of Mongolia except the Development bank of Mongolia.
- 4.5 The Auction shall be conducted either in a format of “A multiple price auction” or “A single price auction”.
- 4.6 “A multiple price auction” is an auction where the successfully fulfilled bids by the banks are executed based on the proposed currency rates; “A single price auction” is an auction where the successfully fulfilled bids by the banks are executed based on the cut off currency rate.
- 4.7 “Cut-off rate” is the maximum fulfilled rate that the bank offers to sell the currency and the minimum fulfilled rate the bank offers to buy currency on a specific auction.
- 4.8 The Bank of Mongolia shall decline the bid in the following cases:
- 4.8.1 Every bids of the bank that failed to submit the foreign exchange prudential ratio report with the explanation of the major changes to the Bank of Mongolia before 10:00 on the auction day;
  - 4.8.2 The Bank’s bid rate is considered to be too varied from market rate; conspired or unfair;
  - 4.8.3 The Bank’s bid is considered to create unrealistic demand in the foreign exchange market;
  - 4.8.4 The Bank’s foreign exchange prudential ratio could be violated in case of bids are fulfilled;
  - 4.8.5 The Bank of Mongolia may cancel the bid if the bank didn’t fulfil all of the customer’s order.
- 4.9 The auction bidding shall start at 09:30AM and finish at 10:00AM, and could be re-scheduled according to the provision 4.3 of this regulation.
- 4.10 Fulfilled buy bids shall be identified as follows:
- 4.10.1 All confirmed bids shall be ordered from the highest exchange rate to the lowest.
  - 4.10.2 Confirmed bids shall be fulfilled from the highest exchange rate until the amount of foreign exchange is sold. If the total amount of fulfilled bids exceed the foreign exchange amount available for sale on a given day, each bid fulfilled at the lowest exchange rate shall be proportionate to the total number of bids at the same exchange rate.
- 4.11 Fulfilled sell bids shall be identified as follows:
- 4.11.1 All confirmed bids shall be ordered from the lowest exchange rate to the highest.
  - 4.11.2 Confirmed bids shall be fulfilled from the lowest exchange rate until the foreign exchange amount is sold. If the total amount of fulfilled bids exceed the foreign exchange buy amount on a given day, each bid fulfilled at the highest exchange rate shall be proportionate to the total number of bids.
- 4.12 In case of the auctioning cannot be carried at 09:30AM on the scheduled date due to unforeseen circumstances and/or error with the online trading system the following procedure shall be carried:
- 4.12.1 The Bank of Mongolia shall extend the duration of auctioning. Before proceeding, the Bank of Mongolia shall inform the banks via electronically or phone.

4.12.2 In case the problem with the online trading system cannot be resolved the commercial banks' buy/sell bids shall be delivered in a sealed hard copy in accordance with first appendix of this regulation. The economist of the Department in charge of money market shall check if the bids are sealed and document the submission of bids with a commercial bank staff in accordance with second appendix of this regulation.

4.13 In case of the situation specified in the provision 4.12 of this regulation, the senior economist and economist of the Money Market Department shall consolidate the banks' bid at 10:00 or at the end of the extended duration.

4.14 The auction results may be published on the website of the Bank of Mongolia within the auction day.

## **FIVE. INTERVENTION THROUGH FOREIGN CURRENCY ONLINE TRADING SYSTEM**

5.1 The Bank of Mongolia shall intervene in the FCOTS to mitigate the short term sharp exchange rate volatility caused by the short-term supply and demand gap on foreign exchange and to increase foreign reserves in the following ways:

- 5.1.1. Through primary dealer;
- 5.1.2. Fulfill pending order on FCOTS;
- 5.1.3. Insert order to FCOTS.

5.2 In case of The Bank of Mongolia's intervention specified in the provision 5.1.1, 5.1.2 of this regulation, following factors should be considered:

- 5.2.1. Domestic foreign exchange market condition;
- 5.2.2. Short term demand-supply gap on foreign exchange market;
- 5.2.3. The Bank's performance on customer's order and foreign exchange trade amount;
- 5.2.4. The Bank's customer's order is creating unrealistic demand in the foreign exchange market;
- 5.2.5. The Bank's open position and the explanation on its major changes.

5.3 Guidelines and activities of the Bank of Mongolia's intervention specified in the provision 5.1.1 shall be regulated by relevant agreement.

5.4 In case of the Bank of Mongolia trades with the bank through the FCOTS, the trading limit of the bank shall not be taken into account.

5.5 Information on the Bank of Mongolia's intervention in the FCOTS may be published to public.

## **SIX. DIRECT DEALING**

6.1. The Bank of Mongolia can intervene in foreign exchange market through direct dealing in the following cases:

- 6.1.1. Extreme volatility on MNT rate per business day;
- 6.1.2. Lack of liquidity shortage in the foreign exchange market, large supply of foreign currency or inability to transfer large amount of payments;
- 6.1.3. Others deemed necessary by the Bank of Mongolia.

6.2. Intervention specified in the provision 6.1 shall be conducted through primary dealer.

6.3. Guidelines and activities of the Bank of Mongolia's direct dealing intervention shall be regulated by relevant agreement.

6.4. Information on the result of the Bank of Mongolia's direct dealing intervention may be published to public with permission of the Governor of the Bank of Mongolia.

## **SEVEN. SETTLEMENT**

7.1 The Department in charge of accounting shall execute the payment of the intervention specified in the provision 3.1 of this regulation on the settlement day approved by the resolution of the Governor of the Bank of Mongolia.

7.2 In case of insufficient funds on the following bank's current account at the Bank of Mongolia when executing the payment of intervention specified in the provision 3.1 of this regulation, the transaction shall be considered as delayed.

7.3 In case of bank failed to execute the delayed transaction before the 16:30 of the settlement day, Department in charge of accounting shall cancel the transaction and the deal shall be considered as cancelled.

7.4 The transaction of intervention specified in the provision 3.1 of this regulation and transaction considered as cancelled in accordance to the provision 7.3 of this regulation shall be generated automatically in the accounting system of the Bank of Mongolia.

## **EIGHT. PRINCIPLES OF INTERVENTION**

8.1 The Bank of Mongolia shall determine the type, exchange rate, additional terms, frequency, settlement terms and the amount to buy or sell in a specific intervention.

8.2 The Bank of Mongolia reserves the right to request additional relevant information and explanations from the banks participating in the trading and shall maintain the confidentiality.

8.3 The trading shall be based on the principle of equality and relationship between participants shall be regulated by relevant agreements.

8.4 The Bank of Mongolia shall trade with the banks that accepted the following rights and obligations and notified it to the Bank of Mongolia:

8.4.1 The bank does not have the right to return, reject or change the bid once the bid has been confirmed.

8.4.2 Bids submitted in hard copy in accordance to the provision 4.12.2 of this regulation shall be authorized by the signature of the certified official of the bank.

8.4.3 The bank shall maintain sufficient funds in the current account at the Bank of Mongolia at the execution of settlement.

8.4.4 The bank shall keep the username and password access to enter or trade in the FCOTS confidential.

8.4.5 In case of the bank submitted the buy bids according to customer's order, bank shall report the performance of customer's order by e-mail in two business days after the settlement of transaction.

8.4.6 The bank shall report the pending foreign exchange demand via electronic form and/or to [domex@mongolbank.mn](mailto:domex@mongolbank.mn) regularly.

8.4.7 In case of the bank fails to fulfill its payment obligations, it shall be allowed to withdraw from the bank's current account in an undisputed manner.

8.4.8 The Bank of Mongolia's supervision on trading terms and obligations of banks must be conducted without hindrance.

## **NINE. RESPONSIBILITIES**

9.1 In case of violation of any provisions of this regulation, the Bank of Mongolia shall take measures to reject the bid, to not to accept the bid of the bank and to disqualify from the FCOTS.

9.2 An employee who violates this regulation shall be imposed penalty in accordance with the law and the internal labor regulations of the Bank of Mongolia.

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**FOREX AUCTION BIDDING SHEET**

For the auction held on ...

Commercial bank name:

The total buying amount:

The total selling amount:

1. Buying bid:

Bid №	Amount of USD/CNY to buy	Buy rate
1		
2		
3		
4		
5		
Total		

2. Selling bid:

Bid №	Amount of USD/CNY to sell	Buy rate
1		
2		
3		
4		
5		
Total		

AUTHORIZED SIGNATURE:

STAMP:

E-MAIL:

Second appendix to the Foreign exchange spot trading  
Regulation of the Bank of Mongolia

**CONFIRMATION OF BID SUBMISSION**

For the auction held on ...

№	Bank name	Submitted		Received	
		Full name and position of the bank staff	Bank staff's signature	BOM staff's signature	Time of submission
1					
2					
3					
4					
5					
6					
...					
...					

Third appendix to the Foreign exchange spot trading  
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**FOREIGN EXCHANGE TRADING PAYMENT GUARANTEE**

Organization name:			
Trading date:			
Currency to buy/sell:			
Currency amount /in numbers and letters/			
Type of transaction:			
Currency receiving account:			
MNT amount /in numbers and letters/			
MNT receiving account:	Bank name	Account number	MNT amount
Rate:			
Settlement date:			
On behalf of organization /Stamp/ /Position/			
Signature of the Director of the Department in charge of money market operations of the Bank of Mongolia			