



NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Pursuant to Article 47 paragraph 1 item 6, and in conjunction with Article 19 paragraph 1 item 1 of the Law on the National Bank of the Republic of Macedonia (Official Gazette of the Republic of Macedonia" no. 158/2010), the National Bank of the Republic of Macedonia Council adopted the following

DECISION

on purchase and sale of securities on temporal and outright basis by the National Bank of the Republic of Macedonia

I. General provisions

1. This Decision shall set forth the terms and the manner for purchase and sale of securities on temporal and outright basis.

2. The National Bank of the Republic of Macedonia (hereinafter referred to as: the National Bank) shall purchase and sell securities on temporal and outright basis for injecting or for withdrawing liquidity from the banking system.

The securities under paragraph 1 of this item shall be determined by the National Bank.

3. The National Bank shall conduct purchase and sale securities transactions with banks and foreign bank branch offices (hereinafter referred to as: banks).

II. Purchase and sale of securities on temporal basis

4. The National Bank shall purchase, i.e. sell securities on temporal basis through conclusion of repo transactions in accordance with the general repo agreement.

5. The National Bank shall perform the repo transactions under item 4 of this Decision through conclusion of bilateral transactions with individual banks, or through organizing an auction.

6. When conducting the auction, the Governor of the National Bank shall determine the type of tender: volume tender or interest rate tender.

7. In case of volume tender, the interest rate of the auction shall be determined by the National Bank, and the banks bid only in amounts.

The National Bank can set limited or unlimited amount of the auction.

8. In case of interest rate tender, the National Bank shall determine the amount of the auction, and the banks bid in amounts and interest rates. The determined amount shall be distributed by interest rate from the banks' bids (American type of auction).

The National Bank may determine a minimum interest rate in the conduct of auction for injecting liquidity, or maximum interest rate in the conduct of auction for withdrawing liquidity.

a) Publishing auction prospectus

9. The National Bank shall submit a prospectus to all banks, specifying the terms for participating in the auction, on the auction day, at least two hours prior to the commencement of receiving the bids, through the *National Bank's Electronic system for market operations* (hereinafter: Electronic System).

10. The prospectus shall contain:

- auction date;
- time of auction and time of receiving bids for participation in the auction;
- mark of the auction in the following format ROYYYY/NNN-DDD, i.e. RPYYYY/NNN-DDD where:
 - the abbreviation RO implies that they are repo transactions for injecting liquidity, and RP implies that they are repo transactions for withdrawing liquidity;
 - the numbers YYYY denote the year of the auction;
 - NNN is the ordinal number of the auction conducted in the current year; and
 - DDD denotes the number of maturity days of the repo transaction;
- type of tender;
- securities purchase date;
- maturity days of repo transactions;
- securities repurchase date;
- amount (denominated in denars);
- repo interest rate given in accuracy of 2 decimals, in the case of volume tender;
- minimum interest rate in liquidity injection, i.e. maximum interest rate in liquidity withdrawal in accuracy of 2 decimals, in the case of interest rate tender;
- ISIN, i.e. securities auction number in the case of conducting repo transactions for withdrawing liquidity.

The prospectus may also contain other elements, as defined by the *General Repo Agreement*

b) Bids for auctions

11. The banks shall participate in auctions by submitting bids to the National Bank within the period envisaged for receiving bids.

The bids for participation in the auction shall be submitted through the Electronic System, by using the own username and password.

Within the period for receiving bids, the National Bank shall have no inspection in the data that the participants state in the bids.

The National Bank shall be required to provide confidentiality of the terms offered by the participants in the auctions.

12. In the case of volume tender for withdrawing liquidity, the bid shall contain only amount. In the case of volume tender for injecting liquidity, apart from the amount, the bid shall also contain:

- ISIN, i.e. the securities auction number used as collateral;
- Nominal amount of securities used as collateral.

In the case of interest rate tender for withdrawing or injecting liquidity, apart from the elements referred to in paragraph 1 of this item, the bid shall also contain the repo interest rate with an accuracy of 2 decimals. In this case, each participant may submit several bids for participation in the auction, including different interest rates.

Besides the elements referred to in paragraphs 1 and 2 of this item, the bids shall also contain:

- account in the Macedonian Interbank Payment System (hereinafter: MIPS);
- securities account in the Central Securities Depository a.d. Skopje, provided that securities registered with this institution are used

13. The minimum amount for participation in the auction shall equal Denar 10,000,000. Each increase above the minimum amount shall be made by adding rounded amounts of Denar 1,000,000.

14. The National Bank shall accept as collateral, securities with maturity date which is at least two working days longer than the repurchase date and which do not have a payment of coupon interest in the period to the due date of the repo transactions.

15. The submitted bids shall be irrevocable after the expiration of the deadline for receiving the bids.

16. The bids that fail to meet the terms specified in this Decision shall be rejected.

c) Principles of bid allotment and auction results

17. After the expiration of the time for receiving the bids, depending on the type of tender, the National Bank shall allot the bids according to the following principles:

- In the case of volume tender, when the total demand exceeds the supply, the bids shall be allotted proportionately to the bid amount (principle of proportional allotment). If the National Bank offers unlimited amount, the banks' bids shall be fully allotted.
- In the case of interest rate tender, the bids shall be allotted by the principle of priority of the bid interest rate, starting from the lowest interest rate in the tender for withdrawing liquidity, i.e. the highest interest rate in the tender for

injecting liquidity. If several participants bid with same interest rate, and the total demand exceeds the supply, the bids shall be allotted proportionately to the bid amount (principle of proportional allotment).

The bids shall be allotted under the principle of proportional allotment using the following formula:

$$P = A \cdot (V2 / V1)$$

where:

P = accepted part of the bid of the participant whose bid interest rate equals the lowest (highest) accepted interest rate;

A = bid amount at the lowest (highest) accepted interest rate of the participant;

$V1$ = total bid amount of all bids at the lowest (highest) accepted interest rate;

$V2$ = total amount accepted by the National Bank from all bids at the lowest (highest) accepted interest rate.

If while applying the principal of proportional allotment, as a result of the mathematical rounding of the allotted amounts, a need for increasing the amount occurs, the National Bank shall have the right to increase the realized amount relative to the offered one.

The National Bank shall retain the right to reject the bids with terms that deviates from the market developments.

18. The auction results shall contain successful and/or unsuccessful bids.

The successful bids shall be realized according to the offered terms and in line with the auction results.

All unsuccessful bids shall remain without any consequence.

19. The National Bank shall notify the banks on the published auction results electronically.

Each participant shall have an access to the own auction result thorough the Electronic System.

20. All banks shall have an access to the total results of each auction, through the Electronic System.

In the case of volume tender, the total auction results shall contain data on the total demand and the total realized amount.

In the case of interest rate tender, besides the data referred to in paragraph 1 of this item, the total auction results shall contain data on the weighted (average) interest rate on the auction, the minimum and the maximum interest rate of the successful bids.

The weighted (average) interest rate shall be calculated by the following formula:

$$\text{Weighted interest rate} = \frac{\sum_{i=1}^n KS_i \cdot P_i}{\sum_{i=1}^n P_i}$$

where:

KS = interest rate of successful bid;

P = amount of the successful bid;

N = number of successful bids.

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d) Disruption of the auction process

21. The repo transaction auction process may be terminated in the event of:

- power supply interruption;
- failure of the communication equipment and servers;
- vis major.

In the event of any of the above risks, the auction shall be canceled. The National Bank shall additionally notify the banks on the date and the time of the following auction.

22. In case of technical problems when using the Electronic System, the National Bank shall notify the banks on the prospectus and the results of the auction by phone, fax, or by using other notification manner. The banks shall submit the bids to the National Bank by fax or other manner of written notification.

III. Purchase and sale of securities on outright basis

23. The National Bank shall purchase i.e. sale securities on outright basis by conclusion of bilateral transactions with individual banks.

24. The terms for purchasing and selling securities on outright basis shall be regulated by concluding an agreement between the National Bank and the bank.

IV. Settlement of transactions for purchase and sale of securities on temporal and outright basis

25. The settlement of transactions for purchase and sale of securities on temporal and outright basis shall be conducted as specified by the *Rules for the manner and procedure for trade in and settlement of securities transactions on over the counter markets, Standard for the purpose and the format of messages in the Matching System, Standard for the purpose and the format of messages in the MIPS and Instructions on settlement of transactions with issued CB bills.*

26. If the bank that concluded purchase or sale of securities transaction on temporary or outright basis fails to transfer an adequate amount of securities on the settlement date, the transaction shall be considered invalid and the bank shall pay to the National Bank a penalty interest on the agreed amount in the transaction, within one working day.

The bank shall pay the penalty interest as defined in paragraph 1 of this item, on the first working day after the date of occurrence of the liability.

27. If on the repurchase date, the bank, the bank fails to return the funds with the repo transactions for injecting liquidity, i.e. the securities with the repo

transactions for withdrawing liquidity, the National Bank shall collect the claims by full foreclosure of the collateral instrument (funds or securities).

V. Closing Provisions

28. By entering into force of this Decision, the Decision on outright and repo transactions ("Official Gazette of the Republic of Macedonia" no. 70/2006) shall become void.

29. This Decision shall enter into force eighth days after the date of its publishing in the "Official Gazette of the Republic of Macedonia".

D. no.02-15/VI-1/2011
09.06.2011
Skopje

Governor
and Chairperson
of the National Bank
of the Republic of Macedonia Council
Dimitar Bogov