



Board of the National Bank of Ukraine

RESOLUTION

31 January 2019

Kyiv

No. 26

On Approval of the Regulation on Conducting Foreign Exchange Interventions of the National Bank of Ukraine in the Foreign Exchange Market of Ukraine

In accordance with Articles 6, 7, 15, 28, 44, 45, 46, 48, and 56 of the Law of Ukraine *On the National Bank of Ukraine* and in order to establish the procedure and conditions for conducting foreign exchange interventions of the National Bank of Ukraine in the foreign exchange market of Ukraine, the Board of the National Bank of Ukraine hereby **resolves**:

1. To approve the *Regulation on Conducting Foreign Exchange Interventions of the National Bank of Ukraine in the Foreign Exchange Market of Ukraine* attached hereto.
2. Following the official publication, the Open Market Operations Department (Serhii Ponomarenko) shall communicate to the banks of Ukraine the information on the approval of the Resolution.
3. This Resolution shall come into force on the same day that the Law of Ukraine *On Currency and Currency Operations* goes into effect.

Kateryna Rozhkova
Acting Governor

APPROVED
NBU Board Resolution

No. 26 dated 31 January 2019

Regulation on Conducting Foreign Exchange Interventions of the National Bank of
Ukraine in the Foreign Exchange Market of Ukraine

1. This Regulation establishes the procedure and conditions for conducting foreign exchange interventions (hereinafter - FX interventions) of the National Bank of Ukraine (hereinafter – the NBU) in the foreign exchange market (hereinafter - FX market) of Ukraine.

2. For the purposes hereof, the terms shall have the following meanings:

1) foreign exchange interventions – purchase, sale or exchange by the NBU of foreign currency in the FX market of Ukraine in order to influence the exchange rate of hryvnia against foreign currencies and the overall demand and supply of money in Ukraine

2) currency transaction on SPOT terms – currency transaction under a contract, the terms and conditions of which provide for the execution of such transaction on the second business day after the day of the conclusion of the contract

3) currency transaction on TOD terms – currency transaction under a contract, the terms and conditions of which provide for the execution of such transaction on the date the contract is concluded

4) currency transaction on TOM terms – currency transaction under a contract, the terms and conditions of which provide for the execution of such transaction on the first business day after the day of the conclusion of the contract

5) bid – application for the purchase, sale or exchange of foreign currencies, containing material contractual terms and submitted by a bank to the NBU using the System for Confirmation of Deals in Ukraine’s Foreign Exchange Market (hereinafter – the Deal Confirmation System) and/or via TIS platforms

6) haircut – determined by the NBU value of the exchange rate adjustment of the first part of FX intervention for the purchase, sale, or exchange of foreign currency on SWAP terms with the aim of minimizing NBU’s losses in case foreign exchange and credit risks materialize. A haircut amount (separately by certain characteristics) shall be approved by an NBU regulation

7) competitive bid for participation in a foreign exchange auction (competitive bid) – a bank’s application specifying the volume of purchase (sale) of foreign currency at a foreign exchange auction (hereinafter – FX auction) and the exchange rate of the hryvnia against foreign currencies

8) cut-off rate – exchange rate of the hryvnia against foreign currencies, established by the NBU as a limit value for accepting banks’ bids at the FX auction

9) noncompetitive bid for participation in an FX auction (noncompetitive bid) – a bank’s application specifying the volume of purchase (sale) of foreign currency at an FX auction where the exchange rate of the hryvnia against foreign currencies is not indicated

10) netting – offset of the NBU’s and a bank’s counterclaims, arising in the course of the FX interventions on a specified value date in the same currency. Settlements for netting shall be made on pre-paid terms by the bank

11) weighted average exchange rate of an FX auction – the exchange rate of the hryvnia against foreign currencies, calculated by the NBU as the weighted average rate for all competitive bids accepted during the auction

12) trading information systems – trading information systems (hereinafter – TIS), functionality of which allows contracting contracts to buy, sell, or exchange foreign currency.

Other terms used in this Regulation shall have the meanings as defined by the Law of Ukraine *On Currency and Currency Operations* and other laws of Ukraine, and NBU regulations.

3. The NBU shall conduct FX interventions on TOD, TOM, SPOT, and SWAP terms.

4. The NBU shall conduct FX interventions for the purchase and sale of foreign currency in the form of:

- 1) a single-rate intervention
- 2) an FX auction
- 3) the best exchange-rate intervention
- 4) a targeted intervention.

5. The NBU shall conduct FX interventions for the exchange of foreign currency on SWAP terms in the form of a single-rate intervention.

6. The NBU shall conduct FX interventions using TIS platforms or the Deal Confirmation System.

7. The NBU shall conduct a single-rate intervention through:

1) collecting the banks' bids for the purchase/sale/exchange of foreign currency at a fixed single rate followed by their proportional approval within the established total amount of the FX intervention; or

2) quoting an FX bid/ask in the TIS at a single rate and executing contracts with banks according to first-in-first-out acceptance of the bid until the FX intervention amount runs out. If TIS platforms, used to conduct a single rate intervention by quoting an FX bid/ask, provide for the possibility of automatic acceptance of the available quotations at the exchange rate, which is better than the exchange rate offered by the NBU for FX interventions, such contracts shall be concluded at the rate of acceptance. A better exchange rate for the interventions on foreign currency sale shall be deemed the rate offering a larger amount of hryvnias for the FX unit. A better exchange rate for the interventions on FX purchase shall be deemed the rate offering the FX unit for a lower amount of hryvnias.

If the NBU decides to conduct a single rate intervention by collecting the banks' bids for the purchase/sale/exchange of foreign currency, it shall notify the banks of the exchange rate at which such FX intervention will be conducted, as well as of its other terms on the date of its conduct.

Any bank having access to the TIS and/or the Deal Confirmation System may participate in a single rate intervention.

8. In order to conduct an FX auction (hereinafter – the auction), the NBU shall:

1) notify the banks of the auction by placing the relevant notification on the NBU official website, as well as by means of the TIS platforms, when the auction is conducted using TIS functionality. The NBU shall specify the terms and conditions of the auction in the notification

2) decide on a cut-off rate on the basis of all the submitted bids, complying with the terms and conditions of the auction specified in the notification

3) have the right to accept the banks' competitive bids at the cut-off rate or at the rate indicated in the banks' bids under the terms and conditions of the auction. The banks' noncompetitive bids shall be accepted at a weighted average auction rate.

4) during the auction where the NBU purchases foreign currency from banks for hryvnias – accept the banks' competitive foreign currency sale bids in accordance with the offered hryvnia exchange rate, starting from the bid offering the foreign currency unit for the lowest amount of hryvnias and moving gradually towards the cut-off rate

5) during the auction where the NBU sells foreign currency to banks for hryvnias – accept the banks' competitive foreign currency purchase bids in accordance with the offered hryvnia exchange rate, starting from the bid offering the largest amount of hryvnias for the foreign currency unit and moving gradually towards the cut-off rate

6) serve the competitive bids proportionately with their volumes, where among the bids to be satisfied during the auction there are two or more bids with the same exchange rate, but the auctioned amount left is not enough to cover these bids in full

7) notify the banks that participated in the auction of the cut-off rate and the auction weighted average rate by placing the relevant notification on the NBU official website, as well as by means of the TIS platforms, when the auction is conducted using TIS functionality, within the term defined in the notification

8) perform calculations on the results of the auction with the participating banks on the day of the auction unless otherwise is specified in the notification

9) have the right to invalidate the auction.

9. A bank shall have the right to submit competitive and/or noncompetitive bids to the NBU in accordance with the terms and conditions of the auction.

In its bid for participation in the auction, the bank shall specify the desired transaction amount, and in case of a competitive bid – also the transaction rate. In its competitive bid, the bank shall indicate the rate for the second part of the FX intervention where the FX auction is held on SWAP terms.

10. The NBU shall conduct the best exchange-rate intervention by:

1) requesting ask/bid prices for foreign currency in the TIS or

2) selecting the best ask/bid price for foreign currency quoted by banks in the current TIS and executing contracts with the bank offering the best price.

11. A bank listed among the 20 banks with the best general rating in the previous quarter may participate in the best exchange rate intervention held by requesting ask/bid prices for foreign currency in the TIS. The bank's general rating shall be calculated using the following formula:

$$R = \sum_{i=1}^3 w_i * x_i; \quad \sum_{i=1}^3 w_i = 1,$$

where R is the bank's general rating (the lowest value is the best)

x_1 is the bank's position in the bank rating, determined by the volume of foreign currency sale and purchase transactions with other banks and the NBU, except for the volume of SWAP transactions, according to the banks' statistics (the positions in the rating are determined from the largest volume of transactions to the lowest one, the first position corresponding to the largest volume)

x_2 is the bank's position in the bank rating, determined by the volume of noncash foreign currency sale and purchase transactions according to the banks' statistical reporting forms (the positions in the rating are determined from the largest volume of transactions to the lowest one, the first position corresponding to the largest volume)

x_3 is the bank's position in the bank rating, determined by the size of the bank's assets as on the first business day of the current quarter (the positions in the rating are determined from the largest size of assets to the smallest one, the first position corresponding to the largest size)

$$w_1 = 0,5;$$

$$w_2 = 0,3;$$

$$w_3 = 0,2.$$

When positioning the bank in the ratings determining the x_1 , x_2 or x_3 elements, the banks with the same value of the respective indicator (the volume of the foreign currency sale and purchase transactions with other banks and the NBU, the volume of noncash foreign currency sale and purchase transactions with clients or size of assets) shall be identically positioned in the relevant rating, placed in the lowest possible position for these banks in the rating. The bank following them shall not be subject to downgrade.

If several banks are ranked 20 in the general banks' rating, the bank with the largest volume of the foreign currency sale and purchase with other banks and the NBU shall be included in the list of participants of the best exchange rate intervention.

At the start of the current quarter, the NBU shall send via the NBU e-mail a notification to the banks with the list of banks that are eligible to participate in the best exchange rate intervention, which is conducted by requesting the price on the foreign currency sale/purchase from banks. This list shall be in effect until the NBU sends a new notification on the potential participants in the best exchange rate intervention.

Any bank having access to the TIS may participate in the best exchange rate intervention that is conducted by selecting the best offered ask/bid price for foreign currency.

12. The targeted intervention shall be conducted on the basis of the NBU regulation to meet certain national-level needs driven by public interest of Ukraine

13. The prerequisite for the NBU's conducting FX interventions with a bank shall be the following:

1) for FX interventions on TOD, TOM, or SPOT terms – the bank's accepting the NBU's Public offer (published on the NBU official website) to conclude the Single Agreement on Banking and Other Services by the NBU

2) for FX interventions on SWAP terms – conclusion of a separate agreement regulating the relations of the parties during the NBU's FX interventions on SWAP terms (hereinafter – a separate agreement).

14. FX intervention on SWAP terms consists of two parts: transactions on TOD, TOM, or SPOT terms and transactions on SPOT or FORWARD terms.

15. The NBU shall not conduct an intervention on the FX purchase, sale, or exchange on SWAP terms for the period with no haircut amount approved.

16. The NBU shall conduct with banks the first part of the Foreign currency sale/purchase intervention on SWAP terms at the official exchange rate of hryvnia against the relevant foreign currency set by the NBU on the day of the transaction less the haircut.

The NBU shall conduct with banks the second part of the Foreign currency sale/purchase intervention on SWAP terms at the rate calculated using the following formula:

$$K\Phi = (DIFF \cdot K\Pi \cdot \Delta) / 100 / 365 + K\Pi,$$

where $K\Phi$ is the rate of the second part of the Foreign currency sale/purchase intervention on SWAP terms

$DIFF$ is an indicator, reflecting the difference between the hryvnia and FX interest rates. In its regulation, the NBU Board shall determine the procedure for calculating this indicator and its parameters

$K\Pi$ is the rate of the first part of the Foreign currency sale/purchase intervention on SWAP terms

Δ is the number of calendar days between the first and the second parts of the FX intervention (the first and the last days shall be considered as one day).

17. The NBU shall conduct with banks the first part of the FX exchange intervention on SWAP terms at the cross rate, calculated on the basis of the official hryvnia exchange rates to the relevant foreign currencies set by the NBU on the day of the transaction less the haircut.

The NBU shall conduct with banks the second part of the FX exchange intervention on SWAP terms at the rate calculated using the following formula:

$$K\Phi = (\text{DIFF} \cdot K\Pi \cdot \Delta) / 100 / 365 + K\Pi,$$

where $K\Phi$ is the rate of the second part of the FX exchange intervention on SWAP terms

DIFF is an indicator, reflecting the difference between the interest rate on the FX transferred by the NBU to a bank during the first part of the FX intervention and the interest rate on the FX received by the NBU from a bank during the first part of the FX intervention. In its regulation, the NBU Board shall determine the procedure for calculating this indicator and its parameters

$K\Pi$ is the rate of the second part of the FX exchange intervention on SWAP terms

Δ is the number of calendar days between the first and the second parts of the FX intervention (the first and the last days shall be considered as one day).

18. In its regulation, the NBU Board shall determine the maximum term for which the FX intervention on SWAP terms may be conducted .

19. When concluding the contract with the NBU as a result of the FX intervention on SWAP terms, a bank shall have the right to notify on the intention to conduct netting on SWAP transactions in case if the value date(s) on the previously concluded contract(s) overlap(s) with the value date(s) on the contracts to be concluded.

20. The NBU shall have the right on early termination of the FX intervention on SWAP terms with a bank in accordance with the conditions laid down in a separate contract concluded with the bank.

21. The following may be the grounds for early termination of the FX intervention on SWAP terms, referred to in paragraph 20 of this Regulation:

1) deterioration of a bank's financial standing, other material negative information on the bank's activity, constituting a threat of a default before the NBU

2) declaring bank's ownership structure to be nontransparent;

22. In case the grounds referred to in paragraph 21 of this Regulation arise, the NBU shall notify the bank on an early termination of the FX intervention on SWAP terms and demand to terminate the FX intervention on SWAP terms within one business day after the bank receives the notification.

23. In case of an early termination of the FX intervention on SWAP terms, the NBU shall recalculate the rate of the second part of the FX intervention on SWAP terms using the following formula:

$$K\Phi_{\text{новий}} = K\Pi + [(K\Phi - K\Pi) / \Delta] \cdot \Delta_{\text{факт}},$$

where $K\Phi$ is the rate of the second part of the FX intervention on SWAP terms determined in a contract between the NBU and the bank

$K\Pi$ is the rate of the first part of the FX intervention on SWAP terms

Δ is the number of calendar days between the first and the second parts of the FX interventions on SWAP terms determined in a contract between the NBU and the bank

$\Delta_{\text{факт}}$ is the actual number of calendar days between the first and the second parts of the FX intervention on SWAP terms (the first and the last days shall be considered as one day).

24. The NBU shall have the right to discharge its claims at the expense of the hryvnia/FX funds received from the bank under the first part of the FX intervention on SWAP terms through offsetting similar counterclaims, if the bank fails to comply with the conditions of the FX intervention on SWAP terms for over one business day (including the early termination of the FX intervention on SWAP terms).

The NBU shall satisfy its claims at the official hryvnia exchange rate that will be effective on the second business day after the day of the NBU's having notified on the early termination of the Foreign currency sale, purchase and exchange intervention on SWAP terms.

25. The NBU shall transfer the excess amount (in hryvnias) to the correspondent account of the bank if the amount of hryvnia/FX funds, received by the NBU from the bank under the first part of the FX intervention on SWAP terms (FX is converted into a hryvnia equivalent at the rate referred to in part 2 of paragraph 24 of this Regulation) exceeds the amount of funds needed to satisfy the NBU claims.

Pursuant to the terms of the separate contract providing for the contractual debiting of funds in accordance with part 2 of Article 1071 of the Civil Code of Ukraine, the NBU shall debit funds in hryvnia from the bank's account in case of lack of funds to complete the FX intervention on SWAP terms (FX is converted in hryvnia equivalent at the rate indicated in the second part of paragraph 24 of this Regulation).

26. The bank, whose bid the NBU chooses to satisfy during the FX intervention, must conclude a foreign currency sale (purchase, exchange) contract with the NBU. Such bid may not be withdrawn.

If the bank fails to conclude a foreign currency sale (purchase, exchange) contract with the NBU, the bank shall be deprived of the right to participate in FX interventions within the next 30 calendar days.

Serhii Ponomarenko
Director, Open Market Operations Department

APPROVED
Dmytro Sologub
Deputy Governor