

Pursuant to Article 38, paragraph 4 and Article 41, paragraph 1 of the Law on Foreign Exchange Operations ("RS Official Gazette", No.62/2006), the Governor of the National Bank of Serbia hereby issues

DECISION ON OPERATING TERMS AND PROCEDURES IN THE FOREIGN EXCHANGE MARKET

Basic provisions

1. This Decision prescribes operating terms and procedures in the foreign exchange market, as well as the method of setting the official middle exchange rate of the dinar against other currencies.
2. Foreign exchange and foreign cash shall be purchased and sold in the foreign exchange market in accordance with the National Bank of Serbia's decision prescribing the types of foreign exchange and foreign cash to be purchased and sold in the foreign exchange market.
3. Trading in the foreign exchange market shall include swap, spot and forward purchase and sale of foreign exchange, as well as purchase and sale deals with execution date before spot currency date.

Spot sale and purchase, under the terms hereof, means purchase and sale of foreign exchange for dinars that takes place two business days from the day of conclusion of such purchase/sale contract, and/or trading date (spot currency).

Forward purchase and sale, under the terms hereof, means such purchase and sale of foreign exchange for dinars that takes place on a specific date after spot currency date.

Swap purchase and sale of foreign exchange, under the terms hereof, means simultaneous contracting of two transactions – foreign exchange purchase and sale for dinars, but with different execution dates.

4. Purchase and sale of foreign exchange and foreign cash between participants in the foreign exchange market may be performed electronically, by telephone and fax, as well as through in-person contacts between the interested parties.

Interbank Foreign Exchange Market

5. The Interbank Foreign Exchange Market (hereinafter: IFEM) is part of the foreign exchange market where the purchase and sale of foreign exchange and foreign cash between the National Bank of Serbia and banks, and/or between banks take place.

6. The National Bank of Serbia may organise an online IFEM session, in line with agreement concluded with banks, regulating their mutual relations regarding the operating terms and holding of IFEM sessions.

For organising IFEM sessions and direct auction purchase/sale of foreign exchange within the meaning of Section 7, indent 1 hereof, the National Bank of Serbia shall charge to banks a fee set by the Decision on uniform fees charged for services provided by the National Bank.

Banks can charge no fee on the purchase/sale of euros in IFEM sessions.

7. Under the terms hereof, the National Bank of Serbia may buy and sell foreign exchange for dinars:

- in direct transactions with banks: through auction foreign exchange trading or bilateral foreign exchange trading deals;
- in IFEM sessions.

Under the terms hereof, the National Bank of Serbia may buy and sell foreign cash for dinars in direct transactions with banks – bilateral foreign cash purchase/sale transactions.

8. The National Bank of Serbia shall trade in foreign exchange with a bank:

– if such bank has entered into a foreign exchange trade agreement with the National Bank of Serbia, most notably a master agreement on foreign exchange spot trading – if direct foreign exchange spot trade is performed, agreement on IFEM session and its operating terms – if foreign exchange spot trade is performed at IFEM sessions and a master swap agreement – if foreign exchange swap trade is performed; and

– if no measure prohibiting the performance of specific types of foreign exchange trade deals with the National Bank of Serbia envisaged under Section 10 hereof have been pronounced against such bank.

The National Bank of Serbia may set additional eligibility requirements for banks – participants in specific types of foreign exchange trade deals with the National Bank of Serbia, as well as other more detailed terms and conditions of performing some types of foreign exchange trade transactions with banks.

9. The agreement on purchase or sale of foreign exchange and foreign cash in the IFEM shall be deemed concluded when the bidder receives notification of bid acceptance, except in IFEM session, where the agreement is deemed concluded at the moment of setting the exchange rate referred to in Section 12 hereof.

Following the conclusion of the agreement on purchase or sale of foreign exchange in the IFEM, with the National Bank of Serbia as one of the contractual parties, the parties thereto shall exchange SWIFT message MT300.

Following the conclusion of the agreement on purchase or sale of foreign exchange in the IFEM session, the parties thereto shall send the SWIFT message MT299 to each other, as well as exchange it with the National Bank of Serbia. These messages shall contain elements of the bill of purchase/sale prescribed in Form 5.

10. If a bank fails to meet its obligations under the foreign exchange purchase/sale agreement with the National Bank of Serbia, the National Bank of Serbia may restrict such bank's performance of

foreign exchange trade with the National Bank of Serbia within the meaning hereof.

The National Bank of Serbia shall issue a decision stipulating the type of foreign exchange trading transaction restricted within the meaning of paragraph 1 hereof and the period over which such restriction shall apply.

Setting of exchange rates and publishing of exchange rate lists

11. Banks and the National Bank of Serbia shall purchase and sell foreign exchange in the IFEM at the freely quoted exchange rates based on market supply and demand.

12. In the IFEM session, euros shall be purchased and sold at the fixing exchange rate formed at the close of the session.

13. Once a day, at the start of each business day, banks shall set and quote exchange rates for foreign exchange and foreign cash by applying evenly crossed exchange rates in compliance with inter-currency relations in foreign markets applicable at the time of quoting such exchange rates. Thus, established exchange rate lists shall apply until the next ones are published.

14. Each business day, the National Bank of Serbia shall set the official middle exchange rate of the dinar against the euro based on data on the spot sales of foreign exchange (euros) and sales of foreign exchange with execution date before the spot currency date concluded in the IFEM during the day.

By 6 p.m. of each business day, the National Bank of Serbia shall publish the official middle exchange rate of the dinar against the euro, to be applied from 8 a.m. on the following business day.

At the start of each business day, the National Bank of Serbia shall set the official middle exchange rate of the dinar against other currencies specified in the National Bank of Serbia's Decision on types of foreign exchange and foreign cash to be purchased and sold in the foreign exchange market and shall base its calculations on the official middle exchange rate of the dinar against the euro and apply

the principle of evenly crossed exchange rates in line with intercurrency relations in foreign markets applicable at the time of formation of such exchange rate.

At the start of each business day, the National Bank of Serbia shall set the exchange rate list for the official middle exchange rate of the dinar, which shall be published and applicable from 8 a.m. on that business day until the next exchange rate list is issued.

15. Buying and selling exchange rates of the National Bank of Serbia for foreign exchange and/or foreign currency cash shall be set by subtracting, and/or adding margins for foreign exchange, and/or foreign cash from and/or to the official middle exchange rate of the dinar. The level of the above margins shall be specified by the Governor.

At the time of setting the official middle exchange rates of the dinar, the National Bank of Serbia shall also set exchange rate lists for foreign exchange and foreign cash, which shall apply as of 8 a.m. on that business day until the next foreign exchange and foreign cash exchange rate lists are published.

16. Licensed exchange dealers shall set their exchange rate lists for foreign cash at the start of each business day. These rates shall apply until the next exchange list for foreign cash by such licensed exchange dealers is issued.

Application of the exchange rates of banks, the National Bank of Serbia and licensed exchange dealers

17. When trading in foreign exchange and/or foreign cash with residents and non-residents up to spot currency date, banks shall apply the rates that fall within the range of quoted buying and selling rates for foreign exchange and/or foreign cash from their applicable exchange rate list.

18. The National Bank of Serbia shall purchase/sell foreign cash from/to banks by applying current buying/selling rates for foreign cash specified in its exchange rate list, and/or the official middle exchange rate of the dinar from the valid exchange rate list if this is specified in

international treaties/agreements on the approval of grants or loans for financing the budget deficit (budget support).

When purchasing/selling foreign exchange and foreign cash from/to residents holding foreign currency accounts with the National Bank of Serbia in compliance with the law, the National Bank of Serbia shall apply current buying /selling rates specified in its exchange rate list.

19. Licensed exchange dealer shall purchase/sell foreign cash by applying current buying/selling rates specified in its exchange rate list – within the quoted range between the buying and selling rates.

Reporting

20. In line with the guidelines for the preparation and electronic submission of data to the National Bank of Serbia, banks shall submit electronically the following data to the National Bank of Serbia by 11 a.m. on each business day:

a) for the preceding business day:

- daily report on the foreign exchange risk ratio of the bank (Form 1),
- foreign currency position of the bank (Form 2),
- report on spot purchase and sale of foreign exchange from residents and nonresidents (Form 3a),
- report on purchase and sale of foreign exchange from residents and nonresidents with execution date other than spot currency date (Form 3b),
- report on swap purchase and sale of foreign exchange from residents and nonresidents (Form 3c),
- report on purchase and sale of foreign cash from residents and nonresidents (Form 3d),
- report on direct spot sale of foreign exchange and foreign cash to another bank (Form 4a),
- report on direct sale of foreign exchange and foreign cash to another bank with execution date other than spot currency date (Form 4b),
- report on direct swap sale of foreign exchange and foreign cash to another bank (Form 4c);

b) for the *current business day* – exchange rate lists for foreign exchange and foreign cash.

Banks shall submit to the National Bank of Serbia the following reports for the current business day:

- by 1.30 p.m. - on direct spot trade and trade with execution date before spot currency date - sale and purchase of foreign exchange (euros) to/from another bank, concluded by 12.30 p.m. (Form 4aa);
- by 5 p.m. - on direct spot trade and trade with execution date before spot currency date – sale and purchase of foreign exchange (euros) to/from another bank, concluded from 12.30 to 4 p.m. (Form 4ab).

In addition to exchange rate list for foreign cash, banks shall also submit to the National Bank of Serbia data on the lowest (minimum) offer price when buying foreign cash, and on the highest (maximum) asking price when selling foreign cash, for all currencies contained in their exchange rate lists, by 9 a.m. on each business day.

By 2 p.m. of each business day, the National Bank of Serbia shall publish on its website information on the exchange rate of the dinar against the euro calculated based on data from reports referred to in paragraph 2, indent 1 hereof (indicative exchange rate of the dinar against the euro), as well as data from paragraph 3 thereof.

If a bank fails to submit the reports referred to herein, or submits incorrect or incomplete data, the National Bank of Serbia shall take measures envisaged by the law on banks and the regulation on detailed conditions and manner in which the National Bank of Serbia conducts banking supervision.

20a. The National Bank of Serbia may publish on its website information on the indicative exchange rate of the dinar against the dollar. This information may be published twice during a business day:

- by 2 p.m. – information on the indicative exchange rate of the dinar against the dollar calculated based on the indicative exchange rate of the dinar against the euro from Section 20, paragraph 4 hereof and

the exchange rate of the euro against the dollar prevailing in foreign markets;

– by 6 p.m. – information on the indicative exchange rate of the dinar against the dollar calculated based on the official middle exchange rate of the dinar against the euro from Section 14, paragraph 1 hereof and the exchange rate of the euro against the dollar prevailing in foreign markets.

21. The forms referred to herein are enclosed with this Decision and are integral thereto.

Transitional and closing provisions

21. Contract on the IFEM session and its operating terms concluded between the National Bank of Serbia and banks before entry into force of this Decision shall apply until the new contract on the IFEM session and its operating terms is concluded in accordance with that Decision.

22. This Decision shall supersede the Decision on Operating Terms and Procedures in the Foreign Exchange Market ("RS Official Gazette", Nos 50/2007, 60/2007, 63/2008, 73/2008 and 118/2008).

24. This Decision shall be published in the "RS Official Gazette" and shall enter into force on 1 June 2009.

D. No 34
5 May 2009

G o v e r n o r
National Bank of Serbia
B e l g r a d e
Radovan Jelašić