

Pursuant to Article 14, paragraph 1, item 9, with reference to Article 45, item 1 of the Law on the National Bank of Serbia (RS Official Gazette, Nos 72/2003, 55/2004 and 44/2010), the Executive Board of the National Bank of Serbia hereby issues

DECISION
ON TERMS AND CONDITIONS OF FOREIGN EXCHANGE SWAP
PURCHASE/SALE BETWEEN THE NATIONAL BANK OF SERBIA AND
BANKS

General provisions

1. Under the terms and conditions stipulated hereby, the National Bank of Serbia (NBS) may directly perform with banks foreign exchange swap transactions in the Interbank Foreign Exchange Market (IFEM) as follows:

- 1) swap sales of foreign exchange (euros) for dinars and
- 2) swap purchases of foreign exchange (euros) for dinars.

2. For the purposes of this Decision, a swap transaction means concurrent contracting of spot purchase/sale of foreign exchange for dinars (spot transactions) and forward purchase/sale of such foreign exchange for dinars (forward transactions) between the NBS and banks.

3. The NBS shall perform swap transactions with those banks that meet the conditions stipulated by the decision governing operating terms and procedures in the foreign exchange market, this Decision and regulations implementing these decisions.

4. For the purposes of performing swap transactions, the NBS shall enter into a master agreement with a bank on swap purchase/sale of foreign exchange, which shall define particularly the relations between the NBS and the bank regarding the conclusion of individual swap transactions and settlement of obligations by contracting parties.

5. For the purposes of this Decision, the NBS may perform swap purchase/sale of foreign exchange:

- 1) at auctions – where banks submit bids for swap purchase/sale of foreign exchange in line with defined rules and within the established deadline;
- 2) on a bilateral basis – based on a single bank's bid for swap purchase/sale of foreign exchange, and based on NBS's bid.

6. When establishing the level of the spot exchange rate, in line with this Decision, including the possibility of applying haircuts, the NBS shall be guided by market conditions and banking sector liquidity, and shall also take into account the maturity of a swap transaction.

The level of swap points and/or the forward exchange rate shall be calculated by applying the formulae from Annex 1 which constitutes an integral part hereof.

Auction swap purchase/sale of foreign exchange

7. The NBS shall perform auction swap purchase/sale of foreign exchange with banks, including the submission of notifications on organising an auction, receipt of banks' bids for purchase/sale of foreign exchange, their processing and the acceptance of those bids, as a rule via the *web platform "Monetary Operations of the National Bank of Serbia – Application for Foreign Exchange Trading"*.

Access to the application from paragraph 1 hereof and its use shall be regulated in more detail by the user manual.

Submission of the notification on organisation of an auction, submission of banks' bids for foreign exchange purchase/sale, and the acceptance of these bids, may also be performed through electronic services, electronic mail or telefax.

8. The NBS may perform auction swap purchase/sale of foreign exchange – euros for dinars at the predefined spot exchange rate:

- 1) at swap points that the NBS defined in advance and communicated to banks – auctions at fixed swap points;
- 2) at swap points that the NBS did not define in advance or communicate to banks – auctions at variable swap points.

Auctions at variable swap points may be:

- 1) auctions at variable swap points with the NBS purchasing/selling foreign exchange at swap points offered by the bank whose bid was accepted at the auction;
- 2) auctions at single swap points with the NBS purchasing/selling foreign exchange at the same swap points from each bank whose bid was accepted at the auction.

9. The Governor or a person authorised by him shall adopt a decision on organisation of an auction where swap purchase/sale of foreign exchange will be performed, and which shall contain the following main information:

- 1) date of auction,
- 2) type of swap transaction,
- 3) type of auction,
- 4) level of spot exchange rate,
- 5) level of swap points – if the auction is organised at fixed swap points,
- 6) maturity of swap transaction,
- 7) date of spot transaction,
- 8) maturity date of swap purchase/sale of foreign exchange,
- 9) number of bids that a bank may submit if the auction is organised at variable swap points,
- 10) minimum amount that a bank's bid may be made out to,
- 11) deadline for the submission of banks' bids.

Apart from information from paragraph 1 hereof, the decision on organisation of an auction may also contain information on the maximum amount of funds – foreign exchange swap purchased/sold by the NBS, on the minimum or maximum swap points that a bank's bid may contain to be accepted for processing, the maximum amount that a bank's bid may be made out to, and other information significant for conducting an auction and/or swap transaction.

10. If auctions for certain types of swap transactions are held several times during the day, the decision on organisation of an auction may refer to several auctions.

11. The Governor or a person authorised by him may adopt a decision to establish the calendar of regular auctions that the NBS plans to organise. This decision shall be published on NBS's website.

12. Pursuant to the decision on organisation of an auction, the NBS shall submit to banks a notification of auction holding along with the main information from the decision, not later than on the date of auction.

13. Banks shall submit to the NBS a bid for swap purchase/sale of foreign exchange (bid) within the time period defined in the decision on organisation of an auction.

14. If an auction is organised at fixed swap points, a bank may submit to the NBS only one bid containing the amount of foreign exchange to be swap purchased/sold at swap points defined in advance and published by the NBS.

Based on received banks' bids on the day of auction, the Governor or a person authorised by him shall decide on the total amount of funds swap purchased/sold by the NBS at an auction.

If the total amount of foreign exchange stated in banks' bids is higher than the total amount of foreign exchange that the NBS swap sells/purchases, foreign exchange shall be proportionately distributed to individual banks, proportionately to the share of a single bank's bid in the total amount of foreign exchange stated in banks' bids.

15. If an auction is organised at variable swap points, a bank may submit to the NBS one or more bids, in line with the decision on organisation of an auction, containing the amounts of foreign exchange that a bank swap purchases/sells, along with swap points.

16. The sequence of single banks' bids at an auction at variable swap points shall be established according to the level of swap points specified in these bids, starting from the lowest to highest swap points – if the NBS swap sells foreign exchange, and from the highest to lowest swap points – if the NBS swap purchases foreign exchange.

Once the sequence from paragraph 1 hereof has been defined, the Governor or a person authorised by him shall decide on the lowest and/or highest swap points that a bank's bid may contain to be accepted (marginal swap points), and on the total amount of funds that the NBS swap purchases/sells.

If an auction is organised at multiple swap points, the NBS shall swap purchase/sell foreign exchange at swap points offered by banks whose bids it accepted.

If an auction is organised at single swap points, the NBS shall swap sell/purchase foreign exchange from all banks whose bids it accepted, at the same swap points, i.e. marginal swap points.

The total amount of foreign exchange shall be distributed according to the sequence from paragraph 1 hereof. If the total amount of foreign exchange specified in bids at marginal swap points is higher than the amount of the remaining foreign exchange that the NBS swap purchases/sells – the distribution is made proportionately to the share of these bids in the total amount of foreign exchange specified in bids at marginal swap points.

17. The NBS shall submit a special swap agreement to a bank whose bid it accepted in full or in part, and shall send a notification on non-acceptance to a bank whose bid it did not accept.

18. Following an auction, the NBS shall publish on its website a notification on the auction held, as a rule on the day of auction holding.

Bilateral swap purchase/sale of foreign exchange

19. The NBS may perform with banks bilateral swap purchase/sale of foreign exchange by:

- 1) inviting banks to submit their bids for swap purchase/sale of foreign exchange;
- 2) giving its bid based on a bank's individual request for swap purchase/sale of foreign exchange;
- 3) accepting bank's bid for swap purchase/sale of foreign exchange.

Submission of bids from paragraph 1 hereof, acceptance of these bids and the exchange of necessary data and notifications between the NBS and banks shall be performed as a rule through electronic services for foreign exchange trading, and may also be performed via electronic mail, telefax or in writing.

The Governor or a person authorised by him shall decide on the performance of bilateral swap purchase/sale of foreign exchange for the purposes hereof.

Entering into a special agreement

20. The NBS and a bank shall enter into a special swap agreement on each swap transaction performed at an auction or bilaterally.

The NBS and a bank shall mutually confirm the elements of the special swap agreement referred to herein by exchanging SWIFT messages MT300.

Settlement of obligations

21. The NBS shall settle its obligations towards a bank based on swap purchase/sale of foreign exchange after the bank has settled its obligations towards the NBS, i.e. its purchase/sale obligations in respect of spot transactions as at the spot transaction date and in respect of forward transactions as at the maturity date of swap purchase/sale of foreign exchange.

22. If a bank fails to settle its obligations under a forward transaction towards the NBS in entirety as at the maturity date of swap purchase/sale of foreign exchange – the funds that the bank paid and/or sold to the NBS under a spot transaction shall remain in possession of the NBS, whereas any

amount of funds that the bank paid to the NBS on the maturity date of the swap transaction, which is lower than the contracted amount, shall be returned by the NBS to the bank's account.

23. If a bank fails to settle its obligations under a special agreement on swap purchase/sale of foreign exchange with the NBS – the NBS may restrict to such bank the performance of activities of purchase/sale of foreign exchange with the NBS, in line with the decision governing operating terms and procedures in the foreign exchange market.

24. The NBS may adopt guidelines implementing this Decision.

Transitional and final provisions

25. Obligations under individually performed swap transactions between the NBS and banks which did not fall due until the date of effectiveness of this Decision shall be performed in line with provisions of the concluded master and special swap agreement.

26. This Decision repeals the Decision on Terms and Conditions of Foreign Exchange Swap Transactions Between the National Bank of Serbia and Banks (RS Official Gazette, No 20/2010).

27. This Decision shall be published in the RS Official Gazette and shall come into effect on 1 March 2011.

D. No 33
16 February 2011
Belgrade

Chairman
of the NBS Executive Board
Governor
of the National Bank of Serbia

dr Dejan Šoškić, *signature*

**FORMULAE
FOR CALCULATION OF SWAP POINTS AND FORWARD EXCHANGE
RATE IN SWAP TRANSACTIONS**

$$\text{Swap points} = \text{spot exchange rate} \times \left[\frac{1 + \left(\frac{k_2}{100} \times \frac{d}{360} \right)}{1 + \left(\frac{k_1}{100} \times \frac{d}{360} \right)} - 1 \right] \times 10,000$$

$$\text{Forward exchange rate} = \text{spot exchange rate} + \frac{\text{swap points}}{10,000},$$

k_1 – annual interest rate for the euro, with two decimal places

k_2 – annual interest rate for the dinar, with two decimal places

d – transaction maturity

Swap points are expressed in round figures, without decimal places.

The forward exchange rate is expressed with four decimal places.