



Pursuant to Article 11 and Article 35, paragraph 1.1 of the Law no. 03/L-209 on Central Bank of the Republic of Kosovo, the Board of the Central Bank, in its meeting held on 25 April 2019, approved the following:

REGULATION ON THE REPURCHASE OF SECURITIES WITH THE CENTRAL BANK OF THE REPUBLIC OF KOSOVO

Article 1

Purpose and Scope

1. The purpose of this regulation is to determine the conditions and criteria to be met by a bank based on the request for assistance from collateral-backed lending of the Government of Kosovo securities through the execution of a repurchase agreement with the Central Bank of the Republic of Kosovo (CBK). The purpose of this lending is to assist member banks in the efficient management of their liquidity in the short term. The General Master Repurchase Agreement authorizes CBK to perform credit operations with commercial banks operating in Kosovo through collateral-based lending.
2. This regulation applies to all banks and branches of foreign banks licensed by CBK to operate in the Republic of Kosovo.

Article 2

Definitions

1. All terms used in this regulation shall have the same meaning as the terms defined in Article 3 of Law no. 04/L-093 on Banks, Microfinance Institutions and Non-Bank Financial Institutions (hereinafter: the Law on Banks), and/or according to the following definitions for the purpose of this Regulation:
 - 1.1. **Treasury bills** - means marketable securities issued by the Government of Kosovo with a maturity of one year or less. These securities are sold with a discount from the par value;

- 1.2. **Government bonds** - means marketable securities issued by the Government of Kosovo with a maturity of more than one year. These securities pay interest and usually bear fixed-rate coupons;
- 1.3. **Collateral** - means marketable Treasury Bills and Government Bonds of the Government of Kosovo, which are used as pledge for liquidity support;
- 1.4. **Repurchase Agreement (Repo)** - means an agreement between two parties by which one party agrees to sell the other party one security of specific value for a certain period of time under the Repo agreement of the same security in the future according to the price and maturity term agreed upon by both parties.;
- 1.5. **Base Rate** - means a refinancing rate of the European Central Bank, which is the basis for the Repo rate for the operation of collateral-backed lending by CBK;
- 1.6. **Adjustment Spread** - means the amount of the interest rate added to the base rate to calculate the Repo rate from collateral-backed lending by CBK. Adjustment of the difference shall be determined by the CBK;
- 1.7. **Borrowers** - means banks and branches of foreign banks licensed by the CBK to operate in the Republic of Kosovo;
- 1.8. **Lender** - means the CBK;
- 1.9. **Repo rate** - means the interest rate charged by the lender to the borrower for the amount of monetary means borrowed during the term of the Repo agreement. The Repo rate from collateral-backed lending is the base rate added with the rate from difference adjustment, and which is defined by CBK. Interest is calculated using the current number of days on a 360 days basis;
- 1.10. **CBK Repo Account** - means the asset account in the CBK financial statements which reflects the retention of the specified collateral during the term of the Repo agreement.
- 1.11. **Delivery Versus Payment (DVP)** - means the settlement system which implies the exchange of collateral and payment simultaneously;
- 1.12. **Depo/X** - means the accounting register system which enables the issuance, registration, sale and electronic transfer of government securities at the CBK;
- 1.13. **End date** - means the date of settlement from maturity of the Repo agreement, whereby the principal and the interest to be paid to the Lender is done from the Borrower's account in CBK;
- 1.14. **Haircut** - means the margin or haircut posed by the additional collateral requested by the collateral holder in a Repo agreement. This margin or haircut is required to protect the collateral from the possible price decrease;

- 1.15. **Full Accrual Price** - means the appropriate price of government bonds for a Repo agreement by adding the market price and the calculated/accrued interest together prior to making the deduction based on the margin request;
- 1.16. **Nominal Amount** - means the nominal value or par value, which is the value indicated in a government security, including its value;
- 1.17. **Repo Maturity Date** - means the Date when the deadline of a Repo agreement has a maximum maturity term of ten (10) days. The duration of the Repo agreement may be changed as defined by the CBK;
- 1.18. **Repo termination** - means a Repo agreement ending on the maturity date defined initially under the conditions of the Repo agreement. In other cases, a Repo agreement may only be ended by agreement between the two parties (lenders and borrowers);
- 1.19. **Safekeeping account** - means the account for storing securities in the Depo X system at the CBK, where government securities are kept electronically in the individual accounts of investors;
- 1.20. **Settlement Date** - The day the payment is made and the collateral defined is transferred from the borrower to the lender. The usual settlement for a Repo agreement is the transaction date plus one business day, or T+1;
- 1.21. **Yield to maturity** - means the annual rate of return or current payment value of monetary means of the government bonds until maturity, expressed as a percentage;
- 1.22. **Yield Curve** - means a line that sets the interest rate points of securities over a certain period of time, which have equal credit quality but different maturity dates.

Article 3

Application for Collateral-Backed Borrowing

1. The borrower applying for a loan shall contact the CBK through electronic communication via the Depo X electronic system and electronic mail. The Borrower shall provide the CBK with the following information:
 - 1.1. The proposed start date and end date of the Repo agreement;
 - 1.2. A formal description of the securities that borrower proposes as collateral;
 - 1.3. The nominal amount of the borrower's collateral to be used;
 - 1.4. Agreement by the borrower and the lender for the Repo rate;
 - 1.5. Receipt of the CBK collateral valuation by the lender and the margin to be applied.
2. The initiation of a request to apply for a loan is done by the borrower according to the agreement between the borrower and the CBK. After receiving the request for loan, the collateral offered by the borrower will be transferred electronically to the Repo account of the CBK.

3. The CBK will authorize the transaction for the transfer of collateral under the agreement with the borrower, whereby the transferred collateral will be transferred to the Repo account of the CBK and will remain on that account in accordance with the duration determined under the repurchase agreement.

Article 4 Collateral Valuation

1. The CBK will provide information regarding market valuation in its website for all outstanding Kosovo Government securities. These valuations will be expressed in the form of yield for each maturity category from one (1) to ten (10) years.
2. Maturity of a security is defined by subtracting the start date of the Repo agreement from the maturity date of the security. The rounding of days and months will be used to determine the appropriate valuation category to which the collateral offered will be part of. (Example, the date of commencement of the Repo agreement is on 1 February 2019, then the maturity date of the security on 1 May 2021, the maturity difference of 2 years and 3 months places the security in the 2-year category for the purposes of market valuation).
3. Yield valuations will be in the form of a yield curve, providing yields for each of the ten different maturity categories. The interpolated or linear yield curve will be based on the results of the latest treasury bills auction and marketable government bonds in the primary market and announced by the Ministry of Finance. The CBK will also include secondary market price data on the yield curve calculations and methodology.

Article 5 Setting the Borrower's Collateral Price

1. Treasury bills and government bonds have their own price formulas for determining the price estimate defined under the Ministry of Finance's (MoF) Regulation on Primary and Secondary Market of Government Securities of the Republic of Kosovo. Collateral-backed lending will apply the full accrual price for all government bond collaterals.
2. The price of treasury bills shall be determined by the rate of return/yield, as defined in accordance with Article 4 of this Regulation, settlement date (Repo start date) and maturity date of Treasury Bills. These data determine the price of the security. Once the price of treasury bills is known, it is multiplied with the nominal amount of securities to obtain a market valuation for the appropriate collateral.
3. The price of government bonds is determined by the rate of return/yield determined in accordance with Article 4 of this Regulation, the settlement date (date of commencement of the Repo), the maturity date of the bond and the bond coupon rate. Once the market price of a bond is determined, the accrued interest is added to determine the full accrual price of the bond. The full market price is multiplied by the nominal amount of securities to obtain a market valuation for the appropriate collateral.

Article 6
Margin Requirement of Borrower's Collateral

1. A margin or haircut is imposed on the market valuation of collateral in a Repo agreement. The margin is set to protect the lender from small market fluctuations during the duration of the Repo agreement. Margin requirements are set in percentage of the nominal amount of the specified collateral.
2. CBK will place a margin list on its website, the margin percentage will be set and it applies for each category of annual market valuation.

Article 7
Net Valuation of Borrower's Collateral

1. The net market valuation of Kosovo Government securities collateral will be as follows:
 - 1.1. Treasury bills: market valuation without including the margin request;
 - 1.2. Government bonds: full accrual price valuation, excluding the margin request.
2. The net valuation will be rounded off by agreement between the lender and the borrower.

Article 8
Settlement under the Repo Agreement

1. On the start date of the Repo agreement, the CBK will credit appropriate funds to borrower's reserve account in the CBK. At the same time, the CBK will take the collateral specified by the borrower's register account and it will take it under full possession.
2. On the end date of the Repo agreement, the CBK will automatically charge the borrower's reserve account in the CBK for the principal and interest amount of the Repo agreement. At the same time, it will re-deposit the specified collateral to the borrower's register account.

Article 9
Renewal of the Repo Agreement

1. The purpose of collateral-backed lending is to assist borrowers in the efficient management of their liquidity requirements in the short term and the borrower may submit a request for renewal of the Repo agreement.
2. If it is established that the continued application of collateral-backed lending by a borrower violates the purpose under Article 1 of this Regulation, then the CBK, if it deems it reasonable, may refuse the renewal of the Repo agreement.

Article 10
Fund available for Collateral-Backed Lending

The Executive Board of the CBK will determine an amount of funds available for this purpose.

Article 11
Changes to the Maturity of Government Securities

Price valuations and margin requirements set by the CBK on its official website are in line with the current maturity structure of securities issued by the Government of Kosovo. For new instruments issued by the Government of Kosovo with maturity over ten (10) years, the CBK will adequately determine the valuation and the difference (margin) for the collateral of these instruments.

Article 12
Annex

Annexe to this Regulation is the Methodology for the Pricing of Securities of Kosovo Government.

Article 13
Entry into force

This Regulation shall enter into force fifteen (15) days from the date of its adoption.

Flamur Mrasori

Chairperson of the Board of the Central Bank of the Republic of Kosovo

Annexe: Methodology for the Pricing of Kosovo Government Securities

PRICING OF TREASURY BILL COLLATERAL

Information and criteria provided as defined by Article 3 of this Regulation

CBK Repo rate:	0.10% (Ref. rate of ECB 0.00% + adjustment of the difference of 0.10%)	
Start date		1 February 19
End date		11 February 19
Auction code		KV020-18
Maturity date		4 December 19
Nominal value		€2,000,000

Information defined by Article 4

Start date	1 February 19
Maturity date	4 December 19
Days to maturity	306 days
306 days rounded up the category	1 year
Market Valuation -1 year	0.80%

Information specified by Article 5 & 6

Market price (%)	0.993245928
Nominal value	€2,000,000
Price prior to margin	€1,986,491.86
Margin 1%	€ - 20,000.00
Net value	€1,966,491.86
Rounded net valuation	€1,966,000.00

On 1 February 2019, the CBK credits the borrower's reserve account for the amount of € 1,966,000.00 and at the same time, transfers the value of €2,000,000.00 of Treasury Bills (to be paid on 4 December 19) from the borrower's securities register account, taking the collateral under full possession.

On 11 February 2019, the CBK automatically charges the borrower's reserve account in the amount of €1,966,054.61, representing the principal of €1,966,000.00 and the interest of €54.61. CBK will simultaneously repay Treasury Bills (to be paid on 4 December 19) of €2,000,000.00 to the borrower's securities register account.

PRICING OF GOVERNMENT BOND COLLATERAL

Information and Criteria provided by Article 3

CBK Repo Rate:	0.10% (Ref. rate of ECB 0.00% + adjustment of the difference of 0.10%)
Start date	1 February 19
End date	11 February 19
Auction code	KV011-17
Maturity date	4 July 22
Coupon rate	1.20%
Nominal value	€2,500,000

Information defined by Article 4

Start date	1 February 19
Maturity date	4 July 22
Days to maturity	3.4 years
3.4 years are rounded up into the category	3 years
Market Valuation - 3 years	2.70%

Information defined by Article 5 & 6

Market price (%)	0.9512690
Nominal value	€2,500,000.00
Price prior to margin	€2,378,172.46
Accrued interest	€2,320.44
Total market value	€2,380,492.90
Margin 5%	€ -125,000.00
Net value	€2,255,492.90
Rounded net valuation	€2,255,000.00

On 1 February 2019, the CBK credits the borrower's reserve account for a value of € 2,255,000.00 at the same time transferring € 2,500,000.00 of Government Bonds (to be paid on 4 July 2022) by the borrower's securities register account, taking the collateral under full possession.

On 11 February 2019, the CBK automatically charges the borrower's reserve account in the amount of € 2,255,062.64, representing the principal of € 2,255,000.00 and the interest of € 62,64. At the same time, the CBK returns the possession of government bonds (to be paid on 4 July 2022) in the amount of € 2,500,000.00 to the borrower's securities register account.

EXAMPLE OF THE CURVE OF PRICING COLLATERAL FOR GOVERNMENT SECURITIES AND THE MARGIN LIST TO BE PUBLISHED BY THE CBK

Collateral Value as of 24 January 2019		
Year	Yield value	Margin
1	0.80%	1.00%
2	1.70%	5.00%
3	2.70%	
4	3.70%	
5	4.70%	
6	5.70%	8.00%
7	6.70%	
8	7.70%	
9	8.70%	
10	9.70%	

