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NATIONAL BANK OF ETHIOPIA
ADDIS ABABA

Open Market Operations and Standing Facilities Directive No.
MFAD/OMO&SFs/001/2021

"**Whereas,** the National Bank has the powers and duties to regulate and determine the supply and availability of money and credit as well as the applicable interest rates for the purpose of maintaining price and financial stability that is also conducive to the balanced growth of the Ethiopian economy;

Whereas, the National Bank has the powers and duties to make short term and long term refinancing facilities available to banks and other financial institutions; and issue its own debt and payment instruments for this purpose;

Whereas, it has become necessary to establish open market operations and standing facilities as instruments for effective management of liquidity in the financial system for purposes of conducting monetary policy;

Now, therefore, in accordance with Article 5(4), Article 5(11), Article 15(1), and Article 27(2) of the National Bank of Ethiopia Establishment Proclamation No. 591/2008 (as amended), the National Bank has issued this Directive."

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1. Short Title

This Directive may be cited as **"Open Market Operations and Standing Facilities Directive No. MFAD/OMO&SFs/001/2021".**

2. Definitions

For the purpose of this Directive, unless the context provides otherwise:

2.1. **"Analytic account"** means a sub-account of the securities account which captures the balance of the securities account, and may also show sub-accounts for main balance, pledge balance, banned balance and blocked balance.

2.2. **"Auction format"** means a system of bidding where the National Bank fixes the quantity and the participants bid on prices or the National Bank fixes the prices and the participants bid on quantity.

2.3. **"Auction window"** means a special arrangement organised by the National Bank to carry out auctions at specific time of the day and communicated to the participant banks.

2.4. **"Bank"** means a company licensed by the National Bank to undertake banking business or a bank owned by the Government.

2.5. **"Bilateral procedure"** means a procedure whereby the National Bank deals directly with only one or a few participants, without making use of auction procedures.

2.6. **"Book entry system"** means a system of tracking ownership of securities where no physical certificates are issued to investors.

2.7. **"Close-out netting"** means a process involving termination of obligations under a contract with a defaulting party and subsequent combining of positive and negative replacement values into a single net payable or receivable value.

2.8. **"Collection of term deposits"** means liquidity-absorbing operation with a pre-specified maturity whereby the National Bank attracts deposits from eligible participants.

2.9. **"Day count convention"** means a system for calculating interest accruals over time for investments in any financial instruments, which in this Directive is the number of actual days divided by 365.

2.10. **"Delivery versus Payment (DvP)"** means the process involving simultaneous delivery of all documents necessary to give effect to a transfer of securities in exchange for the receipt of the stipulated payment amount.

2.11. **"Equivalent assets"** in a repo/reverse repo operation means assets that are economically but not necessarily legally identical (the same issue of securities or, if the issue is divided into classes or tranches, the same class or tranche, but not the same part of that issue, class or tranche).

2.12. **"Eligible assets for trading and collateralisation (hereafter Securities)"** means debt instruments issued by the Government, debt instruments issued by the National Bank, or other financial assets as determined by the National Bank as eligible collateral assets.

2.13. **"Eligible participant"** means a bank that is eligible to access standing facilities or participate in open market operations.

2.14. **"Fine-tuning or non-standard operation"** means an open market operation conducted by the National Bank as a quick auction when it is deemed desirable to have a rapid impact on the liquidity situation in the money market.

2.15. **"Government Securities"** means a debt obligation issued by the government of Federal Democratic Republic of Ethiopia.

2.16. **"Granting of collateralised loans"** means liquidity-providing operation whereby the National Bank grants loans to eligible participants that maintain the ownership of the eligible assets pledged as collateral.

2.17. **"Haircut"** means the difference between the initial market value (or value computed using net present value of future cashflow of the collateral if the market value of the security is not found) of eligible collateral and the purchase price agreed between the buyer and seller of repo expressed as a percentage discount to the market value.

2.18. **"Inside information"** means information which:

a) is specific or precise,

b) has not been made public, and if it were made public would be likely to have a material effect on the price of any securities.

2.19. **"Main or standard operation"** means an open market operation conducted regularly by the National Bank on days it announced in advance.

2.20. **"Margin call"** in a repo means request for additional money/collateral to be deposited in an investor's account or sale of assets held in their account for the same purpose when the value of investor's margin account falls below the agreed amount.

2.21. **"Maturity date"** means the date of actual redemption of securities by the issuer or an expiry date of an open market operation of the National Bank.

2.22. **"Money market"** means a market for trading low-risk, highly liquid debt instruments with maturities of less than one year.

2.23. **"Multiple price/rate auction procedure"** means an auction at which winning bids are satisfied at the level of the price/rate offered by the participants.

2.24. **"National Bank"** means National Bank of Ethiopia.

2.25. **"NBE Certificates"** means debt securities issued by the National Bank, which represent obligations of the National Bank vis-à-vis the holder of the certificates.

2.26. **"NBE Securities"** means a debt instrument issued by the National Bank of Ethiopia.

2.27. **"Open market operations"** means operations carried out on the initiative of the National Bank involving one or more of the following transactions:

a) repo/reverse repo purchases/sales;

b) credit operations against eligible assets as collateral;

c) outright sales/purchases of eligible assets;

d) issuance of the NBE certificates;

e) deposit-taking operations;

2.28. **"Overnight Transaction"** means a transaction in which the funds are repaid back at or before 10:00 AM of the next business day.

2.29. **"Outright sales/purchases transaction"** means a liquidity-absorbing/providing transaction whereby the National Bank sells/buys eligible assets whose ownership is transferred from seller to buyer.

2.30. **"Policy rate"** means the rate which the National Bank defines as such and which is used to signal its monetary policy stance.

2.31. **"Quick auction"** means an auction procedure conducted by the National Bank, within 90 minutes of the announcement of the auction, for fine-tuning operations when it is deemed desirable to have a rapid impact on the liquidity situation in the money market.

2.32. **"Registry of securities"** means electronic records in the National Bank's Security Settlement System (or book entry system), which contains information about the owner and nominal owners of securities.

2.33. **"Related party"** to an eligible participant means:

a) a shareholder, a director, a chief executive officer, or a senior officer of the eligible participant and/or the spouse or relation in first degree of consanguinity or affinity of the shareholder, director, chief executive officer, or senior officer of the eligible participant; or

b) a partnership, a common enterprise, a private limited company, a share company, a joint venture, a corporation, or any other business in which the shareholder, director, chief executive officer, or senior officer of the eligible participant and/or the spouse or relation in first degree of consanguinity or affinity of the shareholder, director, chief executive officer, or senior officer of the eligible participant has a business interest as a shareholder, director, chief executive officer, senior officer, owner, or partner.

2.34. **"Repo (reverse purchases)"** means liquidity-providing operations whereby the National Bank purchases eligible assets from eligible participants upon their commitment to repurchase the respective assets or other equivalent assets at the date and the price agreed on the date the transaction was concluded.

2.35. **"Reverse Repo (reverse sales)"** means liquidity-absorbing operations whereby the National Bank sells eligible assets to eligible participants, thereby committing itself to repurchase the respective assets or other equivalent assets at the date and the price agreed on the date the transaction was concluded.



2.36. **"Securities accounts"** means accounts used to make security transactions and also to deposit securities and thus record details of financial assets held by a person or an organization.

2.37. **"Settlement date"** means the date on which transactions are settled.

2.38. **"Standing deposit facility (SDF)"** means the facility through which the National Bank accepts overnight deposits from eligible participants.

2.39. **"Standing facilities (SF)"** means standing lending facility and standing deposit facility granted to eligible participants by the National Bank, on the initiative of the eligible participants.

2.40. **"Standing lending facility (SLF)"** means the facility through which the National Bank grants overnight credits to eligible participants.

2.41. **"Standard auction"** means an auction procedure used by the National Bank in its regular open market operations.

2.42. **"Structural operation"** means an open market operation conducted by the National Bank to address structural liquidity imbalances with a maturity matching the nature of the structure of the operation.

2.43. **"Trade date"** means the date on which the transaction is concluded.

2.44. **"Valuation haircut/margin"** means a risk control measure applied to underlying assets used in repo/reverse repo transactions and when granting collateralised loans, implying that the National Bank calculates the value of underlying assets as the value of the assets reduced by a certain percentage (haircut) to mitigate market and credit risk.

3. Scope of Application

3.1. This directive shall be applicable to financial transactions between the National Bank and Banks operating in Ethiopia that maintains reserve requirement with National Bank for the purpose of open market operations and standing facilities.

4. General Provisions

4.1. This Directive cover Open Market Operations and Standing Facilities conducted by the National Bank to absorb or inject liquidity from/into the financial system.

4.2. All transactions conducted using these Open Market Operations and Standing Facilities shall be in Ethiopian Birr.

4.3. Appendices 1, 2 and 3 that are at the end of this document are part and parcel of this Directive.

5. Eligible Participants

5.1. All Banks that maintain reserve requirement with National Bank are eligible to access standing facilities and participate in open market operations.

5.2. To be eligible each Bank shall enter into an agreement with the National Bank as per attached Appendix 1.

5.3. The National Bank may revise the eligibility criteria as it deems necessary from time to time. The National Bank will inform the eligible participants about such changes at least five working days before the changes come into force.

6. Assets eligible as collateral

6.1. Assets eligible as collateral shall meet the following conditions, cumulatively, as appropriate:

a) be the property of the eligible participant;

b) shall not be pledged or unencumbered;

c) have a later maturity than the maturity of the operation performed;

d) shall not be issued, owed or guaranteed by the eligible participant or by a Related Party to the eligible participant.

e) Notwithstanding sub-article 6.1 (d) of this article, Government Securities and National Bank securities are eligible collaterals.

83
NATIONAL BANK OF ETHIOPIA

7. Valuation and Management of Collateral

7.1. If Government securities or National Bank securities are trading in the market, the valuation of eligible collateral will be determined by the prevailing market value.

7.2. In the absence of a market value, the valuation of an eligible collateral will be determined by the present value of the future cash flows of the asset, whereby the discount factor will be determined by the National Bank and published on its website.

7.3. Eligible assets to be pledged as collateral must be registered in the accounts of the respective participant banks opened at the National Bank and maintained in the Book Entry System.

7.4. Notwithstanding sub-article 7.3 of this Article, the participant has the right to replace the eligible collateral if its value is exceeding in value of the asset it is covering, with another asset that has value sufficient to cover its obligation, as otherwise provisioned by the National Bank.

8. Open Market Operations

8.1. The National Bank may conduct any of the following open market operations:

a) main or standard operations;

b) fine-tuning or non-standard operations; or

c) structural operations.

8.2. The National Bank may use any of the following instruments for its open market operations:

a) repo or reverse repo transactions;

b) granting collateralized loans;

c) outright transactions;

d) issuing NBE certificates; or

e) conducting deposit-taking operations.



9. Issuance of NBE Certificates

9.1. The National Bank may issue debt securities (NBE Certificates) for its monetary policy operations or liquidity management.

9.2. The NBE Certificates shall be issued at a nominal value of Birr 1,000,000.00 (one million) and in multiples thereof.

9.3. The NBE Certificates shall be issued at a discount from a par value of Birr 100,000.00 (one hundred thousand).

9.4. Outstanding NBE Certificates can be traded on the secondary market, which includes all selling and buying operations.

9.5. The trading of NBE Certificates on the secondary market is limited to only among banks.

9.6. The detailed features of the NBE Certificates shall be determined by the guidelines to be issued by the National Bank.

9.7. The National Bank through its book entry system shall assign to each issuance of certificates a unique registration number, according to its rules.

10. Granting of collateralised loans

10.1. The National Bank may grant collateralised loans for main operations, structural operations and/or fine-tuning operations.

10.2. The National Bank grants collateralised loans to participant banks under the terms regularly established by itself.

10.3. The value of eligible assets provided as collateral shall fully cover the loan granted plus a haircut, interest payable and other related payments.

10.4. The National Bank shall establish the value of assets accepted as collateral at the time the loans are granted and during their use in accordance with valuation rules of assets accepted by the National Bank.

11. Repo/Reverse Repo Transactions

11.1. Repo/reverse repo operations may be used for main operations, fine-tuning operations and/or structural operations.

11.2. The National Bank may be both the original buyer (repo) and/or the original seller of the securities (reverse repo).

11.3. During the repo/reverse repo transaction, the ownership of the assets shall be transferred to the purchaser.

11.4. At the maturity date of a repo/reverse repo transaction, the original buyer is obliged to sell the same security or equivalent security, and the original seller is obliged to repurchase them at prior agreed price.

11.5. When performing a repo transaction, the term until the maturity date of the security delivered in the transaction shall not be less than two business days after the maturity date of the transactions.

11.6. The repurchase price of eligible assets subject to trading, which are the object of repo / reverse repo transactions, consists of selling price and interest due at maturity relating to the amount of assets sold.

11.7. The interest rate applied shall be the nominal interest rate based on the day-count convention.

11.8. When performing a repo/reverse repo transaction, the National Bank shall set the buying/ selling price of the security.

11.9. The value of the collateral asset shall be reduced by the haircut.

11.10. The National Bank shall determine the amount of the haircut to be applied on the collateralized asset.

11.11. In the case of an increase in the value of collateral, the participant of the transaction is entitled to take the excess from the National Bank.

11.12. In the case of a decrease in the value of the collateral, the National Bank shall have the right to call (margin call) for an additional collateral to meet the shortfall in the form of eligible securities or financial resources.

11.13. The trigger threshold for the margin call shall be set by the National Bank as a percentage of the initial value of assets accepted by the National Bank as collateral for granting loans to banks.

11.14. In the absence of a market price for the securities, the National Bank may use the present value of the asset's future cash flows to determine the price. The discount rate for these securities shall be determined by the National Bank and published on its website.

12. Outright Transactions

12.1. The National Bank may undertake outright transactions involving buy or sell of securities in the market for structural operations.

12.2. An outright transaction implies a full transfer of ownership from the seller to the buyer with no connected reverse transfer of ownership.

12.3. The transactions are executed in accordance with the market conventions for the instrument used in the transaction.

12.4. The operational features of the transactions are as follows:

a) they can take the form of liquidity-providing (outright purchase);

b) the form of liquidity-absorbing (outright sale) operations;

c) their frequency is not standardized;

d) they are executed through bilateral procedures and/or through competitive auction.

13. Deposit-taking operations

13.1. The National Bank may collect term deposits from eligible participants in order to absorb liquidity from the money market for main operations, fine-tuning operations and/or structural operations.

13.2. Deposits attracted from eligible participants shall have a maximum maturity of one year and a fixed rate of interest.

13.3. National Bank may determine the maximum interest rate applied to the term deposits and it shall be calculated based on the day-count convention.

13.4. The interest on the term deposits shall be calculated from the date of registration of the amount in the deposit account of the eligible participant at the National Bank until its repayment date.

13.5. The repayment day on which the National Bank reimburses the deposit amount to the eligible participant shall be excluded from the calculation of the interest.

13.6. The interest amount on term deposits with the National Bank shall be paid simultaneously with the reimbursement of the deposit amount to the eligible participant.

13.7. Funds of eligible participants placed in deposit accounts at the National Bank shall not be part of the required reserves calculation.

13.8. Eligible participants shall have no rights to assign the deposits placed with the National Bank to a third party.

13.9. The term of the deposits may not be extended.

14. Standing Lending Facility

14.1. Eligible participants may obtain overnight funding from the National Bank through use of the standing lending facility by submitting a written request to the National Bank, duly signed by the president or any other person delegated by the president and bearing the stamp of the institution.

14.2. The written request to the National Bank shall include at least the following:

a) the identification elements of the eligible participant as per Appendix 2;

b) the amount being requested; and

c) the type and face value of the underlying assets to be used as collateral.

14.3. The maturity of the standing lending facility shall be overnight.

14.4. If loan application is submitted correctly and in a timely manner, the National Bank shall transfer the requested amount to the payment and settlement account of the requesting bank with the National Bank no later than the close of the same business day.

14.5. The collateral shall be established before the credit is granted and their adjusted value shall cover 100 percent of the loan, the due interest and a haircut as determined by the National Bank.

14.6. The standing lending rate shall be established by the National Bank and shall be announced in advance.

14.7. The interest shall be payable together with the repayment of the loan.

14.8. The calculation of the interest shall be using a simple interest rate, based on the day-count convention.

14.9. In the event the maturity date is on a non-business day, the transfer shall occur on the following business day at no penalty to the participating bank.

15. Standing Deposit Facility

15.1. Eligible participants may make deposits with the National Bank anytime during business hours through the deposit facility without prior notice to the National Bank.

15.2. The amount of the deposit is determined by a participant bank on its own discretion.

15.3. The maturity of the deposits shall be overnight.

15.4. The standing deposit facility rate shall be established by the National Bank in accordance with the monetary policy objectives, and shall be announced in advance.

15.5. The interest shall be calculated using a simple interest rate based on the day-count convention.

15.6. The National Bank may change the interest rate at any time, with effect on the deposits taken no earlier than the following business day.

15.7. In order to use the National Bank's overnight deposit standing facility, an eligible participant shall deposit funds on its standing deposit account at National Bank via an appropriate transfer order through Real Time Gross Settlement (Ethiopia Automated Transfer System).

15.8. On the maturity day of the standing deposit facility, no later than 10:00 AM, the National Bank shall transfer the principal amount and accrued interest to the payment and settlement account of the participant bank.

15.9. In the event the maturity date is on a non-business day, the transfer shall occur on the following business day.

16. Open Market Bilateral Operation

16.1. Open market operations may be performed through bilateral procedures initiated by the National Bank or concerned bank, on exceptional basis, depending on the situations in the money market as per National Bank's assessment.

16.2. The frequency and maturity of operations performed through bilateral procedures involving fine tuning or structural operations may not be standardized.

16.3. In order to conduct bilateral operations, the National Bank shall negotiate with the eligible participant, in advance where appropriate, the following transaction parameters:

a) type of transaction;

b) term of transaction;

c) purchase/selling price;

d) interest rate;

e) volume of transaction;

f) settlement date;

g) maturity date;

h) type of collateral.

16.4. Upon granting loans through bilateral procedures, the National Bank shall conclude with the participant a separate financial collateral arrangement without transfer of ownership.

17. Auction Windows

17.1. The auction window shall be set at specific times of the day by the National Bank and shall be communicated to the participating banks.

17.2. The National Bank may, after informing the participating banks at least twenty four (24) hours before hand, change the time and/or duration of the auction window.

17.3. The participants shall be notified accordingly should the National Bank decide to open any additional window on a temporary basis, and the window shall be open for 90 minutes.

17.4. The National Bank reserves the right to cancel or postpone an auction at any time without prior notification adhering to the rule as per 17.2.

18. Auction Format

18.1. The National Bank may use any of the following three types of auction formats as it deems appropriate:

(a) Fixed price auction in which the National Bank sets the rates and the participant banks bid on the quantity;

(b) Variable price auction in which the National Bank sets the overall quantity, and the participating banks bid on the price and successful bids are allotted at individual submitted auction price (multiple rate);

(c) Single or uniform price auction in which the National Bank sets the overall quantity, and the participating banks bid on the price and one single price (cut-off or stop rate) derived from the auction is awarded to all successful bidders. This price will be determined by the resulting marginal price from the auction.

19. General provisions for auction processes

19.1. Open market operations of the National Bank shall be carried out through auctions.

19.2. The National Bank may use either standard auctions and/or quick auctions.

19.3. In the case of a standard auction, the National Bank announces to the participating banks about the auction conditions on the business day preceding the day of the auction.

19.4. In executing the auction, the National Bank shall follow the operational steps listed below:

a) announcement of the auction;

b) submission of bids by the participants eligible to auction and, where appropriate, the list of eligible assets available;

c) auction allotment;

d) announcement of individual allotment results;

e) settlement and repayment of transactions.

19.5. In the case of a fixed rate auction, the National Bank shall indicate in advance the interest rate, and the bids of participants shall include only the amount.

19.6. In the case of a variable rate auction, the National Bank shall indicate in advance the amount to be traded.

19.7. Under sub-article (19.6) of this Article, participants may submit more than one bid.

19.8. The main operations shall be performed in accordance with a pre-announced indicative schedule published on the official website of the National Bank before the beginning of the year for which it is valid.

20. Announcement of auction

20.1. National Bank shall inform the participants about the operation of the auction and conditions thereof by sending an announcement, including the following:

a) date of the auction operation;

b) type of instrument to be used;

c) start date of the operation;

d) maturity date of the operation;

e) type of auction;

f) method of allotment;

g) intended operation volume (if applicable);

h) interest rate (if applicable);

i) nominal value of the NBE Certificate;

j) time limit for the participant to submit a list of eligible assets for repo transactions;

k) registration code of the issue of the security (if applicable);

l) start time of receipt of bids;

m) time limit for the receipt of bids;

n) assets eligible as collateral and asset valuation haircut (if applicable);

o) time limit for the auction results announcement;

20.2. National Bank has the right to cancel the auction. In the event of cancellation of auction, participant banks shall immediately be notified by the same means as the auction was announced.

21. Submission of bids by eligible participants

21.1. Participants shall submit their bids on the day on which the auction is conducted, within the time limits specified in the announcement.

21.2. Participants are responsible for the submission of bids and are entitled to modify or withdraw the submitted bids during the time provided for the submission of bids announced within the auction.

21.3. No modification or withdrawal of submitted bids is allowed after the time limit provided for the receipt of bids has elapsed; the bids submitted being considered as commitments by the eligible participants.

21.4. The bids submitted after the time limit provided for in the auction announcement shall not be accepted.

21.5. Depending on the type of auction format, bids submitted for auction by participants shall include:

a) auctioned volume; or

b) interest rate/price.

21.6. The bids submitted by the participants shall contain options for interest rates, expressed in percentage, with four digits after comma or prices, expressed as a percentage of the nominal value with four digits after comma, for securities.

21.7. Participants shall submit to the National Bank, within the time limit indicated in the auction announcement, a list of securities proposed for the repo transaction, which shall contain the following:

a) registration code of the security;

b) volume of the security at the nominal value;

c) repo rate;

d) sale and repurchase price of the security; and

e) volume of the security at the sell and repurchase price.

21.8. Upon granting loans collateralised with eligible assets, participants shall submit, along with the bids, a confirmation to the National Bank containing the date of the auction, the list of eligible assets available as collateral, their features and value, and other elements as appropriate.

21.9. If any of the conditions stipulated under the auction announcement are not satisfied, the submitted bids shall not be accepted.

22. Auction allotment

22.1. In the allotment of a fixed rate auction, the National Bank shall provide the full amount demanded at the pre-defined interest rate.

22.2. In the allotment of a variable rate auction involving liquidity injection, the participant who submits the highest interest rate or the lowest price shall be allotted in full until the level where supply meets demand is reached.

22.3. In the allotment of a variable rate auction involving liquidity absorption, the participant who submits the lowest interest rate or the highest price shall be allotted in full until the level where supply meets demand is reached.

22.4. In the allotment of variable rate auction, if the volume of bids submitted by the eligible participants exceeds the volume intended for the operation and if several bids have been submitted at the cut-off rate / cut-off price, these bids shall be executed pro rata,

according to the ratio of the remaining amount to be allotted and total bid amount at the cut-off rate /cut-off price.

22.5. For securities trading and/or issuing, the amount allotted to each participant is rounded upwardly to the nearest value divisible by the nominal value of security.

23. Announcement of auction results

23.1. A consolidated summary of the auction results shall be published on National Bank's website and/or other media outlets on the same day, which, depending on the type of operation, shall include:

a) date of auction;

b) type of operation;

c) total amount of bids submitted by participants;

d) number of bidders/bids submitted;

e) total amount announced and allotted;

f) in the case of variable rate auctions, cut-off interest rate/price accepted and the percentage of allotment at this rate /price;

g) in the case of a fixed auction, the fixed interest rate as already announced in the invitation;

h) in the case of variable rate auction, minimum and maximum bid rate;

i) in the case of variable rate auction which is a multiple rate auction, weighted average allotment rate/ weighted average allotment price; and

j) start date of the operation and the maturity date of the operation;

23.2. The auction allotments results shall be announced to each respective participant one hour after consolidated summary of the results are communicated to the market.

23.3. In the case of a repo / reverse repo transaction, the information about the results of each allotment in the auction, indicating the eligible assets accepted by the National Bank shall include:

a) registration code;

b) purchase (sell) price;

c) repurchase price;

d) repo rate;

e) the volume of transaction:

i. at the purchase-sell price;

ii. at the repurchase price;

iii. at the nominal value.

23.4. Upon granting of loans collateralised with eligible assets / accepting deposits, after determining the auction results, the National Bank shall send to participants, on the same day, a confirmation that includes the following information:

a) name of participant;

b) date of transaction;

c) type of transaction;

d) amount of credit/deposit;

e) date of settlement;

f) maturity of credit/deposit;

g) nominal interest rate;

h) interest payment date;

i) calculation convention;

j) confirmation with regard to the eligible assets accepted as collateral (Appendix 3).

24. Settlement of open market operations

24.1. Settlement of open market operations is conducted on the settlement date after participants satisfy the following:

a) participant has provided the underlying assets related to the liquidity-providing operations;

b) in the case of delivery versus payment (DvP) principle, delivery of underlying securities will take place only if the cash transfer is simultaneously successfully performed in the RTGS/EATS or vice versa.

24.2. Open market operations based on standard auctions are settled on the first business day following the auction date; however, the National Bank may establish other settlement dates.

24.3. Open market operations based on quick auctions are settled on the same day of the auction; however, the National Bank may establish other settlement dates.

24.4. Participants should ensure availability of sufficient funds on their payment and settlement accounts with the National Bank on the settlement date to conduct settlement of liquidity-absorbing operations in accordance with the results of the auction.

24.5. If the date of settlement of the main liquidity-absorbing operations coincides with the due date of the operation performed previously, participants shall maintain on their payment and settlement accounts with the National Bank the difference between the amount to be paid to the National Bank and the amount to be paid by the National Bank on the same operational day.

24.6. On the date of settlement of deposit collection transactions, the National Bank shall issue under the power of attorneys granted by participants, payment orders on their behalf in order to debit their current accounts opened with the National Bank, with the amounts related to the performed operation.

24.7. The settlement of repo/reverse repo operations of NBE Certificates issuance and outright sales/purchases conducted with the banks shall be performed under the rules of the National Bank.

24.8. On settlement day, after charging the respective funds, the ownership of the security shall be registered in the Book Entry System.

24.9. In case of granting of loans, the National Bank shall open analytical accounts, inform the participants about the account number to which they must repay the loan and transfer the related interest.

25. Events of default on payment

25.1. For the purposes of this Directive, events of default shall be considered to have occurred if one or more of the following happen:

a) License revocation by the National Bank.

b) liquidation, placement of the eligible participant under receivership by the National Bank, or adoption of other similar procedures intended to safeguard or restore the financial situation of the participant as well as to avoid the approval of the decision indicated in (a);

c) submission to the National Bank of a written declaration by the participant regarding its inability to fulfill its obligations pertaining to open market operations;

d) suspension or loss of the status of participant to Ethiopia Automated Transfer Settlement or the Book Entry System;

e) failure by the participant to provide sufficient volume of eligible assets for collateralization of the liquidity-providing operations;

f) failure by the participant to fulfill the obligations to deliver additional collateral in accordance with the provisions of Article 11.12 of this Directive;

g) failure by the participant to honor payment obligations in liquidity-absorbing operations;

h) failure by the participant to honor payment obligations of the repurchase price at the repo transaction maturity date;

i) failure by the participant to honor the delivery obligations of the securities at the due date of the reverse repo transaction;

j) failure by the participant to reimburse within the set deadlines the credit granted by the National Bank.

25.2. Participant is obliged to notify the National Bank of any occurrence of an event of default referred to in the sub-article 25.1, as soon as the participant becomes aware of the facts.

25.3. As soon as the participant is deemed to be in default, the National Bank can close-out the agreement with the participant.

25.4. With exception of the case that this Directive specify otherwise, all notifications required or provided for under this Directive shall be forwarded to the participant in writing.

25.5. If an event of default as defined in sub-article 25.1 occurs in relation to the participant, the National Bank may:

a) suspend or limit its participation in open market operations for a period of up to 30 days as of the date when the event has been determined;

b) terminate unilaterally the agreement for the participation in the open market operations of the National Bank;

c) terminate all outstanding transactions;

d) demand accelerated performance of its claims that have not yet matured or are contingent;

e) use the participant's deposits at the National Bank to set off claims against the respective participant;

f) suspend the fulfilment of its obligations towards the participant until it fulfills its obligations towards the National Bank;

g) exercise its preferential and unconditional right to satisfy each of its claims that reaches maturity;

h) enforce the financial collateral in accordance with the provisions stated in the agreement signed with the participant;

i) apply as appropriate, pecuniary sanctions in the manner provided for in agreements concluded with eligible participants.

25.6. The National Bank is entitled to enforce the financial collateral in one of the following ways:

a) in case of cash, by setting off the amount against or applying it in discharge of the relevant financial obligations;

b) in the case of Government Securities and of NBE Certificates, by sale or appropriation and by setting off their value against, or applying their value in

discharge of, the relevant financial obligations as per agreement signed between National Bank and participant.

25.7. At the moment of initiation of enforcement of collateral, the National Bank shall send a notification to the participant.

25.8. Enforcement by selling of collateral in the form of securities for credit granting operations shall be carried out through auctions conducted in accordance with the provisions of this Directive, in integral or partial volume, by notifying the debtor bank.

25.9. All banks shall be accepted at the auctions for sale of underlying assets, except banks with overdue credits and those that have not repurchased securities under repo transactions.

25.10. The National Bank utilises the proceeds from the sale of the underlying assets in the account of payment of penalties, then of interest on debt and after that of its own claims.

25.11. The National Bank may benefit from the close-out netting provision within repo/reverse repo transactions at the occurrence of an event of default specified in sub-article 25.1.

26. Close-out netting provision in repo/reverse repo transactions

26.1. In order to achieve the set off, upon the occurrence of an event of default, the National Bank shall apply the following provisions:

a) the repurchase date for each repo/reverse repo transaction shall be deemed to occur immediately and any security or additional financial resources for making the margin call shall be delivered immediately.

b) the repurchased security value and of those to be transferred for margin and the repurchase price to be paid by each party shall be set by the National Bank for all transactions on the repurchase date.

c) On the basis of the amounts set in accordance with article 26.1 (b), the National Bank shall calculate what is due from each party to the other at the repurchase date.

d) The sums due from one party must be set off against the sums due from the other and only the net balance is payable on the next business day by the party owing.

27. Prohibited actions and obligations of participants

27.1. A participant is prohibited from engaging in such deals and actions which put it individually or along with third parties into a dominated position on the money market in addition to any manipulations that put it or third parties into an undeserved privileged position thereby creating uncompetitive environment and possibility or threat of fixing interest rates and commissions.

27.2. While participating in open market operations auctions, the participants are prohibited from the following:

a) Agreeing among each other regarding their bids prior to a certain auction;

b) Sharing information among each other regarding their bids before the end of a certain auction;

c) Using insider information or other information from a competitor participant engaging in actions that put them into an undeserved favorable position compared to other participants and/or third parties on an auction;

d) Bidding on behalf of and/or in favor of each other.

27.3. Participants are prohibited from engaging in such deals, on the basis of a prior agreement, that are aimed at manipulating prices or yields of certain financial instruments.

27.4. Participants are obliged to comply, at all times, with the terms and requirements set out in this Directive.

28. Penalty

28.1. A person who contravenes the provisions of this directive shall be punished in accordance with Article 26 (2/d/) of the National Bank of Ethiopia Establishment (as Amended) Proclamation No. 591/2008.

28.2. Notwithstanding to the criminal penalty that provides under sub-article 28.1 of this article, a participant who fails to obey the prohibited actions and obligations as set out in article 27 of this directive is liable for administrative penalty equal to:

a) Birr 500,000 for the first time

b) Birr 1,000,000 for the second time

c) Birr 2,000,000 for the third time

28.3. Without prejudice to sub-article 28.2 of this article, if the participant fails to obey the prohibited actions and obligations that provide under article 27 of this directive, it shall be barred:

a) For a period of six months in case of sub-article 28.2 (a);

b) For a period of one year in case of sub-article 28.2 (b); and

c) Permanently in the case of sub-article 28.2 (c) from participating in the NBE's monetary policy operation auctions in addition to the financial penalty and sanctioned thereon.

29. Effective Date

This directive shall enter into force as of the 2nd day of August 2021

Yinager Dessie (PhD)
Governor

APPENDICES

Appendix 1: to the Directive of the National Bank of Ethiopia on open market operations and standing facilities

AGREEMENT

on the participation in the open market operations of the National Bank of Ethiopia

Addis Ababa

Date_____

Parties to this Agreement:

National Bank of Ethiopia (NBE), in the person of _____,

(name, father's (middle) name, grandfather's (last) name, position)

and _____, hereinafter Participant, in the person of

(full name of the bank)

_____, concluded this agreement with regard to the following:

(name, father's (middle) name, position)

I. OBJECT OF AGREEMENT

This Agreement regulates the relations between the NBE and the Participant when conducting the following types of open market operations of the NBE:

1.1. Liquidity-absorbing operations (issuance of NBE Certificates, reverse repo transactions with eligible assets, collection of term deposits, outright sale of Government Securities (GS);

1.2. Liquidity-providing operations (repo transactions with eligible assets, granting of loans collateralised with eligible assets, outright purchase of GS).

II. GENERAL ISSUES REGARDING THE RIGHTS AND OBLIGATIONS OF PARTIES

2.1. Under this Agreement, the NBE obtains the status of participant in the open market operations, and the parties commit themselves to honour with due diligence the obligations under this agreement and the provisions of the Directive of the National Bank on open market operations and standing facilities (hereinafter called Directive).

2.2. The NBE is entitled to:

2.2.1. initiate open market operations and to establish the instrument to be used, terms and conditions to carry out such operations;

2.2.2. apply the measures foreseen by the Directive at the occurrence of events of default in relation to the participant.

2.3. The NBE undertakes to:

2.3.1. send the announcement on the date and conditions of the auction to be conducted through the unique trading platform or through any other means as provided for in the Directive;

2.3.2. inform the participant about the results of the auction/bilateral procedure through the unique trading platform or, where appropriate, through other means as in accordance with the Directive.

2.4. The participant that has decided to participate in the auction or has accepted the bilateral procedure undertakes to send the bids through the unique trading platform or any other means as provided for in the Directive on the day of auction until the time limit specified in the announcement on the conduct of open market operations.

III. RIGHTS AND OBLIGATIONS RELATED TO LIQUIDITY-ABSORBING OPERATIONS

3.1. The participant empowers the NBE to issue payment orders in its name for debiting purpose, on the settlement date, according to the results of auctions/bilateral procedures of its Payment and Settlement Account with the NBE with the amount of deposit collection operations.

3.2. The Participant undertakes to:

3.2.1. ensure availability of sufficient funds on its Payment and Settlement Account with the NBE to conduct settlement of liquidity-absorbing operations, on the settlement date, according to the results of the auction/bilateral procedures at the beginning of the stage "Payments and clearing" of the EATS operational day;

3.2.2. ensure on the maturity date of a repo reverse transaction, the availability of underlying assets for their transfer to the NBE.

3.3. The NBE undertakes to:

3.3.1. transfer to the participant's Payment and Settlement Account opened with the NBE, the financial resources on the maturity date of placed deposits;

3.3.2. transfer to the participant additional collateral of securities or financial resources within the reverse repo transaction, on the date of receipt of respective notification from NBE.

3.4. The NBE is entitled:

3.4.1. to receive the interest (coupon) related to the government bonds used as collateral in reverse repo transactions, if the interest (coupon) is due during the term of transaction;

3.4.2. to benefit from the close-out netting provision within reverse repo transactions, as provided by the Directive.

IV. RIGHTS AND OBLIGATIONS RELATED TO REPO AND OUTRIGHT PURCHASES

4.1. The participant undertakes to:

4.1.1. ensure the availability of eligible securities in its portfolio at the time of settlement of repo transaction for their transfer to the NBE;

4.1.2. repurchase the securities sold under repo transactions or equivalent at a later date and at a price agreed on the trade date;

4.1.3. ensure availability of sufficient funds on its Payment and Settlement Account with the NBE to conduct repo transaction settlement on the maturity date, at the beginning of the stage "Payments and clearing" of the EATS operational day;

4.1.4. transfer additional collaterals in the form of securities or financial resources to the NBE, within the repo transaction, on the date of receipt of respective notification from NBE.

4.2. The participant is entitled to receive interest (coupon) from the securities used as collateral in the repo transactions, if the interest rate (coupon) is due during the term of transaction.

4.3. The NBE is entitled to:

4.3.1. request from the participant, within repo transactions, an additional volume of eligible assets in the form of securities or additional funds (margin call) in the event of decline in the value of the collateral;

4.3.2. sell or retain the securities purchased under repo transactions as owner in the absence or insufficiency of funds in the Payment and Settlement Account of the participant for GS repurchase;

4.3.3. pay off the debt of the participant with the amount obtained from securities redemption by the issuer, where the participant failed to ensure the redemption of securities on repo transaction date, and thereafter the GS became due.

4.3.4. benefit from the close-out netting provision in the repo transactions as provided for in the Directive.

V. RIGHTS AND OBLIGATIONS RELATED TO GRANTING OF LOANS COLLATERALISED WITH ELIGIBLE ASSETS

5.1. Participant undertakes to:

5.1.1. ensure that eligible assets are made available to the NBE in the amount sufficient to cover the total amount of loans granted by the NBE, interest and other related payments;

5.1.2. reimburse in due time the loan received from the NBE and pay the loan-related interest;

5.1.3. provide NBE with additional collateral on loans, no later than two business days after the day of receipt of such notification from the NBE according to paragraph 5.3.1.

5.2. The participant is entitled to repay the loan and pay the related interest ahead of schedule, with the agreement of both Parties.

5.3. The NBE is entitled to:

5.3.1. require the participant, upon granting of loans collateralised with eligible assets, to submit an additional volume of underlying assets, if their value decreases during the use of loan;

5.3.2. collect unquestionably from the participant's Payment and Settlement Account with the NBE the outstanding amount of the loan, interest and other payments that are not made in due time;

5.3.3. enforce the financial collateral in the way provided for in sub-article 25.5 and 25.6 of the Directive with prior notification of the Participant about the intention to enforce the financial collateral. The way of assessment of GS at the collateral enforcement by appropriation shall be determined by the NBE and shall be communicated to the Participant upon request.

5.4. NBE undertakes to:

5.4.1. grant the loan to the participant on the settlement date, according to the results of auctions/bilateral procedures at the value indicated in the confirmations of operations performed after blocking and/or making available to the NBE of underlying assets;

5.4.2. reimburse the underlying assets to the participant, following full payment of the loan, interest and other related payments.

VI. SANCTIONS

6.1. The NBE is entitled to:

6.1.1. cancel the transaction and charge a penalty in the amount of 0.2 percent of the transaction amount if the participant failed to fulfil its payment obligations on the settlement date, until 4:00 pm, according to auction/bilateral procedures results of liquidity-absorbing operations;

6.1.2. cancel the repo transaction if the participant failed to provide sufficient underlying assets as required by paragraph 4.1.1. and charge a penalty in the amount of 0.2 percent of the transaction amount;

6.1.3. cancel the transaction of loan granting in full if the participant failed to provide sufficient underlying assets on the auction day, until 4:00 pm, and charge a penalty in the amount of 0.2 percent of the transaction amount;

6.1.4. charge for the outstanding amount of the loan or to the purchase price of unpaid securities within a repo transaction an interest on late payment based on the interest rate of the transaction, plus 0.3 percent from the immediate date following the maturity of payment until the date of execution of payment, including, per each expired day.

6.2. NBE undertakes to pay:

6.2.1. for each day of delay, a penalty of 0.3 percent of the amount of the non-honoured commitment in case of failure to fulfil the payment obligations, in due time during the open market operations, from the immediate date following the due date of payment until the date when the payment was performed, including.



VII. TERMS AND CONDITIONS WITH REGARD TO COMMENCEMENT AND TERMINATION OF THIS AGREEMENT

7.1. This Agreement shall enter into force upon signature.

7.2. Unless otherwise provided by law and the Directive on open market operations and Standing Facilities of the NBE, the Parties may terminate this Agreement by written notice submitted in 5 business days before the expected termination.

7.3. Additions and changes to this Agreement shall be concluded by an additional agreement of the Parties.

VIII. DISPUTES AND DIVERGENCES OF THE PARTIES

8.1. The divergences and disputes arising from the improper performance or non-performance of this Agreement shall be settled amicably by the Parties. If the divergences/disputes were not resolved amicably, the Parties shall resort to remedies established by the legislation of the Federal Democratic Republic of Ethiopia.

8.2. This Agreement is signed in two copies, which have the same legal force.

National Bank of Ethiopia

_____

(name, father's (middle)) , signature)

Stamp

Participant

_____

(name)

_____

(name, father's (middle name), position, signature)

Stamp



Appendix 2: to the Directive of the National Bank of Ethiopia on open market operations and standing facilities

Bank: _____

Address: _____

Telephone: _____

Fax: _____

LIST OF PERSONS
ENTITLED TO PARTICIPATE ON NBE's OPEN MARKET OPERATIONS

No	Full name	title	Type of operation	E-mail	Telephone
1					
2					
3					
4					

The persons listed above are authorized to carry out open market operations with the NBE until this notification is be modified or cancelled by the bank in accordance with the Directive on open market operations of the National of Ethiopia.

Person in charge of the bank _____

(name, father's (middle) name, grandfather's last) name, signature)

Appendix 3: to the Directive of the National Bank of Ethiopia on open market operations and standing facilities

_____

(name of bank)

CONFIRMATION

National Bank of Ethiopia communicates the list of underlying assets accepted for the credit granted following the auction of „____"_____20__ in the amount of Birr _____, with the due date on _____:

Eligible securities

Description of GS	**ISIN code**	**Nominal value of GS (Birr)**	**Securities value at evaluated price (Birr)**
1	**2**	**3**	**4**
....			
Total		X	X

Person in charge of the National Bank of Ethiopia

_____

(name, father's (middle) name, signature)