

**NATIONAL BANK OF MOLDOVA
EXECUTIVE BOARD**

DECISION No 211
of 8 August 2019
(in force as of 23.09.2019)

REGISTERED:
Ministry of Justice
of the Republic of Moldova
No 1481 of 12 August 2019

**On the Approval and Amendment of Certain Normative Acts
of the National Bank of Moldova**

Pursuant to Article 5 paragraph (1) letter a) and letter e), Article 11 paragraph (1), Article 15, Article 18 paragraph (1) and Article 27 paragraph (1) letter c) of the Law No 548/1995 on the National Bank of Moldova (republished in the Official Monitor of the Republic of Moldova, 2015, No 297-300, Article 544), with further amendments, the Executive Board of the National Bank of Moldova

DECIDED:

- 1.** To approve the Norms on evaluation of assets accepted by the National Bank of Moldova as collateral for granting loans to banks (attached).

**Vice-president of the
Executive Board**

Vladimir MUNTEANU

NORMS
on evaluation of assets accepted by the National Bank of Moldova
as collateral for granting loans to banks

Amended by:

DEB of the NBM No 112 of 02.06.2022, Official Monitor of the Republic of Moldova No 177 of 15.06.2022, Article 701
DEB of the NBM No 139 of 11.06.2020, Official Monitor of the Republic of Moldova No 153-158 of 26.06.2020, Article 576

Chapter I
General provisions

1. These norms establish:

1) the methodology for valuing the assets provided to the National Bank by banks that are legal entities from the Republic of Moldova, licensed by the National Bank (hereinafter banks) as collateral for granting of loans, including emergency liquidity assistance (hereinafter - liquidity assistance) in accordance with Art.18 and, respectively, Art.18¹ of the Law No 548/1995 on the National Bank of Moldova;

2) the measures for risk control associated with the assets indicated in subparagraph 1).

(Paragraph 1 amended by Decision No 139 of 11.06.2020 of the Executive Board of the NBM, in force as of 30.06.2020)

2. The value of assets accepted as collateral by the National Bank (hereinafter called eligible assets) is determined both at the moment of granting the loans / liquidity assistance and periodically during their term, for each category of eligible assets.

(Paragraph 2 completed by Decision No 139 of 11.06.2020 of the Executive Board of the NBM, in force as of 30.06.2020)

3. For the purpose of protecting the National Bank against the risk of financial losses in the event of a bank's failure to meet its obligations, the eligible assets are subject to the risk control measures referred to in Chapter II.

The National Bank shall apply specific measures of risk control depending on the categories of accepted eligible assets.

4. The main risks that may cause financial losses are:

1) **credit risk** – risk that appears as a result of bank's inability to meet its obligations in full;

2) **market risk** – risk that appears as a result of unfavourable modification of the value of an eligible asset during the period of operations carried out by the National Bank, with the possibility of recording financial losses;

3) **liquidity risk** – risk that an eligible asset cannot be traded in a timely manner in order to avoid the decrease in its value;

4) **operational risk** - risk with negative financial and / or reputational implications, determined either by poor internal governance, by the use of inadequate processes, systems and human resources or by not performing their function properly, or by external factors.

(Paragraph 4 amended by Decision No 139 of 11.06.2020 of the Executive Board of the NBM, in force as of 30.06.2020)

5. For the purpose of these norms, assets eligible for lending / liquidity assistance operations fall into two categories - marketable assets (debt securities admitted to trading on a market) and non-marketable assets (term deposits, required reserves, pecuniary claims, etc.).

(Paragraph 5 in the wording of Decision No 139 of 11.06.2020 of the Executive Board of the NBM, in force as of 30.06.2020)

Chapter II

Measures of risk control

6. The measures of risk control which shall be applied by the National Bank depending on the characteristics of eligible assets are the following:

1) **valuation haircuts** - a risk control measure applied to eligible assets used in repo transactions and to the granting of collateralized loans / liquidity assistance by which the National Bank calculates the value of assets as market value / their balance from which it is deducted a certain percentage (haircut);

2) **variation margins** (marking-to-market) - the National Bank requires the market value of the eligible asset accepted for lending operations to be maintained over time, which implies the following:

a) if the value of accepted eligible asset that is regularly revalued, decreases below a certain level established by the National Bank, it will demand the bank to provide additional assets or funds through a margin call;

b) if following the revaluation, the value of the accepted eligible asset exceeds a certain level established by the National Bank, the bank can demand the withdrawal of the excess assets and/or the return of excess funds;

3) **margin calls** – procedure applied within repo and lending/liquidity assistance operations, through which the counterparties are requested to provide additional assets or funds, when the value of eligible assets – if regularly revalued – falls below a certain level;

4) **limits** - maximum values established / imposed and applied by the National Bank on the volume of collateral that the bank can constitute in case of financial instruments and / or pecuniary claims accepted as eligible assets and constituted as collateral for loans / liquidity assistance, which present increased liquidity risk or other risks associated with this collateral.

(Paragraph 6 completed by Decision No 139 of 11.06.2020 of the Executive Board of the NBM, in force as of 30.06.2020)

7. The creation of additional collateral (margin call) and return of excess collateral in form of financial instruments shall be carried out pursuant to the Rules of the Single Central Securities Depository, coordinated with the National Bank, while the collateral in form of other assets – pursuant to the regulations of the National Bank and the provisions of contracts concluded between the National Bank and the bank.

8. The National Bank may apply additional measures of risk control in order to assure an adequate protection against these risks, which will be communicated to banks by publishing on the website of the National Bank.

9. Eligible marketable assets represented by state securities, certificates of the National Bank, bonds issued by local government authorities (hereinafter - municipal bonds) and bonds issued by companies (hereinafter - corporate bonds) shall be allocated to one of the three haircut categories, based on the type of issuer and / or the type of asset, as provided in paragraph 9¹.

(Paragraph 9 in the wording of Decision No 139 of 11.06.2020 of the Executive Board of the NBM, in force as of 30.06.2020)

9¹. Depending on the category of the haircut in which the marketable asset is distributed and its residual maturity, the following minimum valuation haircut levels are established (except for those established for category I assets):

| Residual maturity | Applied haircut | | |
|-------------------------|--|--------------------------------|---------------------------------|
| | Category I State securities and certificates of the National Bank of Moldova | Category II Municipal bonds | Category III Corporate bonds |
| Up to 6 months | 2.0% | 15.0% | 25.0% |
| From 6 months to 1 year | 4.0% | 20.0% | 30.0% |
| From 1 year to 3 years | 7.0% | 25.0% | 35.0% |

| | | | |
|----------------------------------|--|-------|-------|
| From 3 years to 5 years | 9.0% | 30.0% | 40.0% |
| From 5 years to 7 years | 11.0% | 35.0% | 45.0% |
| With a term of more than 7 years | Shall be determined according to the conditions for issuing the bonds. | | |

(Paragraph 9^l completed by Decision No 112 of 02.06.2022 of the Executive Board of the NBM, in force as of 15.06.2022)

(Paragraph 9^l introduced by Decision No 139 of 11.06.2020 of the Executive Board of the NBM, in force as of 30.06.2020)

10. The valuation haircuts provided for in paragraph 9^l for eligible assets in category I shall apply to the granting of loans, repo transactions and the granting of credit standing facilities.

The valuation haircuts for marketable assets in categories I to III shall apply to the granting of liquidity assistance.

(Paragraph 10 in the wording of Decision No 139 of 11.06.2020 of the Executive Board of the NBM, in force as of 30.06.2020)

10¹. For pecuniary claims accepted as collateral when providing liquidity assistance, the following minimum levels of valuation haircut shall be established, determined according to the residual maturity, the type of debtor and the collateral of the claim, as follows:

| Residual maturity of the pecuniary claim | The haircut applied to the claim collateralized with: | | |
|--|---|-------------------|---|
| | Bank deposits, state securities | Real estate, land | Other real and / or personal guarantees |
| Pecuniary claims on non-financial corporations and public sector entities | | | |
| Up to 1 year | 30.0 % | 40.0% | 50.0% |
| From 1 year to 3 years | 35.0% | 45.0% | 55.0% |
| From 3 years to 5 years | 40.0% | 50.0% | 60.0% |
| From 5 years to 7 years | 45.0% | 55.0% | 65.0% |
| From 7 years to 10 years | 50.0% | 60.0% | 70.0% |
| From 10 years and more | 55.0% | 65.0% | 75.0% |
| Pecuniary claims on individuals | | | |
| Up to 1 year | 35.0% | 40.0% | 55.0% |
| From 1 year to 3 years | 40.0% | 45.0% | 60.0% |
| From 3 years to 5 years | 45.0% | 50.0% | 65.0% |
| From 5 years to 7 years | 50.0% | 55.0% | 70.0% |
| From 7 years to 10 years | 55.0% | 60.0% | 75.0% |
| From 10 years and more | 60.0% | 65.0% | 80.0% |

For pecuniary claims on non-financial corporations or public sector entities backed by guarantees from multilateral development banks or international organizations, a haircut of 10.0% is set.

(Paragraph 10^l completed by Decision No 112 of 02.06.2022 of the Executive Board of the NBM, in force as of 15.06.2022)

(Paragraph 10^l introduced by Decision No 139 of 11.06.2020 of the Executive Board of the NBM, in force as of 30.06.2020)

11. In the event of significant fluctuations in market prices of marketable assets, the valuation haircuts may be modified by a decision of the Executive Board of the National Bank of Moldova.

The valuation haircuts of other assets, accepted as collateral for liquidity assistance in accordance with paragraph 14 subparagraph 6) of the Regulation on emergency liquidity assistance, approved by the Decision of the Executive Board of the National Bank of Moldova No 343/2019, will be established by the decision to grant liquidity assistance.

(Paragraph 11 in the wording of Decision No 139 of 11.06.2020 of the Executive Board of the NBM, in force as of 30.06.2020)

Chapter III

Establishing the value of eligible marketable assets

12. The value of eligible marketable assets that are represented by state securities, certificates of the National Bank, municipal and corporate bonds shall be calculated by deduction of valuation haircuts expressed in percent from the market price established by the National Bank, according to the following formula:

$$\text{Adjusted market value of a security} = \frac{\text{Market price of a security}}{\left(1 + \frac{\text{valuation haircut}}{100}\right)} \quad (1)$$

(Paragraph 12 amended by Decision No 139 of 11.06.2020 of the Executive Board of the NBM, in force as of 30.06.2020)

13. The market price of marketable assets shall be calculated as follows:

- 1) for state securities – based on its own specific methodology of the National Bank;
- 2) for the certificates of the National Bank from the bank's portfolio – based on the average sale-purchase price established on the primary market at the last auction before their market price is set;
- 3) for municipal and corporate bonds, the National Bank establishes the most representative price that will be used in determining their market value. Their value is calculated on the basis of the most representative price on the working day prior to the valuation date. In the absence of a representative market price, the National Bank establishes and uses a theoretical price. An additional valuation haircut of 5.0% applies to bonds valued at a theoretical price;
- 4) the calculation of the market value or the theoretical value of a marketable asset also includes accrued interest.

(Paragraph 13 completed by Decision No 139 of 11.06.2020 of the Executive Board of the NBM, in force as of 30.06.2020)

14. The required volume of securities accepted as collateral, when it is established, is calculated according to the formula:

$$\text{Volume at face value} = \frac{\text{Amount of liquidity provided}}{\text{Adjusted market value of a security}} * \text{The face value of a security} \quad (2)$$

In the case of liquidity assistance, the amount of liquidity provided plus interest on the transaction will be taken into account when calculating the required volume of securities.

The volume at the calculated face value is rounded to a value divisible by the face value of a security.

(Paragraph 14 in the wording of Decision No 139 of 11.06.2020 of the Executive Board of the NBM, in force as of 30.06.2020)

Chapter IV

Establishing the value of eligible non-marketable assets

15. The value of non-marketable eligible assets represented by deposits and other accounts at the National Bank or other bank accepted by the National Bank shall be established through the evaluation of each type of asset accepted as follows:

- 1) for term deposits placed by banks with the National Bank – at book value of the deposit – 100% from the value;
- 2) for term deposits placed with banks accepted by the National Bank – at book value, but not higher than 80% from the sum of deposits, depending on the financial situation of the bank which applied for the loan and the bank where the deposit is placed, the currency of the deposit, the term remained until maturity of deposit, type of interest rate, the absence of conditions/restrictions regarding the enforcement of the deposit and other conditions;

3) for the required reserves of banks in freely convertible currency, no more than 80% of the amount of required reserves kept unchanged at the date of creating the collateral can be accepted as collateral, by considering the following factors and risks:

- a) diminishing the funds attracted by the bank;
- b) diminishing the ratio of required reserves established by the National Bank;
- c) appreciation of the Moldovan leu against the US dollar or euro.

(Paragraph 15 completed by Decision No 139 of 11.06.2020 of the Executive Board of the NBM, in force as of 30.06.2020)

16. The required reserves in freely convertible currency shall be evaluated at book value – 100% from the value.

17. In case in which the National Bank anticipates the occurrence of increased foreign exchange risks, as a result of a solid trend of appreciation of the Moldovan leu against the US dollar or the euro is created, a valuation haircut of the collateral in form of required reserves in freely convertible currency may be applied.

(Paragraph 17 completed by Decision No 139 of 11.06.2020 of the Executive Board of the NBM, in force as of 30.06.2020)

18. The amount in Moldovan lei of non-marketable eligible assets in foreign currency shall be calculated both on the date of creating the collateral and at future evaluations, by applying the official exchange rate of the Moldovan leu valid at that respective date.

18¹. The value of pecuniary claims is determined, both on the date of the collateral establishment and on subsequent valuations, based on their non-reimbursed value (balance), without accrued interest, to which the corresponding haircut applies according to paragraph 10¹ according to the following formula:

$$\text{Adjusted value of pecuniary claim}(V_i) = \text{The balance of the pecuniary claim} * (1 - \text{Haircut} / 100) \text{ (3)}$$

(Paragraph 18¹ introduced by Decision No 139 of 11.06.2020 of the Executive Board of the NBM, in force as of 30.06.2020)

18². The following condition will be met when granting liquidity assistance collateralized with pecuniary claims:

$$\sum V_i \geq C + D$$

where:

V_i – the adjusted value of the pecuniary claim (lei);

C – the amount of liquidity assistance requested by the bank (lei);

D – the amount of interest on liquidity assistance throughout its use (lei).

(Paragraph 18² introduced by Decision No 139 of 11.06.2020 of the Executive Board of the NBM, in force as of 30.06.2020)

Chapter V

Frequency of evaluation of eligible assets and the margin call

19. Eligible assets constituted as collateral for loans granted and repo transactions are assessed daily by the Central Depository in accordance with the provisions of the contract concluded for this purpose between the National Bank and the Central Depository and the Rules of the Central Depository, coordinated with the National Bank, based on market prices of securities presented by the National Bank.

Eligible assets set up as collateral for the liquidity assistance provided are valued by the National Bank on a bi-monthly basis (if necessary, more frequently) in accordance with the valuation norms set out in paragraphs 9¹-18².

The National Bank calculates the adjusted value of eligible assets taking into account changes in the volume of loans / liquidity assistance in balance, the valuation haircuts and the valuation principles established by these norms.

(Paragraph 19 amended by Decision No 112 of 02.06.2022 of the Executive Board of the NBM, in force as of 15.06.2022)

(Paragraph 19 in the wording of Decision No 139 of 11.06.2020 of the Executive Board of the NBM, in force as of 30.06.2020)

20. In order to reduce the frequency of margin calls and excess collateral restitution, the National Bank applies a trigger threshold of 3.0% of the amount of liquidity provided to the bank.

In the case of liquidity assistance, the trigger threshold indicated in the first paragraph shall apply to the current balance of the assistance provided plus accrued interest.

(Paragraph 20 in the wording of Decision No 139 of 11.06.2020 of the Executive Board of the NBM, in force as of 30.06.2020)

20¹. If the value of the assets accepted as collateral falls below the lower trigger threshold, the National Bank is entitled to require the bank to make margin calls by providing additional assets or funds.

Conversely, if the value of the assets constituted as collateral exceeds the upper trigger threshold, the National Bank will reimburse the bank the excess collateral at its request.

The making of margin calls and the restitution of the excess collateral when granting loans and in repo transactions is performed by the Central Depository, and when granting liquidity assistance - by the National Bank

(Paragraph 20¹ introduced by Decision No 139 of 11.06.2020 of the Executive Board of the NBM, in force as of 30.06.2020)

21. On the basis of any information it deems relevant, the National Bank may accept / reject / limit the use of assets eligible for collateral or may apply, by decision of the Executive Board, additional valuation haircuts if such measures are required to ensure an adequate protection of the National Bank against risks.

(Paragraph 21 completed by Decision No 112 of 02.06.2022 of the Executive Board of the NBM, in force as of 15.06.2022)

(Paragraph 21 in the wording of Decision No 139 of 11.06.2020 of the Executive Board of the NBM, in force as of 30.06.2020)