

**REGULATION
ON ISSUANCE AND CIRCULATION OF CBU NOTES**

Introduction

This Regulation is in line with the Laws of the Republic of Uzbekistan "On the Central Bank of the Republic of Uzbekistan", "On Banks and Banking activities" and "On the Securities Market" and according to act of the President of the Republic of Uzbekistan dated September 13, 2017, No. PA-3272 "On further improvement of monetary policy", The Central Bank of the Republic of Uzbekistan (hereinafter referred to as the Central Bank) determines the procedure for issuance, placement and redemption of Central Bank notes in order to regulate the liquidity of the banking system and increase the efficiency of monetary policy interest instruments.

CHAPTER 1. GENERAL RULES

1. The following basic concepts are used in this Regulation:

Central bank notes (hereinafter referred to as notes) - securities issued in electronic form by the Central Bank, which giving the noteholder the right to receive income in the prescribed manner;

coupon period - the period established by the Central Bank, in which the bondholder is paid interest income;

currency exchange - a legal entity that organizes exchange trades on foreign currency, government securities, instruments of derivatives and other related exchange transactions, as well as the interbank money market and credit and deposit auctions with commercial banks of the Central Bank;

trading system - an automated electronic system of the currency exchange, which provides for the organization of electronic trading on notes, storage and accounting of notes, clearing and settlement of transactions;

General Agreement - the interaction which is formed between the Central Bank and commercial banks, as well as between commercial banks and the currency exchange and determines the general terms and procedure of operations on notes;

dealer - commercial banks which carrying out operations related to notes on the basis of the General Agreement with the Central Bank and the currency exchange;

auctions – auctions which is carried out on the placement of notes between commercial banks conducted the Central bank;

competitive order - an order submitted by commercial banks for participation in the auction with a price;

non-competitive order - an order submitted by commercial banks for participation in the auction without specifying the price;

discount price - the minimum price offered in the competitive orders of commercial banks, which are satisfied by the results of auction;

A REPO agreement - is a bilateral action to sell notes at a specified time and price with the obligation to issue and repurchase them in the same amount.

CHAPTER 2. ISSUANCE OF NOTES

2. The notes are issued, placed and redeemed by the Central Bank as well as their liquidity is provided by all assets at the disposal of the Central Bank.

3. Notes can be used as collateral for loans and as an object of purchase and sale in REPO agreements.

4. Notes are issued in the national currency of the Republic of Uzbekistan at a fixed coupon rate or in the form of discount notes with a nominal value.

In this case, the difference between the nominal value of the discount notes and the purchase price is the income for the dealer.

5. Issuance of notes is carried out in the form of a separate issue. Each issue is assigned an identification number and is authenticated with a Global certificate.

6. The identification number consists of a ten-digit discharge (X1X2X3X4X5X6X7X8X9X10).

First discharge (X1) – number of “2” indicates type of securities;

Second discharge (X2) – indicates the period of circulation of the security;

"1" – for notes in circulation for a period of three months;

"2" - for notes in circulation for a period of six months;

"3" - for notes in circulation for a period of nine months;

"4" - for notes in circulation for a period of twelve months.

The third, fourth and fifth discharges (X3X4X5) indicate this serial number of this issue.

Sixth, seventh and eight discharges (X6X7X8) carry out issuer of letter "CBU" (Central Bank of Uzbekistan)

Nineth discharge (X9) – letter "S" means that the notes is a government security.

Tenth discharge (X10) – letters "S" means that the security is issued in the national currency.

7. The global certificate is developed by the Central Bank, which sets out the main parameters related to the issue.

8. All operations on notes are carried out through the trading system in accordance with the rules of exchange trading developed by the currency exchange.

9. The period of circulation of notes begins from the date of the auction and ends on the day preceding the date of redemption of notes.

CHAPTER 3. PLACEMENT OF NOTES

10. Placement of notes issued by the Central Bank between commercial banks is carried out through auctions in the trading system of the currency exchange.

Auctions are held when the number of participants is two or more.

11. Auctions are held when is fixed the maximum amount of notes issued by the Central Bank.

The maximum interest rate on notes can also be set at auction.

13. Information on the terms of the auction for the placement of notes will be published on the official website of the Central Bank at least 1 working day before the auction.

14. The Currency Exchange publishes information on the auction on the basis of the announcement of the Central Bank on its official website.

15. The Central Bank issues a separate registration code to each dealer to maintain the note account and register transactions.

16. Registration code of dealer consists of a ten-digit discharge (X0X1X2X3X4X5X6X7X8X9) divided into three groups.

The first group (X0) – “2” means that the code of market – “Notes of Central Bank”.

The second group (X1X2X3X4) represents the serial number given on the basis of the general agreement concluded by the dealer with the Central Bank.

The third group (X5X6X7X8X9) is always equal to 00000.

The Central Bank of Republic of Uzbekistan is issued the registration code of 2000100000.

17. Dealers enter competitive and non-competitive orders electronically into the trading system for the purchase of notes on the day of the auction.

18. The Central Bank may set limits on the number of notes to be purchased by commercial banks at auction and the number of orders accepted for auction at each commercial bank.

19. Competitive orders indicate the price and number of planned notes to be purchased.

Non-competitive orders indicate the total number of planned notes to be purchased.

20. Non-competitive orders are satisfied at the weighted average price determined by the auction results.

The weighted average price is determined on the basis of the price of competitive bids fully or partially satisfied at the end of auction and the amount of purchased notes.

21. Auctions are conducted in two ways:

"American" method - competitive orders are satisfied at the offered prices in them;

"Dutch" method - competitive orders are satisfied at a discounted price.

22. The trading system forms a list of orders received by commercial banks and this list is submitted to the Central Bank by the currency exchange.

23. The Central Bank sets the discount prices of auctions based on the prices specified in the orders of commercial banks within the volume of issued notes.

24. Orders below the discount price set as a result of the auction will not be satisfied.

25. Based on the results of the auction, the Central Bank instructs the Currency exchange to fully satisfy previously uncompetitive orders of commercial

banks, as well as competitive orders, the proposed price of which is not lower than the discount price.

Competitive orders are satisfied in the order from the maximum prices offered for them to the discount prices.

26. In case the total amount of orders to be satisfied exceeds the total amount of notes issued by the Central Bank, competitive orders with the offered price equal to the discount price will be satisfied depending on the time of entry into the trading system. In this case, previously entered orders are satisfied before subsequent orders.

27. Information on the results of the auction is published on the official websites of the Central Bank and the Currency Exchange.

CHAPTER 4. SECONDARY MARKET CIRCULATION OF NOTES

28. In the secondary bond market, deals are made between dealers on notes purchased as a result of (initial) auctions.

29. The Central Bank may participate in the purchase and sale of notes as a dealer in the secondary market.

30. Transactions on notes in the secondary market are carried out in accordance with the rules of exchange trading.

31. In secondary trading, dealers can perform the following operations with notes through the trading system:

purchase and sale of notes at agreed prices and terms;

sale and purchase of mortgaged bonds through the trading system;

Repurchase and sale of notes under REPO agreements.

32. Orders on notes to be sold or purchased by dealers for purchase and sale operations in the secondary bond market will be entered into the trading system with indication of the quantity and price.

33. In order to conclude purchase and sale agreements in the secondary market of bonds, the trading system checks the compatibility of the parameters of opposing orders corresponding to the sale or purchase orders.

34. The trading system automatically registers orders whose parameters match.

35. An exchange deal is considered to be transacted/made with the registration of two opposing orders in the trading system.

36. When exchange transaction agreement is reached, the trading system registers it, attaches a registration number to it and provides exchange participants with exchange certificates, which are the basis for mutual settlements.

37. In cases where the price of orders in the trading system in the secondary market is equal, they are satisfied before the order placed after the previous order, depending on the time of delivery.

When orders are partially satisfied, the unsatisfied part is treated as a separate order.

38. Carrying out operations on REPO transactions and settlements on them are carried out in accordance with the Regulations on the procedure for concluding and executing REPO transactions with government securities of the Republic of Uzbekistan.

CHAPTER 5. ACCOUNTING OF NOTES

39. Storage of notes and rights to them is carried out on "depo" accounts opened at the currency exchange.

40. Settlements on notes are carried out on the basis of exchange certificates formed on the basis of trading results.

41. Transfer of notes to the buyer's "depo" account is made after the receipt of funds in the seller's account.

42. The buyer of the notes is given the right of ownership after making an appropriate entry in his "depo" account and is confirmed by a statement from the "depo" account.

43. Purchased notes are accounted by dealers in separate accounts for each issue.

44. Accounting for notes transactions is carried out in accordance with applicable law.

CHAPTER 6. COUPON CALCULATION AND ITS PAYMENTS

45. The amount of coupon payment is determined according to the following formula, based on the coupon rate of notes purchased at auction, their nominal value and the coupon period:

$$C_i = N * R * (T / 365)$$

Here:

C_i - the coupon value;

N - the nominal value of the notes;

R - the coupon rate;

T - the coupon period.

Coupon payments are calculated for the notes in circulation period and are paid at the end of each coupon period.

46. On the last day of the coupon period, the Currency Exchange will submit to the Central Bank a list of the balances in the "depo" account for each noteholder after the end of the current trades.

47. The Central Bank transfers the relevant funds for coupon payments to a separate account of the Central Bank of the Republic of Uzbekistan in the Settlement and Cash Center at the Tashkent regional branch on the business day following the end of the coupon period.

48. The currency exchange transfers the funds received on coupon payments to the personal accounts of dealers.

49. The Currency Exchange will provide the Central Bank with information on the payment of coupon payments belonging to the noteholder on the business day following the day of making these payments.

CHAPTER 7. TERMINATION OF NOTES

50. Redemption of notes by the Central Bank is carried out on the business day following the end of their circulation period.

51. In order to repay the notes, the Central Bank submits to the trading system an order to purchase their full volume at face value.

52. Redeemed notes of the Central Bank are transferred by the currency exchange through the trading system to the "issue account" of the Central Bank.

53. In case the day of redemption of notes and payment of coupons falls on a weekend or holiday, payments are made on the next business day.

CHAPTER 8. DISCLOSURE OF DATA

54. Disclosure of information on note transactions at the currency exchange (except for the name, number, quotation (price) and date of the transaction of the note) to third parties is not allowed.

55. Provision of all information, including trade and banking secrets, is carried out in the manner prescribed by law.

CHAPTER 9. FINAL RULE

56. Persons guilty of violating the requirements of this Regulation will be prosecuted in the manner prescribed by law.