

The president of the National Bank of Georgia

Order No. 142/04

July 21, 2020

On approval of the Rule on Activity of Foreign Exchange Market Participants’

Paragraphs 2 and 3 of article 3, and subparagraph “z” of paragraph 1 of Article 15, Article 47, paragraphs 1 and 3 of Article 48, subparagraph “a” of paragraph 1 of article 49 and subparagraph "a" of the paragraph 1 of article 50 of Organic Law on National Bank of Georgia I order:

Article 1

To approve the rules of FX market participants’ activities with the attached edition.

Article 2

1. This order, shall come into effect on October 1, 2020, Except for Article 4 subparagraph "e", paragraphs 3 and 6 of Article 7, and paragraph 7 of Article 7 of the rule approved by this order.
2. Subparagraph "e" of Article 4 and Paragraphs 3 and 6 of Article 7 of the rule approved by this order shall come into effect on February 1, 2021.
3. Paragraph 7 of Article 7 of the rule approved by this order shall come into effect on October 1, 2021.

President of the National Bank

Koba Gvenetadze

Rule on Activity of Foreign Exchange Market Participants Activity

Article 1. General provisions

1. The rule on Activity of Foreign Exchange Market Participants (hereinafter - the Rule) establishes main principles and standards about activity in the foreign exchange market.
2. The purpose of this rule is to promote the establishment of a sustainable, competitive, transparent, fair and liquid foreign exchange market in Georgia and the introduction of internationally recognized principles and standards in the FX market.
3. Compliance with the norms defined in this rule is mandatory for licensed commercial banks, licensed brokerage companies and registered microfinance organizations participating in the Georgian FX market, which operate in accordance with the "rule for electronic currency trading using the Bloomberg trading system" approved by the President of the National Bank of Georgia (hereinafter "the organized market").
4. The validity of this rule applies to foreign exchange transactions concluded between the FX market participant and the client, except for the transactions concluded with the FX rate offered by the market participant in advance, which is executed immediately and for which there are no additional negotiations between the market participant and the client about transaction price.
5. When interpreting the norms of this rule, the National Bank of Georgia is guided by the provisions of the FX Global Code.

Article 2. Definition of terms

For the purposes of this rule, the terms used in this rule have the following meanings:

- a) Foreign exchange market – a set of systems and rules through which participants of the FX market regularly make FX transactions;
- b) Participation in the foreign exchange market - participation in the foreign exchange market is considered to be carrying out on a regular basis of FX transactions by commercial banks, brokerage companies and registered microfinance organizations licensed by the National Bank of Georgia with each other or with clients;
- c) FX market participant – the subjects provided for in paragraph 3 of the first article of this rule, which regularly carry out foreign exchange transactions, are considered to be participants of the foreign exchange market;
- d) FX transaction – any transaction concluded by a participant of the FX market, with the client and/or another participant regarding the currency exchange;
- e) Front Running - Front Running is an action or a set of actions where a FX market participant who has prior information about his client's order, based on this information, directly or indirectly (through a third party), in advance, before the execution of the client's order, enters into a transaction for receiving personal benefit;

- f) Pre-hedging – opening a FX position or any other such action or set of actions related to the client's expected order and which does not intend to worsen the situation for the client and does not lead to interference with the FX market's normal functioning;
- g) settlement instructions – a set of rules and conditions pre-agreed between the FX market participant and his client, which is used during settlement;
- h) Principal trader –FX market participant, who enters into a FX transaction with the client on his own behalf and at his own risk;
- i) Agent trader – participant of the FX market who, in order to fulfill the client's order, enters into a foreign exchange transaction with another participant without taking the FX risk;
- k) Client 's order – an order received by a FX market participant from a client regarding foreign exchange transaction;
- l) Counterparty – FX transaction's other party concluded by the FX market participant.

Article 3. Transparency and information disclosure

1. The FX market participant (hereinafter - the market participant) is obliged to disclose the following information or provide the following documentation to the client before entering into transaction (including by publishing it on the website) :

a) Terms of service – a document that defines the standard rules and conditions of activity in the relationship with the client. This document also establishes the main bases for the market participant's commission receipts and client's orders execution;

b) trade-related information subject to the following conditions:

b.a) The market participant must clearly disclose to the client information about the status in which the market participant acts (Principal trader or Agent trader);

b.b) The information disclosure document must specify the procedure for receiving, processing and executing the client's order in details, as well as the prioritization of various orders (order execution time and their consistency);

b.c) The information disclosure document should also identify the circumstances that may have an impact on the client's order's performance;

c) Pricing policy , which should be available to its client. Pricing must be fair and reasonable, consistent with the economic costs of the services to be provided and the risks taken by the FX market participant.

2. When making any changes in the documents/information defined by the first paragraph of this article, the market participant is obliged to provide the aforementioned documents/information to the client in an updated form.

3. The market participant is obliged to inform the client about the pre-hedging. The market participant must clarify all the risks connected to this action to the client. Pre-hedging should be

done with the intention of not worsening the client's situation. Any material benefit, if any, received from the Pre-hedging must be fully disclosed to the client.

Article 4. Rule of information sharing and communication by the market participant to the client

Market participants are obliged to:

- a) Clearly and effectively identify the list of confidential information and protect such information from unauthorized access by third parties;
- b) Communicate with the client in a manner that is clear, accurate, professional and not misleading;
- c) In the case that the market participant communicates with the client about the current situation in the market, to properly inform the client about the current situation in the FX market (existing or expected market activity that may positively or negatively affect the execution of the client's order) so as not to disclose confidential information. The information provided by the market participant to the client about the current situation in the FX market may contain only general market trends, generalized information that does not allow identification of a specific entity or a specific transaction;
- d) Have appropriate information protection mechanisms/barriers that protect the client's confidential information from any unauthorized access by both third parties and unauthorized persons of the market participant;
- e) Ensure, among other things, front and back office functions segregation. Treasury Front office staff should not have access to back office information, including information on client account balances.

Article 5. Execution of FX transaction

- 1. When executing client orders market participants should act fairly, transparently regardless of the capacity (Principal or Agent) they are acting and taking into account the specifics of the client's actual order.
- 2. The fair and transparent action provided for in the first paragraph of this article, including (but not limited to) the timely/quick execution, confirmation and settlement of the foreign exchange transaction.
- 3. When the client authorizes the market participant to take an action related to the transaction execution (for example, to select one of several FX rates, the transaction execution time or other), during the execution of such FX transaction, the market participant shall be guided by the client's best interests and act in such a way as to obtain the most favorable terms for the client.

Article 6. Restricted and prohibited activities in the FX market

- 1. Front Running is prohibited.

2. Manipulation of the FX market is prohibited. Market participants are not allowed to enter into transaction or otherwise act with the purpose of artificially manipulating market prices, including official exchange rate manipulation.

Such transactions would qualify as manipulation, if it intends:

- a) a deliberate attempt to interfere with free and fair operation of the market
- b) Artificially influencing the market price for economic benefit.

3. Market participants are not allowed to act with the purpose of limiting competition in the FX market. Market Participants should in no way, either directly or indirectly, restrict their clients dealing with or obtaining services from other Market Participants or entering into other legal relationship with them;

4. Products and Services should be priced based on their economic costs. To implement this principle in practice, market participants are obliged to:

- a) During offering several products in one package, provide client with the information about both the products total price and package's each component's individual price.
- b) disclose key information on the non-price features of the package and related risks, in case of existence;
- c) inform clients whether each component product/service can be purchased separately;
- d) Conduct proper trainings for sales staff and ensure that their remuneration scheme does not incentivize inappropriate selling of product or selling of product in way that violates this rule;
- e) Ensure that clients can cancel component service/product within the package, if possible.

5. Market participants must ensure that transactions are made through official electronic communication, which ensures that communication and information about the transaction is stored for the subsequent audit. If market participant's internal policy allows the use of official mobile communication devices in the trading room, the market participant is obliged to ensure the recording and storage of any communication related to FX transactions on these devices. Transactions concluded by telephone (via electronic communication) must be recorded in the market participant's relevant system. To achieve this objective, market participants should develop appropriate policies.

6. When providing information about the market situation, the market participant must not disclose other persons' non-public, specific and expected transactions' details, including: client names and exact amounts of the FX rate and the transaction amount.

Article 7. Risk management

1. For risk management, the market participant is obliged to have appropriate internal policies and procedures, software, appropriate organizational structure and adequate number and qualified human resources that ensure accurate and timely measurement, management and reporting of market and credit risks.

2. In order to manage credit risks, the market participant should assess the counterparty's credit risk, determine trading limits and periodically update them.
3. To sign modal framework agreements (Master Agreements) For derivatives trading, which provide for the use of netting and financial collateral.
4. For market risk management, the market participant is obliged to have procedures and systems, using which the compliance of the trading positions with the current market situation, as well as the size of the expected profit or loss from the trading positions will be evaluated.
5. To manage operational risk, Market Participants should have business continuity plans (BCPs) in place that are appropriate to the nature, scale, and complexity of their FX business and that can be implemented quickly and effectively in the event of large-scale disasters, loss of access to significant trading platforms, settlement, or other critical services, or other market disruptions.
6. The market participant is obliged to ensure organizational division of front and back offices and staffing with appropriate employees. The number of employees should be adequate to the complexity and scale of the activities carried out by the market participant, so that, at least, any action in conducting the main activity is performed by no less than 2 people (the principle of four eyes). The qualification of the employees must be confirmed by professional certificates, which is determined by the relevant decision of the National Bank of Georgia.
7. A market participant must have appropriate technological systems to support spot FX, money market instruments, securities, derivatives trading, settlement, accounting, risk measurement and reporting.
8. In order to manage compliance risk, the foreign exchange market participants are obliged to:
 - a) Market Participants should keep a timely, consistent, and accurate record of their market activity as well as communications with client relating to conclusion of transaction, which shall be subject to further audit. Records shall be kept at least for 6 years from the completion of the transaction. Market participant shall also ensure appropriate internal policies and procedures in place designed to prevent unauthorized transactions.
 - b) Market Participants should set guidelines that specify personnel authorized to deal in after-hours or off-premise transactions and the limit and type of transactions permitted. A prompt written reporting process should be developed and appropriate records should be kept.
9. Regarding settlement process, the market participant is obliged to:
 - a) Measure and monitor their Settlement Risk and seek to mitigate that risk when possible.
 - b) Develop and Utilize standing settlement instructions (SSIs) in FX transactions .

Article 8. Supervisory measures and/or sanctions

1. The National Bank of Georgia considers the issue of the FX market participant's compliance with the requirements established by this rule. The National Bank of Georgia is authorized to

consult with the professional association before the final resolution of the issue, while protecting the confidentiality of information.

2. Due to the violation of the requirements established by this rule, FX market participant will be given a written warning or, depending on the severity of the violation, its access to the organized market will be temporarily suspended.