

Regulation on Trading Book Management

Article 1. General Provisions

1. With the increase of a commercial bank's trading book, the bank should develop appropriate internal policy and procedures for trading book management.
2. The objective of this regulation is to ensure the implementation of efficient management of trading operations at commercial banks.

Article 2. Trading Book Instruments

Any instrument a bank holds for one or more following purposes must be considered a trading book instrument:

- (a) for the purpose of short-term resale;
- (b) with the expectation of profiting from actual or expected short-term price movements;
- (c) for the purpose getting profit through arbitration;
- (d) for the purpose of hedging risks resulting from instruments acquired for the purposes of paragraphs a, b, or c, above.

Article 3. Internal Policy and Procedures

1. Commercial Banks with significant trading portfolio should establish internal policy and procedures that ensure:
 - a) Establishing the criteria and mechanisms for on assigning financial instrument to the trading book;
 - b) Instituting fair valuation process for trading book, including those financial instruments that are not traded on active, liquid markets and recognizing any valuation change in the profit and loss account and daily balance;
 - c) Creating documented trading strategy for the position/ instrument or portfolios approved by the senior management, defining expected holding horizon, setting position limits and appropriate monitoring;
 - d) Regular reporting to a bank's senior management about trading positions, including actual deviations from the general market trends.
2. The policy and procedures foreseen by Paragraph 1 of this Article should be approved by a commercial bank's senior management and consulted with the National Bank of Georgia.
3. Trading book management process in commercial banks should be in line with the principles of Basel Committee on Banking Supervision and other internationally accepted standards.

Article 4. Obligations of Commercial Banks regarding Regular Reporting

1. Commercial banks that hold trading book instruments should report to the National Bank of Georgia in electronic form on a monthly basis.
2. The report must contain at least a list of trading instruments, and size and value of the positions;
3. Commercial banks that do not hold trading book instruments should submit documented notice to