

## **Memorandum of Understanding**

Between

**The National Bank of Georgia**

And

**The Financial Supervisory Agency of Georgia**

### **Purpose**

1. This Memorandum of Understanding (MoU) establishes the framework of cooperation between the National Bank of Georgia (NBG) and the Financial Supervisory Agency of Georgia (FSA). As such, this memorandum identifies areas of individual responsibilities for each of the institutions as well as areas of shared responsibility. It also describes the major forms of cooperation between the two institutions.

2. The cooperation between the NBG and the FSA will be guided by the following principles:

- The need to ensure the stability and soundness of the financial system.
- The NBG and the FSA are independent and each has unambiguous and well-defined responsibilities, which are defined in Georgian law. The NBG and the FSA are each solely accountable for fulfilling their individual responsibilities.
- Ensure effective data and information sharing between NBG and FSA on a confidential basis.
- Minimize duplication of efforts and the regulatory burden imposed on regulated entities consistent with best international practices for the respective institutions.
- Each institution is responsible for ensuring that parliament, market participants and the public at large understand their roles.

### **Responsibilities of NBG and FSA Regarding the Financial Sector**

3. The NBG's primary responsibility as it pertains to the financial sector and as described in the *Organic Law on the National Bank of Georgia* is to ensure that the financial sector does not constitute a threat to macroeconomic stability.

4. The NBG is also responsible for ensuring the uninterrupted and effective operation of the national payments system.

5. The NBG is also responsible for maintaining a broad overview of the financial system as a whole in order to identify macroeconomic risks well in advance of their materializing. It is the responsibility of the FSA to provide a timely assessment of the impact of such risks on the financial system and individual institutions.

6. The responsibilities on the FSA are described in its Charter and are based on several Georgian laws. In broad terms, the FSA is responsible for the prudential supervision of regulated institutions operating in the financial sector. As such, the

FSA is responsible for ensuring the integrity and financial soundness of these institutions consistent with the laws of Georgia. The FSA is also responsible for the supervision of financial markets, securities listings and insurance firms. Accordingly, the FSA is responsible for all regulatory policy and decisions in these areas, including issuing and revoking licenses.

7. If there is a risk of financial sector instability stemming from illiquidity at an individual financial institution, it is incumbent on the FSA to recommend that the NBG make a liquidity injection to the specified institutions so as to remedy the illiquidity. The final decision regarding such a liquidity injection rests solely with the NBG board.

8. The NBG is responsible for the oversight of the national clearing and settlements systems and the FSA can be requested by the NBG to collect information on payment, clearing and settlement operations at individual institutions, if necessary.

9. The FSA will assist the NBG to verify data supplied by individual institutions or to apply sanctions in case of noncompliance or misreporting.

### **Joint Financial Sector Committee**

10. Recognizing that active cooperation between the FSA and NBG is essential to achieving the objectives of the two agencies, we have agreed to establish a Joint Financial Sector Committee (JFSC). It is envisioned that the JFSC will be the main vehicle for discussing and analyzing issues related to the financial sector; coordinating assessments of the financial sector and for reaching decisions on appropriate policy responses to challenges and problems as they unfold.

11. Membership of the JFSC consists of the president and vice-president of the NBG, the head and deputy head of the FSA and the Chair of the FSA Supervisory Board. The JFSC will be co-chaired by the president of the NBG and the Head of the FSA. The Chair will appoint a secretary who will organize meetings and maintain all necessary documents.

12. It is anticipated that the JFSC will meet at least monthly. Meetings of the JFSC can, however, be requested by any member of the Group and non-members can be invited on the initiative of either co-chair. Minutes of the JFSC meetings will be kept and be treated as confidential.

13. It is anticipated that representatives of the Ministry of Finance and the Ministry of Economic Development will be invited to attend meetings of the JFSC as necessary.

14. To enhance further the sharing of information, the NBG will ask the Head of the FSA to nominate a Deputy to participate in all meetings of the NBG's monetary policy committee.

15. The JFSC will also serve as the primary crisis management group for all financial sector emergencies that need a rapid and coordinated response. In such a situation, the JFSC will keep the relevant government agencies, including the Ministry of Finance, fully informed and coordinate necessary policy actions.

### **Collection and Exchange of Information**

16. Recognizing that timely and comprehensive collection of information on the financial sector is essential to fulfilling the responsibilities of both the NBG and the

FSA, the two institutions agree to develop a common database collected from the financial sector (Addendum I). Access to this database will be open to both institutions except as described in Addendum II to this MOU.

17. The NBG is responsible for the collection, compilation and dissemination of monetary and aggregate financial sector data as specified the IMF's Monetary and Financial Statistics Manual. The FSA is responsible for the compilation and dissemination of data pertaining to individual financial sector institutions. The FSA will cooperate with the NBG to verify data supplied by individual institutions and to apply sanctions in case of noncompliance with reporting requirements or misreporting.

18. The NBG and FSA agree to cooperate in the exchange of information in order to avoid duplication of activities in the process of collecting information and to minimize the burden of reporting on financial institutions. To this end, the NBG and FSA agree to use a common platform for data collection and to develop a methodology for disseminating information between the two institutions. The details of this methodology will be the subject of an addendum to this MoU that will be finalized by end-2008.

19. In sharing confidential information, NBG and FSA accept the requirements on confidentiality and secrecy stipulated by the Georgian legislation. Disclosure of confidential information to a third party, other than defined by the legislation, shall be done only on the basis of mutual agreement bet the NBG and the FSA.

20. NBG and FSA agree to consult with each other when significant policy changes are being considered or prepared, except as precluded by Georgian law. Such consultations will take place via meetings of the Joint Financial Sector Committee and at the working level.

### **Assessing Risks to the Financial System**

21. If either the NBG or FSA consider that a circumstance endangers the stability or integrity of the financial sector, each institution is obliged to inform the other immediately of such risk. Actions against those risks depend on specific circumstances. In any case, NBG and FSA shall continuously inform each other on current evaluation of the situation and consult with each other on possible measures.

### **Communication and Outreach**

22. Recognizing the importance of providing consistent guidance and messages to financial institutions, both the NBG and the FSA are committed to limiting their communications with financial sector institutions to their respective areas of responsibility. Hence, the FSA is responsible for communications pertaining to regulatory and supervision issues, while the NBG is responsible for communications consistent with its mandate, including monetary policy, cash and payment operations and statistics.

23. Each institution will maintain its own website with links to the other institution's website as appropriate.

### **Records and Data**

24. Each institution is solely responsible for maintaining records in accordance with Georgian legal requirements and international best practices.

### **International Representation**

25. NBG and FSA closely cooperate to ensure representation of Georgia in international initiatives and/or conferences related to financial stability and the financial sector. The lead agency representing Georgia at such gatherings will be determined by the primary focus the gatherings and the areas of responsibility as agreed in this memorandum. In particular cases, joint representation is acceptable.

**The National Bank of Georgia**

**The Financial Supervisory Agency  
of Georgia**

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**D. Amaglobeli**  
**Acting President**

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**G. Kadagidze**  
**Head**

**Addendum I**  
**Responsibilities for a Financial and Economic Database**

Variable	Responsibility for Compiling	Responsibility for Dissemination
<b>Monetary and Financial Statistics</b>		
Central Bank Survey	NBG	NBG
Other Depository Corporations Survey	NBG/FSA	NBG
Depository Corporations Survey	NBG/FSA	NBG
Financial Stability Indicators	NBG/FSA	NBG
Interest Rates Statistics	NBG	NBG
Exchange Rates Statistics	NBG	NBG
Financial Markets Statistics	NBG	NBG
<b>External Sector Statistics</b>	NBG	NBG
Balance of Payments Statistics	NBG	NBG
External Debt Statistics	NBG	NBG
International Investment Position	NBG	NBG
International Reserves and Foreign Currency Liquidity	NBG	NBG
<b>Prudential information</b>	FSA	FSA
<b>Regulations of the NBG</b>	NBG	NBG
<b>Regulations of the FSA</b>	FSA	FSA
<b>Balance sheets of individual financial institutions</b>	FSA	FSA
<b>Penalties levied on financial institutions</b>	FSA	FSA

**Addendum II**  
**Restrictions on Access**  
**Development of a Financial and Economic Database**

1. The Financial and Economic Database (FED) is intended to be a resource for analyzing trends, developments and performance of the economy as a whole, and specifically the financial sector. As such, the information contained in the FED is intended to be available to all staff of the NBG and FSA for use in connection with their professional responsibilities at their respective institutions.

2. Recognizing the confidential nature of some of the data in the FED, it is necessary to restrict access to some of the information in the database. In particular, the following data are restricted to those individuals approved by the Head of the FSA.

- All data pertaining to the prudential requirements of individual commercial banks and other financial institutions;
- All data pertaining to the quality and provisioning of asset portfolios;