



NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Pursuant to Article 64, paragraph 1, item 22 of the Law on the National Bank of the Republic of Macedonia ("Official Gazette of the Republic of Macedonia" no. 3/02, 51/03, 85/03, 40/04 and 129/06) and Article 34 paragraph 2 and Article 37 paragraph 2 of the Law on Payment Operations ("Official Gazette of the Republic of Macedonia" no. 113/2007), the National Bank of the Republic of Macedonia Council adopted the following

DECISION

**on the terms and the method of operating an electronic money issuing institution
("Official Gazette of the Republic of Macedonia" no. 159/2007)**

I. GENERAL PROVISIONS

1. This Decision sets forth the terms for issuing licenses and approvals and the method of operating an electronic money issuing institution (hereinafter: issuer), the type of assets the issuer may invest in, the investment volume, the asset evaluation methodology, the methodology for managing risks arising from electronic money issuance and from investments, and the contents of the reports and the method of their submission to the National Bank of the Republic of Macedonia (hereinafter: NBRM).

II. GRANTING LICENSES AND APPROVALS

2. The documentation specified under provisions of section II and III of the bylaw stipulated by the NBRM on bank licensing shall be submitted to the NBRM for issuing a founding and operating license to issuer.

Beyond the documentation referred to in paragraph 1 of this item, the following shall also be submitted to the NBRM:

- number of instruments and amount of electronic money planned to be issued over the next 5 years,
- procedures for the process of issuing, using and settling and for payment of the coverage for the issued electronic money,
- list of the type of vendors who accept or are expected to accept payments in electronic money, and the relations between the issuer and the vendors,
- draft agreement concluded between the issuer and the vendors who accept payments in electronic money,

- description of measures for protection against electronic money abuse, and for prevention from unauthorized access to the database on issued electronic money,
- description of measures for prevention from exceeding the amount of permitted electronic money,
- draft agreement concluded between the issuer and the electronic money holder, including the terms for electronic money issuance and usage,
- contingency action plan.

The provisions of paragraph 1 of this item shall also apply to a bank which submits to the NBRM an application for approval for conducting electronic money issuance activities.

3. The method of submitting the documents, data and information referred to in item 2 of this Decision and the procedure for their evaluation by the NBRM shall be in line with the provisions of the bank licensing bylaw adopted by the NBRM.

As an exception to paragraph 1 of this item, the Governor of the NBRM shall issue a decision on founding and operating an issuer, without implementing a temporary license procedure.

4. The provisions of the Banking Law that pertain to shareholders, initial capital, preference shares and registration in the Trade registry shall also apply to the issuer.

As an exception to paragraph 1 of this item, the issuer shall be established by initial capital of at least Denar 70 million.

5. The issuer shall also observe the provisions concerning the issuance of status changes license in consistence with the bank licensing bylaw stipulated by the NBRM, for the following status changes:

- a. acquisition of an issuer by a bank, by transferring the overall assets and liabilities of the issuer without being liquidated, in exchange for shares of the acquiring bank,
- b. merger of two issuers or more or merger of one issuer or more with other legal entities into one issuer, with all issuers and/or legal entities losing their legal identity and establishing a new issuer that acquires the overall assets and liabilities of the merging issuers and/or legal entities, in exchange for shares of the new issuer,
- c. division of issuers by:
 - separation by founding, by transferring the overall assets and liabilities to two new issuers or more, with the dividing issuer ceasing without being liquidated,

- separation by taking over, by transferring the overall assets and liabilities to two existing issuers or more, with the dividing issuer ceasing without being liquidated;
- split up by founding, by transferring the overall assets and liabilities to one new issuer or more, with the dividing issuer not ceasing,
- split up by taking over, by transferring a part of the assets and liabilities to one existing issuer or more, with the dividing issuer not ceasing.

6. The provisions of the approval issuance bylaw stipulated by the NBRM on the basis of the Banking Law concerning the appointment of a member of a Supervisory Board and Board of Directors of a bank, establishing a bank branch abroad, qualified holding, statute and change of bank's name and head office shall apply to the issuer.

III. METHOD OF PURSUING BUSINESS ACTIVITIES

7. The provisions of the Banking Law and the bylaws stipulated by the NBRM on the basis of the Banking Law concerning the bank's Meeting of Shareholders, Supervisory Board, Board of Directors, Internal Audit Department, own shares, connected persons/entities, persons/entities connected to the bank, data disclosure and business book maintenance shall apply to the issuer.

8. The issuer may issue electronic money exclusively in Denars.

9. The issuer shall not approve lending in any form.

10. In the case of violation of the provisions of this Decision, the Banking Law, the Law on Payment Operations and other regulations, the Governor of the NBRM shall undertake measures, impose misdemeanor sanctions and propose opening a bankruptcy or liquidation procedure against issuer, as defined by the law.

IV. INVESTMENTS

11. Issuer's investments shall be: required assets referred to in item 12 of this Decision, other issuer's investments in banks and savings houses and capital holdings the issuer may have under the Law on Payment Operations.

The issuer shall not invest or acquire land, buildings and equipment it shall not use for pursuit of its business activities.

12. Required assets shall include:

- 1) cash;
- 2) claims on NBRM and claims backed by securities issued by the NBRM,

- 3) claims on the Republic of Macedonia and claims backed by irrevocable, unconditional guaranteed payable on first written call and securities issued by the Republic of Macedonia,
- 4) sight deposits in banks and savings houses holding a founding and operating license issued by the Governor of the NBRM,
- 5) investments in trading debt securities, meeting the following criteria:
 - to be liquid, existence of organized market for their trading or/and availability of information on purchase and sale of same or similar securities for the last six months,
 - to be issued by persons/entities that, according to the bylaw prescribed by the NBRM concerning the methodology for determining capital adequacy, are subject to below 20% weight ,
 - to be issued by person/entity that have no qualified holding in the issuer.

13. The issuer shall have required assets in the amount at least equal to the current balance of all liabilities based on issued electronic money.

The NBRM may require from the issuer to maintain higher amount of required assets, if necessary for the level of liquidity risk it has been exposed to.

14. If the value of required assets referred to in item 12 of this Decision drops below the amount of total liabilities arising from the issued electronic money, the issuer shall notify the NBRM in writing, forthwith, elaborating the reasons behind such drop and indicating the measures which will be undertaken for compliance with item 13 of this Decision.

NBRM may require from the issuer to comply with provisions of item 13 of this Decision within a specified deadline, by defining measures for this purpose.

15. The issuer shall not make investments for purchasing shares in the same issuer.

16. The issuer's investments in a person/entity and persons/entities connected thereto shall not exceed 25% of the issuer's own funds.

As an exception to paragraph 1 of this item, the issuer's investments in a person/entity connected thereto, including the persons/entities connected to that person/entity, shall not exceed 20% of the issuer's own funds.

The limits referred to in paragraphs 1 and 2 of this item shall not refer to the investments referred to in item 12 paragraph 1 sub-items 1, 2 and 3.

17. The aggregate amount of investments exceeding 10% of the issuer's own funds shall not exceed 800% of the issuer's own funds.

18. The total amount of investments in sight deposits in the banks and the savings houses referred to in item 12 paragraph 1 sub-item 4 of this Decision and in the debt securities referred to in 12 paragraph 1 sub-item 5 of this Decision, shall not exceed twenty times the issuer's own funds.

19. The issuer's investments exceeding Denar 1,000,000 shall be approved by the issuer's Supervisory Board.

20. The value of required assets referred to in item 12 of this Decision shall be calculated by applying the bylaw stipulated by NBRM concerning the methodology for recording and evaluating accounting items and compiling financial statements.

21. Only for the purposes of hedging the market risks arising from electronic money issuance and from investments, the issuer may use interest rate derivatives, if they meet the requirements referred to in item 12 paragraph 1 sub-item 5 indent 1 of this Decision.

V. RISK MANAGEMENT METHODOLOGY

22. The issuer's own funds shall be calculated as specified by the bylaw adopted by the NBRM concerning the methodology for determining capital adequacy.

The issuer's own funds, calculated in accordance with paragraph 1 of this item, shall not be below the issuer's initial capital.

23. The issuer's own funds shall at all times equal at least 2% of the total issuer's financial liabilities on issued electronic money.

The total issuer's financial liabilities on issued electronic money shall be equal to whichever higher of the following:

- the current balance of all due liabilities arising from issued electronic money, on the calculation date or

- the average balance of all due liabilities arising from issued electronic money at the end of the last six months.

The total financial liabilities of an issuer which exists for a period of less than 6 months shall be equal to whichever higher of the following:

- liabilities determined in line with paragraph 2 indent 1 of this item or

- the average of the projected stock as at the end of the first six month, in line with the issuer's projections enclosed with the application for founding and operating license.

24. The issuer shall apply the bylaws adopted by the NBRM that regulate the risk management of banks, unless otherwise stated by this Decision.

25. The issuer shall have internal control system in place which will ensure continuous risk monitoring and management.

26. The issuer shall adopt risk management policy and procedures for its implementation.

27. Risk management policy shall include:

- definition of an acceptable risk level,
- liquidity risk management,
- operating risk management,
- credit risk management,
- market risk management,
- management of other material risks, (reputation risk, etc.).

28. The issuer's Board of Directors and Supervisory Board shall ensure regular review of the risk management policy and procedures.

29. The issuer's staff shall be communicated the contents and the significance of the risk management policy and procedures.

30. The issuer shall have anti-money laundering and financing terrorism systems in place in consistence with law.

31. The issuer shall observe the data confidentiality and data protection provisions in line with the law.

VI. REPORTING

32. The issuer shall adhere to the provisions on the Banking Law that pertain to reporting to the NBRM.

33. Besides the reporting referred to in item 32 of this Decision, the issuer shall submit the following data and reports to the NBRM:

- number of issued instruments and value of issued electronic money, number and value of supplements of the instrument and number and value of executed electronic money transaction in the quarter,
- number of issued instruments and value of issued electronic money, number and value of electronic money transactions at the end of the quarter,
- number of vendors that accept payments in electronic money at the end of the quarter,
- number and value of illegal transactions and attempts for illegal electronic money transaction in the quarter,
- structure and amount of required assets at the end of the quarter,

- amount of issuer's own funds,
- individual investments exceeding 10% of the issuer's own funds and their aggregate amount.

34. The issuer shall submit the data and reports referred to in item 33 of this Decision to the NBRM on quarterly basis within:

- 5 business days after the expiration of the submission date for non-audited annual financial statements, for the reports as of December 31 and
- 15 business days after the end of the quarter, for the reports as of March 31, June 30 and September 30.

The submission of data and reports referred to in item 33 paragraph 1 indents 1 to 5 of this Decision shall be made on the EP flow, EP stock, ZV and NTEP forms, which are an integral part of this Decision.

The data and reports referred to in 33 paragraph 1 indents 6 and 7 shall be submitted as specified by the bylaws stipulated by the NBRM that pertain to the methodology for determining capital adequacy and bank's large exposures.

35. The provisions concerning data and report submission referred to in item 33 paragraph 1 indents 1 to 4 of this Decision shall apply to any bank granted an approval by the Governor of the NBRM for issuing electronic money, in a manner and within deadlines and timeframes defined by the provisions of item 34 paragraphs 1 and 2 of this Decision.

As an exception to paragraph 1 of this item, the ZV form shall not be filled-in by banks.

36. Apart from the data and reports referred to in item 33 of this Decision, the NBRM may also require submission of other data and reports.

The NBRM may request submission of data and reports within deadlines and for periods different from those stated under item 34 of this Decision.

VII. AUDIT OF BUSINESS ACTIVITIES AND FINANCIAL STATEMENTS

37. Audit company shall audit the business activities and financial statements of the issuer as specified by the Banking Law and the bylaws stipulated by the NBRM pertaining to the contents of the audit of business activities and annual financial statements of a bank.

The audit referred to in paragraph 1 of this item shall also include the description of:

- amount and structure of the assets referred to in item 12 of this Decision compared to the liabilities arising from issued electronic money,

- adherence to the provisions of this Decision with respect to the exposure limits, amount of initial capital and the amount of own funds of the issuer.

VIII. CLOSING PROVISIONS

38. This Decision shall enter into force on the date of its publication in the "Official Gazette of the Republic of Macedonia", and shall start being applied on January 1, 2008.

D. no. 02-15/XII -11/2007
December 27, 2007
Skopje

Petar Goshev MSc.
Governor

President
of the National Bank of the
Republic of Macedonia Council