

Decision on monetary policy implementation of the Croatian National Bank
(Official Gazette 94/2017, 31/2020 and 46/2020)

PART ONE
SUBJECT MATTER, SCOPE AND DEFINITIONS

Subject matter and scope
Article 1

- (1) The Croatian National Bank (hereinafter referred to as 'the CNB') conducts monetary policy by means of:
 - a) monetary policy operations;
 - b) reserve requirements in accordance with the decision on reserve requirements; and
 - c) other instruments and measures in accordance with special decisions of the CNB.
- (2) This Decision determines the operations and instruments of the monetary policy of the CNB, the rules for their implementation and the conditions for participating in the operations.
- (3) Under the terms of this Decision, the counterparties allowed to participate in monetary policy operations shall be exclusively:
 - a) credit institutions, i.e. banks and savings banks, with head offices in the Republic of Croatia that have been authorised by the CNB;
 - b) branches of credit institutions of other Member States of the European Union for which their competent authorities have delivered a notification to the CNB on the establishment of a branch in the Republic of Croatia; and
 - c) branches of third-country credit institutions that have been authorised by the CNB to establish a branch of a third-country credit institution.
- (4) By way of derogation from paragraph (3) of this Article, the counterparties allowed to participate in monetary policy operations conducted by means of the purchase and sale of securities shall also be:
 - a) pension funds with head offices in the Republic of Croatia that have been authorised by the competent authority of the Republic of Croatia for the performance of the activity of pension fund management;
 - b) pension insurance companies with head offices in the Republic of Croatia that operate based on the authorisation of the competent authority of the Republic of Croatia;
 - c) companies for the management of open-ended investment funds with a public offering (hereinafter referred to as 'UCITS funds') with head offices in the Republic of Croatia that have been authorised by the competent authority of the Republic of Croatia for the management of UCITS funds;
 - d) insurance companies with head offices in the Republic of Croatia that have been authorised by the competent authority for conducting insurance business and that have been entered in the register of companies of the competent court; and
 - e) housing savings banks with head offices in the Republic of Croatia that have been authorised by the CNB.

Definitions
Article 2

For the purposes of this Decision, the following definitions shall apply:

- (1) 'tender procedure' means the procedure of conducting open market operations where the CNB provides or absorbs liquidity by accepting bids submitted by counterparties

after a public announcement. The CNB may organise:

- a) 'a fixed rate tender procedure' whereby the CNB specifies the interest rate, price, swap points or spread in advance of the tender procedure and the participating counterparties bid the amount they want to transact; or
 - b) 'a variable rate tender procedure' whereby the counterparties in competition with each other bid both the amount they want to transact and the interest rate, price or swap points at which they want to enter into transactions;
- (2) 'bilateral procedure' means a procedure of conducting open market operations where the CNB invites one or more counterparties to submit bids;
 - (3) 'quick tender' means a tender procedure which is normally executed within a time-frame of two hours from tender announcement to the announcement of tender results, and which can be restricted to a limited set of counterparties;
 - (4) 'maturity date' means the date which is fixed at the beginning of a reverse transaction and on which the obligations arising from a final transaction fall due. It also means the date of expiration of a monetary policy operation;
 - (5) 'settlement date' means the date on which the obligations arising from individual transactions are settled;
 - (6) 'counterparty' means an entity referred to in Article 1, paragraph (3) of this Decision and, exceptionally, in monetary policy operations conducted by means of the purchase and sale of securities, the entity referred to in Article 1, paragraph (4) of this Decision;
 - (7) 'CLVPS' means the Croatian Large Value Payment System;
 - (8) 'outright transaction' means a transaction used by the CNB to purchase or sell securities or foreign currency outright in the market (spot or forward);
 - (9) 'CNB credit operations' means procedures by which the CNB increases liquidity by granting collateralised credits, including overnight credits and intraday credits;
 - (10) 'international institutions' means institutions listed in Annex 4: List of country codes and international institutions referred to in the Instructions for statistical and prudential reporting, which is an integral part of the Decision on statistical and prudential reporting;
 - (11) 'international central securities depository' means a central securities depository that is active in the settlement of internationally traded securities from various national markets determined by the Procedures;
 - (12) 'reverse transaction' means a transaction consisting of an initial and final transaction with a pre-specified time limit for the execution of obligations;
 - (13) 'Operating procedures for the implementation of monetary policy operations of the CNB' (hereinafter referred to as 'the Procedures') means the instructions for a uniform operating conduct of CNB monetary policy operations, adopted in accordance with this Decision;
 - (14) 'business day' means:
 - a) in relation to an obligation of payment to be executed through the relevant payment system, any day on which such payment system is open for executing such payments or in connection with the obligation of payment to be executed outside a payment system, any day on which banks are open for business in the place where payment has to be made;

- b) in relation to an obligation to deliver securities, any day on which securities settlement systems to be used for securities transfer are open for business;
 - c) in all other cases, a working day in the Republic of Croatia, i.e. days from Monday to Friday, excluding public holidays;
- (15) 'maturity' means the time running from the date of settlement of the initial transaction to the maturity date;
- (16) 'CDCC' means the Central Depository and Clearing Company;
- (17) 'standard tender' means a tender procedure used by the CNB to announce an invitation to all counterparties to submit their bids; it is normally executed within a time-frame of 48 hours from tender announcement to the announcement of tender results;
- (18) 'swap point' means the difference between the exchange rate of a forward transaction and the exchange rate of a spot transaction in a foreign exchange swap, quoted according to general market conventions;
- (19) 'intraday credit' means an interest-free collateralised credit granted and repaid within one business day, in accordance with the Decision on the rules of operation of the Croatian Large Value Payment System.

PART TWO
OPERATIONS AND INSTRUMENTS FOR CONDUCTING MONETARY POLICY OF
THE CNB

Monetary policy operations
Article 3

- (1) The monetary policy operations of the CNB are:
- a) open market operations; and
 - b) standing facilities.
- (2) Open market operations shall be initiated by the CNB.
- (3) Standing facilities shall be initiated by a counterparty.
- (4) An overview of monetary policy operations and their features is given in Annex 1 which constitutes an integral part of this Decision.

TITLE I
OPEN MARKET OPERATIONS

Overview of operations and instruments
Article 4

- (1) The CNB shall conduct open market operations by means of reverse and outright transactions to regulate credit activities and liquidity of credit institutions, as well as money supply.
- (2) The types of open market operations are:
- a) regular operations;
 - b) fine-tuning operations; and

- c) structural operations.
- (3) Reverse transactions used by the CNB to provide liquidity shall be conducted by means of the following instruments:
 - a) collateralised credits;
 - b) repo transactions; and
 - c) foreign exchange swaps for monetary policy purposes (hereinafter referred to as 'foreign exchange swaps').
- (4) Reverse transactions used by the CNB to absorb liquidity shall be conducted by means of the following instruments:
 - a) repo transactions;
 - b) foreign exchange swaps;
 - c) fixed-term deposits; and
 - d) debt securities of the CNB.
- (5) Outright transactions used by the CNB to provide liquidity shall be conducted by means of the following instruments:
 - a) securities purchase; and
 - b) foreign currency purchase.
- (6) Outright transactions used by the CNB to absorb liquidity shall be conducted by means of the following instruments:
 - a) securities sale; and
 - b) foreign currency sale.
- (7) The CNB shall decide on the type of open market operation and the instrument to be used to conduct that operation.
- (8) The CNB shall initiate open market operations by announcement (in case of a tender) or invitation (in case of a bilateral procedure).
- (9) In each announcement or invitation, the CNB shall specify the instrument to be used in an open market operation and its characteristics and operational features of that operation.

Chapter I
Types of open market operations

Regular operations
Article 5

Regular operations shall have the following operational features:

- a) they shall be conducted weekly;
- b) they shall normally have a one week maturity;
- c) they shall be conducted by means of standard tender procedures;
- d) counterparties shall be allowed to take part in these operations in accordance with Article 20 of this Decision;
- e) when conducted as liquidity-providing reverse transactions, excluding foreign exchange swaps, they shall be based on eligible assets as collateral in accordance with this Decision; and
- f) when conducted in the form of a collateralised credit, only the pool of eligible assets referred to in Article 31 of this Decision shall be used for collateralisation.

Fine-tuning operations

Article 6

Fine-tuning operations shall have the following operational features:

- a) they shall be of non-standardised frequency and maturity;
- b) normally, they shall be conducted by means of quick tenders, but the CNB may decide to conduct fine-tuning operations by means of other procedures (standard tenders or bilateral procedures);
- c) counterparties shall be allowed to take part in these operations in accordance with Articles 20 and 21 of this Decision;
- d) when conducted as liquidity-providing reverse transactions, excluding foreign exchange swaps, they shall be based on eligible assets as collateral in accordance with this Decision; and
- e) when conducted in the form of a collateralised credit, only the pool of eligible assets referred to in Article 31 of this Decision shall be used for collateralisation.

Structural operations

Article 7

Structural operations shall have the following operational features:

- a) they shall be of non-standardised frequency and maturity;
- b) they shall be conducted by means of standard tenders, quick tenders or bilateral procedures, depending on CNB decision;
- c) counterparties shall be allowed to take part in these operations in accordance with Articles 20 and 21 of this Decision;
- d) when conducted as liquidity-providing reverse transactions, excluding foreign exchange swaps, they shall be based on eligible assets as collateral in accordance with this Decision; and
- e) when conducted in the form of a collateralised credit, only the pool of eligible assets referred to in Article 31 of this Decision shall be used for collateralisation.

Chapter II

Instruments used for conducting open market operations

Collateralised credit

Article 8

- (1) A collateralised credit is a reverse transaction used by the CNB to provide liquidity to a counterparty against collateral by securities transferred to the pool of eligible assets referred to in Article 31 of this Decision.
- (2) The amount of liquidity that may be provided by a collateralised credit shall be limited only by the value of the pool of eligible assets.
- (3) The characteristics of collateralised credits shall be determined by the CNB depending on the operational features of the type of open market operation for which that instrument is used.

Repo transaction

Article 9

- (1) A repo transaction is an instrument by means of which the seller sells securities to the buyer for which the buyer pays the seller the purchase price, while at the same time, the buyer sells equivalent securities to the seller on a set future date for which the seller pays the buyer the repurchase price.

- (2) The securities which are the subject of a repo transaction shall meet the eligibility criteria referred to in Article 23 of this Decision.
- (3) No haircuts or additional risk control measures referred to in Article 30, paragraph (4) of this Decision shall be applied to repo transactions used by the CNB to absorb liquidity.
- (4) The characteristics of repo transactions shall be determined by the CNB depending on the operational features of the type of open market operation for which that instrument is used.

Foreign exchange swap

Article 10

- (1) A foreign exchange swap is a reverse transaction used by the CNB to buy or sell kuna spot against euro or US dollar and at the same time sell or buy it back in a forward transaction.
- (2) The characteristics of foreign exchange swaps shall be determined by the CNB depending on the operational features of the type of open market operation for which that instrument is used.

Fixed-term deposits

Article 11

- (1) A fixed-term deposit shall be agreed with a fixed future maturity date at a fixed interest rate upon CNB announcement or invitation to the counterparties.
- (2) The CNB shall not provide collateral for deposits.
- (3) Fixed-term deposits may be collected:
 - a) based on a previously issued schedule with a fixed frequency and maturity or on an ad hoc basis;
 - b) in standard tender procedures, except if the CNB decides to conduct individual operations by means of another procedure (a quick tender or bilateral procedure).

Debt securities of the CNB

Article 12

- (1) The CNB shall issue debt securities at a discount and redeem them at nominal value.
- (2) The discount referred to in paragraph (1) of this Article shall be a reduction in the nominal value by the amount which is calculated using the interest rate determined for that instrument.
- (3) Debt securities of the CNB shall be issued and held in the CDCC.
- (4) Debt securities of the CNB shall have the following operational features:
 - a) they may be issued on a regular or irregular basis;
 - b) their maximum maturity shall be 12 months; and
 - c) they shall be issued by tender procedures.
- (5) The CNB shall have the right to redeem own debt securities at any moment prior to the maturity date.

Purchase or sale of securities

Article 13

- (1) The CNB shall purchase and sell only those securities which meet the eligibility criteria referred to in Article 23 of this Decision.
- (2) The characteristics of securities purchase and sale transactions shall be determined by the CNB depending on the operational features of the type of open market operation for which that instrument is used.

Purchase or sale of foreign currency

Article 14

- (1) The CNB shall purchase and sell only the euro and/or US dollars.
- (2) The characteristics of foreign currency purchase and sale transactions shall be determined by the CNB depending on the operational features of the type of open market operation for which that instrument is used.

TITLE II STANDING FACILITIES

Standing facilities

Article 15

- (1) The CNB shall enable access to standing facilities by following instruments:
 - a) overnight credits; and
 - b) overnight deposits.
- (2) Standing facilities shall have a maturity of one business day.

Conditions for access to standing facilities

Article 16

- (1) The counterparties meeting the eligibility criteria referred to in Article 20 of this Decision shall have access to standing facilities.
- (2) Access to standing facilities shall be possible only on CLVPS working days.

Chapter I Overnight credit

Characteristics of overnight credits

Article 17

- (1) An overnight credit is a collateralised credit with one business day maturity.
- (2) The amount of liquidity that may be provided by an overnight credit shall be limited only by the value of the pool of eligible assets referred to in Article 31 of this Decision.
- (3) The CNB shall grant an overnight credit by transferring cash funds to the account of a counterparty in the CLVPS at the end of the working day of the CLVPS, at the time specified by the Work Schedule of the CLVPS.
- (4) The counterparty shall repay the overnight credit through the CLVPS on the next

business day, at the time specified by the Work Schedule of the CLVPS.

Conditions for access to overnight credits
Article 18

- (1) An overnight credit shall be granted:
 - a) based on an application by a counterparty, in accordance with paragraph (2) of this Article; or
 - b) automatically, in the case referred to in paragraph (3) of this Article.
- (2) The counterparty shall submit an application for an overnight credit at the time specified by the Work Schedule of the CLVPS. The application for an overnight credit shall specify the amount of the credit requested.
- (3) A negative balance in the account of a counterparty with the CLVPS at the end of the working day of the CLVPS shall be considered an application for an overnight credit.

Chapter II
Overnight deposit

Characteristics of overnight deposits
Article 19

- (1) An overnight deposit is a fixed-term deposit with one business day maturity.
- (2) The CNB shall not give any collateral in exchange for the overnight deposits.
- (3) There shall be no limit on the amount a counterparty may deposit as an overnight deposit.
- (4) A counterparty shall make an overnight deposit through the CLVPS, by transferring cash funds to the CNB account with the CLVPS at the end of the working day of the CLVPS, at the time specified by the Work Schedule of the CLVPS.
- (5) The CNB shall return the overnight deposit to the counterparty through the CLVPS at the beginning of the following working day of the CLVPS, by transferring the cash funds to the account of the counterparty with the CLVPS at the time specified by the Work Schedule of the CLVPS.

PART THREE
ELIGIBLE COUNTERPARTIES

Conditions for counterparty eligibility for participation in monetary policy operations of the CNB
Article 20

- (1) Counterparties shall be considered eligible and may participate in monetary policy operations of the CNB provided they meet the following conditions:
 - a) they are financially stable;
 - b) they are subject to the decision on reserve requirements;
 - c) they have participants' accounts in the CLVPS; and
 - d) they meet all the technical requirements set by the CNB and are notified thereof in advance by the CNB.
- (2) Only counterparties referred to in paragraph (1) of this Article who have concluded with

the CNB a master agreement for credit operations (hereinafter referred to as 'Master Agreement for Credit Operations') shall be allowed to participate in CNB credit operations.

- (3) Only counterparties referred to in paragraph (1) of this Article who have concluded with the CNB a master agreement on repurchase of financial instruments (hereinafter referred to as 'Master Repo Agreement') shall be allowed to participate in CNB repo transactions.
- (4) By way of derogation from paragraph (1) of this Article, in monetary policy operations conducted by means of the purchase and sale of securities, the entities referred to in Article 1, paragraph (4) of this Decision shall be considered eligible provided they meet the following conditions:
 - a) they are financially stable; and
 - b) they meet all the technical requirements set by the CNB and are notified thereof in advance by the CNB.

**Selection of counterparties for access to open market operations conducted by means of
bilateral procedures or quick tenders
Article 21**

The CNB shall base the selection of counterparties for access to open market operations conducted by means of bilateral procedures and quick tenders, where the CNB decides to send out an invitation to a selected number of counterparties, on the activities of the counterparties on the monetary or foreign exchange markets, but it may also base it on additional criteria such as operational readiness of the counterparty to participate in operations, efficiency of its trading unit and the potential of the counterparty to participate in bilateral procedures or tenders.

**PART FOUR
ELIGIBLE ASSETS**

**TITLE I
GENERAL RULES**

**Eligible assets for CNB credit operations and repo transactions
Article 22**

- (1) For liquidity-providing monetary policy operations conducted by means of CNB credit operations, the counterparty shall provide collateral to cover its obligation of credit repayment by transferring its eligible assets into a pool of eligible assets in accordance with the Master Agreement for Credit Operations.
- (2) For liquidity-providing monetary policy operations conducted by means of repo transactions, the counterparty shall, by means of a repo transaction entered into based on a Master Repo Agreement, transfer its eligible assets to CNB ownership.
- (3) Eligible assets shall be the securities determined as eligible pursuant to Article 23 of this Decision.
- (4) In the cases referred to in Article 32, paragraph (5) and Article 33, paragraph (6) of this Decision and in the Master Repo Agreement, eligible assets shall also include counterparty's cash funds.

TITLE II ELIGIBLE SECURITIES

Eligibility criteria Article 23

Eligible securities shall comprise only debt securities:

- a) having a fixed principal amount or principal amount that is linked to an exchange rate index or exchange rate ratio of the kuna against the euro or the US dollar;
- b) with a coupon that cannot result in a negative cash flow or with a zero coupon;
- c) with features which must be maintained until the maturity of a security;
- d) which must be in a dematerialised form and transferable within the dematerialised securities settlement systems; and
- e) which, in terms of the issuer, the currency, the depository and credit quality, meet the requirements referred to in Articles 24 to 27 of this Decision.

Issuers Article 24

- (1) Only the following securities issuers shall be eligible:
 - a) the Republic of Croatia;
 - b) the CNB;
 - c) other private sector and public sector entities having their head office in the Republic of Croatia; and
 - d) international institutions.
- (2) A counterparty may not use, in CNB credit operations and repo transactions, own-issued securities or securities guaranteed by the counterparty or a person related with the counterparty, unless the related person is the Republic of Croatia or a unit of local and regional self-government.

Currency of issue Article 25

Eligible securities shall be only those denominated in:

- a) kuna, euro or US dollars, irrespective of whether they are payable in kuna or in the currency of issue, provided their issuer is an entity referred to in Article 24, paragraph (1), items (a), (b) and (c); and
- b) kuna, provided their issuer is an entity referred to in Article 24, paragraph (1), item (d).

Depository and securities settlement system Article 26

- (1) The securities issued in the Republic of Croatia shall be included in the central depository and security settlement system of the CDCC.
- (2) The securities issued outside the Republic of Croatia shall be included in the central depository and security settlement system of the international central securities depository.

Credit quality requirements Article 27

- (1) In order to be eligible, the securities issued by the issuers referred to in Article 24, paragraph (1), items (c) and (d) shall have an adequate credit rating by at least one internationally recognised rating agency. If the issue has no rating, the issuer or guarantor of the issue who

has provided for the issue an unconditional first demand guarantee shall have an adequate credit rating.

- (2) An adequate credit rating of an issue or an issuer referred to in Article 24, paragraph (1), item (c) shall be considered a credit rating not lower than the best credit rating of the Republic of Croatia.
- (3) The highest credit rating shall be considered adequate credit rating of an issue or an issuer referred to in Article 24, paragraph (1), item (d).

List of eligible securities

Article 28

- (1) The CNB shall publish and update the List of eligible securities on its website.
- (2) The CNB shall determine and publish on the List of eligible securities price sources, the representative price and haircuts and, if applicable, additional risk control measures referred to in Article 30, paragraph (4) of this Decision.
- (3) The CNB shall add to the List of eligible securities the securities proposed by a counterparty if they meet the eligibility criteria referred to in this Title.

TITLE III

SECURITIES VALUATION AND RISK CONTROL

Valuation rules for eligible securities

Article 29

- (1) The following rules shall apply to the valuation of eligible securities used in CNB credit operations and repo transactions:
 - a) the CNB shall determine the representative price to be used in value calculation;
 - b) the value shall be calculated based on the representative price on the business day preceding the valuation date;
 - c) where no representative price is available for particular securities, the CNB shall determine the price;
 - d) the value shall be calculated including undue accrued interest until the valuation date; and
 - e) if the calculated value is expressed in a foreign currency, it shall be converted to kuna using the midpoint exchange rate of the CNB on the valuation date.
- (2) The value of eligible securities shall be their monetary value calculated in accordance with paragraph (1) of this Article corrected by risk control measures referred to in Article 30, paragraph (1), item (a) of this Decision and, if applicable, additional measures referred to in Article 30, paragraph (4), items (a) and (c) of this Decision.

Risk control measures

Article 30

- (1) The CNB shall apply the following risk control measures to eligible securities:
 - a) haircuts; and
 - b) margin calls.
- (2) A haircut shall be a percentage decrease in the value of eligible securities calculated in accordance with Article 29 of this Decision determined by the CNB.

- (3) A margin call shall be a call by the CNB to a counterparty to transfer additional eligible securities or cash funds for the purpose of maintaining the value of collateral or the value of eligible assets transferred into ownership, in the case when their value falls below a certain level.
- (4) The CNB may also apply the following additional risk control measures:
 - a) initial margins, which means that counterparties transfer eligible securities of a value at least equal to the liquidity provided by the CNB, plus the value of the initial margin;
 - b) limits in relation to issuers or guarantors, which means that the CNB may apply additional limits, other than those referred to in Articles 24, 25 and 27 of this Decision;
 - c) supplementary haircuts;
 - d) guarantees from guarantors meeting credit quality requirements as an additional eligibility condition for specific securities; and
 - e) exclusion of specific securities from the List of eligible securities.

**PART FIVE
ELIGIBLE ASSETS POOLING SYSTEM**

Key characteristics of eligible assets pooling system

Article 31

- (1) The CNB shall use the eligible assets pooling system for collateralization of all CNB credit operations.
- (2) The eligible assets pooling system is a system in which the CNB manages the eligible assets transferred by a counterparty to the CNB as collateral for CNB credit operations, whereby the CNB keeps the records of the pool of each counterparty separately from the records of the pools of eligible assets of other counterparties.
- (3) No specific asset in the pool of eligible assets shall be earmarked as collateral for a specific CNB credit operation.
- (4) A counterparty's pool of eligible assets shall comprise:
 - a) eligible securities transferred by a counterparty to:
 - i. the CNB financial collateral transfer account with the CDCC; and
 - ii. another CNB account or accounts with the international central securities depository determined in the Procedures; and
 - b) cash funds which, in accordance with Article 32, paragraph (5) and Article 33, paragraph (6) of this Decision have been transferred or retained in CNB accounts determined in the Procedures.
- (5) The value of the pool of eligible assets shall be the value of eligible securities referred to in paragraph (4), item (a) of this Article, calculated in accordance with Article 29, paragraph (2) of this Decision and increased by the amount of cash funds referred to in paragraph (4), item (b) of this Article.
- (6) A counterparty shall be authorised to withdraw, replace and add on a permanent basis, the eligible securities in the pool of eligible assets, provided the value of the pool of eligible assets is always at least equal to the amount of CNB claims on that counterparty at that time.
- (7) The amount of CNB claims shall be the total amount of CNB claims on a counterparty, arising from all CNB credit operations, including the principal and interest on the valuation date.

- (8) In the case where a counterparty wishes to reduce the value of a pool of eligible assets or replace an individual eligible asset in the pool of eligible assets, and that pool in addition to securities also comprises cash funds, it shall first withdraw or replace the cash funds and then the securities.
- (9) Withdrawal and replacement of a specific eligible asset shall be permitted provided the value of the pool of eligible assets following withdrawal or replacement be at least equal to the amount of CNB claims on the relevant counterparty.
- (10) Counterparties shall withdraw, replace and add eligible assets in the pool of eligible assets in accordance with the Procedures.

Valuation of the pool of eligible assets

Article 32

- (1) On each business day, the CNB shall determine the value of the pool of eligible assets for each counterparty in accordance with Article 31, paragraph (5) of this Decision.
- (2) The value of the pool of eligible assets of each counterparty shall at all times be higher than or equal to the amount of CNB claims on the relevant counterparty.
- (3) If the CNB determines that at any given moment the value of the pool of eligible assets of a counterparty is lower than the amount of CNB claims on that counterparty at that moment, the CNB shall make a margin call to that counterparty in the amount equal to that difference.
- (4) A counterparty receiving a margin call referred to in paragraph (3) of this Article shall, on the day of its receipt, increase the pool of eligible assets by transferring additional eligible securities in accordance with Article 31, paragraph (4), item (a) of this Decision, as a minimum by the amount equal to the difference between the value of the pool of eligible assets and the amount of CNB claims.
- (5) By way of derogation from paragraph (4) of this Article, a counterparty may, when unable to increase the pool of eligible assets by eligible securities and subject to a prior approval by the CNB, increase on the same day the pool of eligible assets by transferring cash funds in accordance with Article 31, paragraph (4), item (b) of this Decision.
- (6) The CNB shall pay 0% interest on cash funds received from margin calls.

Payment of cash flows from securities

Article 33

- (1) Cash flows (interest and principal) from securities in the pool of eligible assets shall be paid to the CNB upon maturity.
- (2) The CNB shall not be liable for the accuracy of the calculation of the amount and timeliness of cash flow payments by the issuer or guarantor of a security.
- (3) If on the day when the CNB receives a cash flow from the issuer or guarantor, the value of the pool of eligible assets of a counterparty exceeds the amount of CNB claims on that counterparty, the CNB shall pay to that counterparty the cash flow received on the same day.
- (4) If on the day when the CNB receives a cash flow, the value of the pool of eligible assets of a counterparty is lower than the amount of CNB claims on that counterparty, the CNB

shall make a margin call to that counterparty to transfer additional eligible securities to the pool of eligible assets in the amount equal to that difference.

- (5) The CNB shall pay the cash flow from securities to the counterparty immediately after the counterparty increases the value of the pool of eligible assets by transferring additional eligible securities to the pool of eligible assets in the amount of the difference under the margin call.
- (6) If a counterparty fails to increase the value of the pool of eligible assets by transferring additional eligible securities on the day it receives a margin call, the CNB shall retain a part of the received cash flow needed to cover the difference under the margin call.
- (7) The cash flow retained pursuant to paragraph (6) of this Article shall represent cash funds in the pool of eligible assets of a counterparty.
- (8) The CNB may require from a counterparty to withdraw securities from a pool of eligible assets or to replace them by other eligible securities prior to cash flow payment.

Procedure in the case of exclusion of a security from the List of eligible securities

Article 34

- (1) If the CNB excludes from the List of eligible securities a security belonging to the pool of eligible assets, the value of that security shall not be included in the calculation of the value of the pool of eligible assets.
- (2) If in the case of exclusion of a security from the List of eligible securities, the value of the pool of eligible assets of a counterparty exceeds the amount of CNB claims on that counterparty, the CNB shall transfer the excluded securities to the counterparty on the same day.
- (3) If in the case of exclusion of a security from the List of eligible securities, the value of the pool of eligible assets of a counterparty falls below the amount of CNB claims on that counterparty, the CNB shall make a margin call to that counterparty in the amount equal to that difference, in accordance with Article 32, paragraph (3) of this Decision.
- (4) After a counterparty increases the value of the pool of eligible assets under the margin call referred to in paragraph (3) of this Article, the CNB shall transfer the excluded securities to the counterparty.

PART SIX

DISCRETIONARY MEASURES

Discretionary measures

Article 35

The CNB shall be authorised to take measures:

- a) on the grounds of prudence;
- b) on the grounds of risk protection; and
- c) in the event of a breach by a counterparty of obligations arising from transactions concluded on the basis of this Decision.

Measures on the grounds of prudence
Article 36

- (1) The CNB may prevent access to a counterparty to all or some of CNB monetary policy operations for a definite or an indefinite period of time in any of the following cases:
 - a) if a counterparty no longer meets the eligibility criteria referred to in Article 20 of this Decision; or
 - b) if a counterparty is temporarily or permanently prevented from receiving or making payments in a payment system or from transferring securities in the securities settlement system used for the settlement of CNB monetary policy operations.
- (2) The CNB shall apply the measures referred to in paragraph (1) of this Article when deciding on bid acceptance in standard tenders, when announcing quick tenders or deciding on bid acceptance in quick tenders, or when inviting individual counterparties in open market operations, and when deciding on a counterparty request in the case of standing facilities.
- (3) The CNB shall renew counterparty access to CNB monetary policy operations when the grounds for prevented access cease to exist.

Measures on the grounds of risk protection
Article 37

- (1) The measures on the grounds of risk protection shall be the additional risk control measures referred to in Article 30, paragraph (4) of this Decision, which the CNB may use by their inclusion in the List of eligible securities.
- (2) The CNB shall apply the measures referred to in paragraph (1) of this Article after risk assessment based on all available information.

Measures in event of a breach of obligations by a counterparty
Article 38

- (1) In the event of a breach by a counterparty of an obligation arising from any transaction concluded on the basis of this Decision or a breach of duty referred to in Article 43 (including the provision of inaccurate, incomplete or false information) and Article 44, paragraphs (1) and (2) of this Decision, the CNB may prevent counterparty access to all or some of CNB monetary policy operations for a definite or an indefinite period of time.
- (2) The CNB shall use the measures referred to in paragraph (1) of this Article irrespective of other consequences of breaches determined by this Decision, a Master Agreement for Credit Operations and a Master Repo Agreement.
- (3) When determining the measure referred to in paragraph (1) of this Article, the CNB shall take account that it is proportionate to the type of breach, type of transaction in which the breach was committed, previous history of counterparty compliance with its obligations and duties, and significance of the breach.
- (4) The CNB shall apply the measures referred to in paragraph (1) of this Article in a non-discriminatory manner.
- (5) The CNB shall apply the measures referred to in paragraph (1) of this Article when deciding on bid acceptance in standard tenders, when announcing quick tenders or deciding on bid acceptance in quick tenders, or when inviting individual counterparties in open market operations, and when deciding on a counterparty request in the case of

standing facilities.

PART SEVEN
CONSEQUENCES IN THE EVENT OF A BREACH OF OBLIGATIONS AND EXPIRY
OF AUTHORISATION

Consequences in the event of a breach of obligations by a counterparty
Article 39

- (1) Breaches and consequences of breaches of obligations by a counterparty shall be governed by a Master Agreement for Credit Operations in case of credit operations and by a Master Repo Agreement in case of repo transactions.
- (2) Where a counterparty fails to fulfil on time its payment obligation or the obligation to deliver a security under an outright transaction or its payment obligation under a forward transaction based on a foreign exchange swap, that transaction shall be terminated automatically.
- (3) Where a counterparty fails to fulfil on time its payment obligation under a spot transaction based on a foreign exchange swap or its obligation to transfer cash funds in case of a fixed-term deposit, or its payment obligation under an agreement on the purchase of debt securities issued by the CNB, that agreement shall be terminated automatically.

Consequences in the event of expiry of authorisation
Article 40

- (1) In the event the authorisation of a counterparty referred to in Article 1, paragraph (3), item (a) of this Decision or the authorisation issued by the CNB to establish a counterparty referred to in Article 1, paragraph (3), item (c) of this Decision expires on any grounds:
 - a) all unexecuted outright transactions and unexecuted transactions based on a foreign exchange swap shall be terminated automatically; and
 - b) all fixed-term and overnight deposits shall fall due immediately.
- (2) The consequences of expiry of authorisation or of the authorisation issued by the CNB to establish a counterparty shall be governed by a Master Agreement for Credit Operations in case of credit operations and by a Master Repo Agreement in case of repo transactions.
- (3) Items (a) and (b) of paragraph (1), and paragraph (2) of this Article shall also apply if the competent authority initiates bankruptcy, winding-up or other proceedings which result in a dissolution of a credit institution from another Member State to which the counterparty referred to in Article 1, paragraph (3), item (b) of this Decision belongs, or if that credit institution's authorisation expires on any other grounds.

PART EIGHT
ADDITIONAL RULES FOR CONDUCTING CNB MONETARY POLICY OPERATIONS

Currency of payment
Article 41

All payments in transactions used to conduct CNB monetary policy operations shall be made in kuna, with the exception of payments in foreign currency in foreign exchange swaps,

outright transactions with foreign currencies and cash flows arising from securities issued in a foreign currency.

Authorised signatories and communication

Article 42

- (1) The counterparties shall notify the CNB about the persons authorised to act as representatives when concluding transactions based on this Decision and about their subsequent changes in line with the Procedures.
- (2) All communication between the parties in connection with transactions based on this Decision shall be done in line with the Procedures, a Master Agreement for Credit Operations and a Master Repo Agreement.

Reporting obligation

Article 43

- (1) Upon CNB's request, the counterparties shall deliver the reports and information on all issues relevant for conducting monetary policy operations and the implementation of this Decision.
- (2) A counterparty shall notify the CNB if it becomes aware at any time of any information that could affect the eligibility of securities.

Protection of confidential data

Article 44

- (1) The counterparties shall keep confidential all information relating to entering into and execution of transactions entered into on the basis of this Decision.
- (2) The counterparties may disclose the information referred to in paragraph (1) of this Article to third persons only subject to an explicit approval by the CNB.
- (3) The CNB shall treat the information referred to in paragraph (1) of this Article in accordance with the Act on the Croatian National Bank.
- (4) The CNB shall be authorised to disclose the aggregated data on the conducted monetary policy operations.

Assignment

Article 45

A counterparty may not assign its claim on the CNB arising from transactions entered into on the basis of this Decision to a third person, without a prior written approval by the CNB.

PART NINE TRANSITIONAL AND FINAL PROVISIONS

Interest rates

Article 46

- (1) The interest rates for open market operations and standing facilities shall be regulated by a special CNB decision.

- (2) The manner of payment of interest for open market operations and standing facilities shall be regulated by a special CNB decision.

Powers of the Governor of the CNB

Article 47

- (1) The Governor of the CNB shall be authorised for the implementation of this Decision.
- (2) The Governor of the CNB shall be authorised to adopt the Procedures.
- (3) The Procedures shall be published and updated on the CNB website.

Cessation of effect

Article 48

On the date of the entry into force of this Decision, the Decision on the deposit facility with the Croatian National Bank (Official Gazette 34/2005, 133/2010 and 121/2016), the Decision on Lombard loans (Official Gazette 71/2013 and 98/2015), and the Decision on the Croatian National Bank Bills (Official Gazette 203/2003, 133/2010 and 100/2016) shall cease to have effect.

Entry into force

Article 49

This Decision shall enter into force on the day of its publication in the Official Gazette.

Annex 1

An overview of monetary policy operations of the CNB and their features

Categories of monetary policy operations	Type of instrument		Maturity	Frequency	Procedure
	Provision of liquidity	Absorption of liquidity			
Open market operations					
Regular operations	<i>Reverse transactions:</i> – Collateralised credit	<i>Reverse transactions:</i> – Repo transaction	One week	Weekly	Standard tender procedures
Fine-tuning operations	– Repo transaction – Foreign exchange swaps <i>Outright transactions:</i>	– Foreign exchange swaps – Fixed-term deposits – Debt securities of the CNB <i>Outright transactions:</i>	Non-standardised	Non-standardised	Standard or quick tender procedures, bilateral procedures
Structural operations	– Securities purchase – Foreign currency purchase	– Securities sale – Foreign currency sale			
Standing facilities					
Overnight credit	Reverse transaction (collateralised credit)	–	Overnight	At counterparty initiative	
Overnight deposit	–	Reverse transaction (fixed-term deposit)			