

## **Clarification of the Rules of remittances systems in the Kyrgyz Republic**

### **Questions on registration of remittances system operator in the NBKR**

#### **1. What are the requirements for documents submitted for registration of the payment system operator?**

According to Paragraph 3.1. of the Rules of remittances systems in the Kyrgyz Republic, the operator (resident or non-resident of the Kyrgyz Republic) for the provision of services through remittances systems in the Kyrgyz Republic should be registered in the National Bank of the Kyrgyz Republic and provide documents, including the following:

- covering letter in any form with the signature and seal of the management;
- name of remittances system;
- name of operator of remittances system and the country of origin;
- registration number, a copy of the registration certificate, license, certificate issued by the authorized body of the financial supervision of the country of origin;
- regulations of remittances system;
- standard contract with the participants of the system, if any.

#### **2. How the documents are submitted – through the dispatch office, by mail or by e-mail?**

For registration the documents should be sent to the National Bank of the Kyrgyz Republic at the address: 101, Umetaliev Street, Bishkek, Kyrgyz Republic, 720040, National Bank of the Kyrgyz Republic with the note “To the Payment Systems Department”. At the same time, copies of the documents must be notarized.

In addition, the National Bank of the Kyrgyz Republic informs that in April 2014 as part of the Payment Systems Department there was established a Group for operators and payment organizations (GOPO), which is responsible for licensing/registration/regulation of payment systems operators. Additionally, scanned versions of documents should be sent to the e-mail address of the GOPO staff: [nkerimbekova@nbkr.kg](mailto:nkerimbekova@nbkr.kg), [abredihin@nbkr.kg](mailto:abredihin@nbkr.kg).

#### **3. Is it necessary to provide the translation of the documents into the Kyrgyz language?**

No. Translation of documents into the Kyrgyz language is not required.

#### **4. In the event that the operator of remittances system is owned by commercial bank, then what documents also must be submitted?**

If payment system is owned by commercial bank, then in addition to the abovementioned documents it is needed to submit notarized copies of the following documents listed in the Rules (“license, certificates issued by the authorized body of the financial supervision of the country of origin”), namely:

- license for banking operations issued by the central bank of the country of origin to the commercial bank;
- certificate of state registration of a legal entity – a commercial bank;
- certificate of registration at the tax authority of the country of origin of this commercial bank.

#### **5. If the international remittances system has a considerable period of work on the remittance market, impeccable financial reputation and investment ratings of the international level, so**

**could such a company be exempt from registration in the National Bank of the Kyrgyz Republic?**

The National Bank of the Kyrgyz Republic informs that the requirements for the operators of remittances systems representing their interests in the market of the Kyrgyz Republic, are the same for all, regardless of the business scale of remittances systems, the number of years of work of the operator, its reputation and international status, the presence of international investment ratings and other criteria.

All remittances systems representing their interests in the market must take registration.

**6. What are the terms for the registration of payment systems operators?**

Before December 31, 2014.

**Warranty issues on financial obligations in the event of unforeseen circumstances**

According to Paragraph 3.7., the operator, other than the operator of the internal local remittances systems, should ensure one of the following conditions at least:

- 1) to place on the correspondent account of a bank-member or correspondent accounts specified by bank-member in other banks the mandatory security deposit in the amount covering the average daily turnover on all effected operations (per month, or quarter, or year);
- 2) to provide guarantees from banks that have international credit ratings of investment grade assigned by international rating agencies;
- 3) to provide insurance of remittances conducted through local remittances systems.

In accordance with Paragraph 3.7. of the Rules, the operator and the participant of remittances system is provided with the opportunity on mutually beneficial conditions to reflect method of guarantee the financial obligations in their contractual relations in the event of unforeseen circumstances. Also, in accordance with Paragraph 1.7. of the Rules, all relationship of the participants of remittances system not described by these Rules, their responsibilities, rights and duties are established by the relevant treaties or agreements.

**1. Should the operator of remittances system place deposits in each participating banks considering that it collaborates with several Kyrgyz banks?**

Regardless of the number of participating banks with which the operator of remittances system works, the deposit must be placed on the correspondent account of each participating bank or on the correspondent accounts specified by the participating bank in other banks in accordance with subparagraph 1 of Paragraph 3.7. of the Rules.

**2. Could the operator of remittances system place one deposit on the account specified by participating banks on transactions with all participating banks?**

No. Carrying out of such operation would be a violation of sub-Paragraph 1 of Paragraph 3.7. of the Rules.

**3. What should be the terms of the deposit to be considered as an insurance deposit?**

The participant and the operator of remittances system in their contracts determine the size of “compulsory insurance deposit”, the volume of which should cover the average daily turnover on all effected operations - per month or a quarter or a year, at the discretion of the parties. In this case, all the relationship of the participants of remittances system, their responsibilities, rights and duties not

described by these Rules are recorded in the respective agreements pursuant to Paragraph 1.7. of the Rules.

**4. In the case when the operator makes calculations with participating banks more often than 1 time a day, can the appropriate size of the deposit be in the amount of medium size of the operator's liability between two settlement periods?**

The participant and the operator of remittances system independently define and agree in their contracts the size of the mandatory insurance deposit, as well as the settlement period under subparagraph 3 of Paragraph 3.7. of the Rules.

**5. What are the terms, amounts and conditions must be in guarantee, type of guarantee? Who should be the recipient of the guarantee?**

Under subparagraph 2 of Paragraph 3.7. of the Rules, the operator must provide guarantees of banks that have international credit ratings of investment grade assigned by international rating agencies. As part of this requirement the participant and the operator of remittances system bilaterally define the conditions and the type of guarantees, including determining the list of international rating agencies and acceptable ratings. Recipient of the guarantee will be participant of remittances system - commercial bank of the Kyrgyz Republic. The National Bank of the Kyrgyz Republic does not establish any requirements on the list of international rating agencies, given the large number of international rating agencies.

It should be noted that in accordance with the Regulation "On licensing of the activities of banks" approved by the Resolution of the NBKR Board of March 2, 2006 No. 5/7 ([www.nbkr.kg](http://www.nbkr.kg), see "Regulations"/ Licensing of banks), Kyrgyz commercial banks in the formation of authorized capital should focus on those foreign banks, credit ratings assigned by the international credit rating agencies, such as:

- Standard & Poor's;
- Moody's Investors Service;
- Fitch-IBCA;
- Capital Intelligence;
- Japan Credit Rating Agency (JCR);
- Dominion Bond Rating Service (DBRS);
- Rating & Investment Information (R&I);
- or national rating agency accredited by the authorized bodies of the country of the foreign bank and the rating of which is recognized by the central (national) bank of the country of the foreign bank.

**6. In the case of (assignment) operator of the payment system, which is a credit institution, has credit rating of investment grade assigned by the international rating agency, is it necessary to receive additional guarantees from other banks according to subparagraph 2 of Paragraph 3.7. of the Rules?**

If the operator of the payment system is a credit institution for itself, having license for conducting banking transactions and having credit rating of investment grade assigned by international credit rating agencies like Standard & Poor's, Moody's Investors Service or Fitch-IBCA, then providing additional guarantees from other banks is not required.

**7. If the operator of the payment system has credit rating of investment grade assigned by the international rating agency, whether the provision of guarantees from other banks according to subparagraph 2 of Paragraph 3.7. of the Rules is required?**

In that case, if the operator of the payment system has credit rating of investment grade assigned by international credit rating agencies like Standard & Poor's, Moody's Investors Service and Fitch-IBCA, then providing additional guarantees from banks is not required.

**8. According to subparagraph 3 of Paragraph 3.7. of the Rules the operator must provide insurance of the remittances conducted through local remittances systems. Are there any requirements for the remittances insurance program and/or for insurance companies?**

The National Bank of the Kyrgyz Republic does not establish any requirements to the program of remittances insurance and/or to insurance companies. In the framework of the remittances insurance conducted through the local remittances systems; the participant and the operator of the remittances system may provide in their contracts the insurance conditions mutually beneficial for both sides.

**9. What are the terms of insurance? Is it possible to insure the Kyrgyz insurance company?**

It is possible to insure remittances in the Kyrgyz insurance company. It should be noted that the National Bank of the Kyrgyz Republic does not establish the specific requirements to the insurance conditions in the framework of insurance of the remittances conducted through the local remittances systems (subparagraph 3 of Paragraph 3.7.). The participant and the operator of the remittances should provide in their contracts the insurance conditions mutually beneficial for parties.

**10. What are the requirements for the insurance company for the purpose of execution of subparagraph 3 of Paragraph 3.7 of the Rules? What should be the size of the insurance coverage, whether it should correspond to the average daily turnover on all the derivative operations?**

According to Paragraph 1.7. of the Rules, all relationship of remittances system participants not described by this Rules, their responsibilities, rights and duties are established by the relevant treaties or agreements.

Thus, the details of the terms for the implementation of the Rules are established and recorded in the treaties/agreements between participant and operator of remittances system on terms acceptable for both parties.

#### *Various questions on the Rules*

**1. Does the Rules effect on card2card technology remittances - transfers of funds from one payment card to another payment card?**

In accordance to the Paragraph 2.3. of the Rules, the remittance without opening of banking account - remittances, banking transaction, which is implemented by the bank through the adoption of cash from individual in national or foreign currency and further transmission to the specified individual (the recipient) in the Kyrgyz Republic or abroad through remittances system. Accordingly, the Rules do not apply to remittances from one payment card to another, because card is a payment instrument and the mean of access to a banking account.

**2. The second sentence of Paragraph 2.4. of the Rules specifies that an operator enters into a contract on participation in the remittances system. If the remittances system, as the operator of remittances system in its country of origin, concludes with Kyrgyz participating banks “an**

**agreement on cooperation in the field of cross-border remittances without opening an account” or an agreement under any other name, will be considered in this regard, that this payment system is not an operator of the remittances system in accordance with the Rules, and its activities should not be regulated by the Rules and, therefore, it should not comply with the requirements for registration in the National Bank of the Kyrgyz Republic and for guarantee the financial obligations?**

In Paragraph 2.4. of the Rules there is given a definition of the operator of remittances system, according to which “The operator of remittances system (hereinafter - the operator) – is a legal entity, resident or non-resident of the Kyrgyz Republic, the provider of remittances services with the appropriate permits authorized by the financial supervision authority of the country of origin (license, registration certificate, etc.) registered with the National Bank of the Kyrgyz Republic, and ensuring the functioning of the system of remittances.”

In accordance with the Rules, the banks provide services on remittances without opening of banking accounts with using specialized remittances systems, on the requirements of which it is not necessary to be a party of this system. The National Bank of the Kyrgyz Republic under any participating considers any contracts when the bank and payment system has been agreed that the bank will provide remittances services without opening a banking account with a particular payment system.

Thus, in this example, the system of remittances signing a cooperation agreement with the Kyrgyz banks for remittance activities without opening of banking accounts, falls under the regulation of this Rules. In accordance with the Rules, remittances system must be registered with the National Bank of the Kyrgyz Republic and provide warranty of financial obligations in the event of financial risks.

### **3. What are the security requirements?**

In accordance with the requirements of the compliance of safety issues when dealing with systems, commercial banks and the operators of remittances systems must be guided by the Regulations “On basic requirements for the functioning of the payment system of the Kyrgyz Republic in the event of emergency situations in the payment system” and “On the requirements for information security in commercial banks of the Kyrgyz Republic”.