

WHEREAS, on July 13th, 2007, the Framework Law for the Recapitalization of the Central Bank of the Dominican Republic was promulgated under No. 167-07, consisting basically in the delivery of Bonds for the Recapitalization of the Central Bank by the Secretariat of State of the Treasury to this institution, by authorizing the issuance of a global amount of up to three hundred twenty billion Dominican pesos with 00/100 (RD\$320,000,000,000.00) in an estimated term of up to ten (10) years, on account of which the State Secretariat of the Treasury shall conduct partial issuances annually pursuant to the finance strategies and policies drawn up by the Public Debt Council, the existing regulatory framework on public credit and the Regulation that needed to be drafted for its application;

WHEREAS, Article 12 of Law 167 of 2007, established a term of sixty (60) days from its promulgation for the Public Debt Council- which was created by means of Law 6-06 on Public Credit, dated January 20th, 2006, and regulated through Decree No.630-06 of December 27th, 2006- to hear and approve the application Regulation of the procedures related to the implementation of the Law on Recapitalization of the Central Bank, which must be submitted to the Executive Branch for its definitive approval by means of a Decree;

WHEREAS, on September 12th, 2007, a draft of the Regulation of Law No. 167-07, as agreed to by the State Secretariats of the Treasury and Economy, Planning and Development and the Central Bank, was brought to the knowledge and consideration of the Public Debt Council; which draft incorporates the remarks made to said document by the International Monetary Fund in the context of the existing Arrangement; which was put to the consideration of the Public Debt Council on September 12th, 2007, and approved by means of Resolution No.02-2007 of September 26th, 2007;

HAVING SEEN: Law No. 19-00 on the Stock Market, of May 8th, 2000, and its regulatory rules;

HAVING SEEN: Monetary and Financial Law No. 183-02, of November 21st, 2002, and its amendments;

HAVING SEEN: Law No. 6-06, on Public Credit, dated January 20th, 2006;

HAVING SEEN: Law No. 494-06, on Organization of the State Secretariat of the Treasury, of December 27th, 2006;

HAVING SEEN: Law No. 496-06, which created the State Secretariat of Economy, Planning and Development, dated December 28th, of the year 2006;

HAVING SEEN: Law No. 167-07, for the Recapitalization of the Central Bank of the Dominican Republic, of July 13th, 2007;

[NOW, THEREFORE,] acting by virtue of the authority vested in me by Article 55 of the Constitution of the Republic, I enact the following

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**GENERAL APPLICATION REGULATION
FOR LAW No. 167-07, OF JULY 13TH, 2007,
FOR THE RECAPITALIZATION OF THE CENTRAL BANK OF
THE DOMINICAN REPUBLIC**

**CHAPTER I
OBJECT AND SCOPE**

Article 1. The present Regulation has as object to establish the legal, financial, and procedural mechanisms through which the accumulated losses of the Central Bank of the Dominican Republic- hereinafter, “Central Bank”- shall be covered completely and continuously, in annual periods, including as well the treatment to be applied to the operational results generated henceforth by this Institution in keeping with its functions as Bank of issue and the executor of monetary policy in order to reach its complete recapitalization in an estimated period of ten (10) years, as provided in Law No. 167-07.

**CHAPTER II
BASIC DEFINITIONS**

Article 2. For the purpose of this Regulation, the following terms and concepts shall apply:

Financial asset: Rights or securities issued on behalf of a company or organization in respect of an investment or a capital transfer received from third parties.

Audit of Financial Statements of the Central Bank: Assessment conducted by an external auditing firm of both national and international reputation in order to express an opinion to the effect that the Financial Statements of the Central Bank have been made in agreement with international standards in matters of central Banking and in compliance with the International Financial Reporting Standards (IFRS) that are applicable to it.

Compliance Audit: Assessment carried out by a national external auditing firm associated to an international firm of recognized experience in the matter in order to measure compliance with the specific criteria established by Law 167-07, concerning the cost of the operations of monetary policy.

Book Entry: Form of registration of securities consisting of an accounting record stored on the electronic archives of a Central Securities Depository in the name of the owner of the securities at issue. This system allows for the dematerialized issuance of securities, the beneficiary owner thereof receiving instead a document as proof of his or her investment.

Treasury Bonds for the Recapitalization of the Central Bank: Debt securities issued by the State Secretariat of the Treasury pursuant to Law No. 167-07, whereby the issuer commits itself to pay to the holders fixed-interest coupons, during a specific period and to reimburse the principal or face value at maturity.

Zero-Coupon Bond: Security placed at a lower price than its par value. Its yield comes from the fact that it is sold at discount from its face value.

Coupon: Periodic interest earned by a security, determined on the basis of the nominal interest rate agreed on at the time of its placement.

Safekeeping: Safe custody and management of securities and other financial instruments on behalf of third parties.

Central Securities Depository: Range of services offered to stock market participants with a view to keeping, transferring, registering and settling the securities transacted on said Market.

Discount: Difference between the nominal value or value at maturity and the acquisition or purchase price of securities.

Dematerialization: Consists in the issuance of a security without the use or delivery of physical certificates. In dematerialization, ownership of the securities is reflected through entries on the electronic records of a Central Securities Depository.

Issue: Set of securities that have identical characteristics, are numbered in a sequential or successive manner, which are distinguished by an ordinal numeration, by the letters of the alphabet or a combination of both.

Endorsement: Transfer of the ownership of a credit document or security on behalf of a third party through a declaration written on the back.

Earnings Statement: Statement contained in the Financial Statements of the Central Bank, showing operational results; that is to say, revenue, costs and expenses for a specific period of time.

Treasury Bills for the Recapitalization of the Central Bank: Bills issued at a discount by the State Secretariat of the Treasury pursuant to Law No. 167-07, for a term of a year, whose yield comes from the fact that they are sold at discount from their face value; that is to say, zero-coupon instruments.

Primary Market: Refers to the market where financial assets, such as securities, are sold for the first time. This market is also called New Issue Market.

Secondary Market: Market where financial assets, such as securities, which have been previously issued in the primary market, are traded.

Accrued Losses: For the purpose of this Regulation, accrued losses shall be construed as those generated in several fiscal periods, as specified in the audited Financial Statements of the institution which, in accordance with internationally accepted accounting principles, are considered on an accrual basis. In the case of the Central Bank, it refers to losses generated from the creation of the organization to the period prior to the current year, where positive or negative results generated are included regardless of their monetary effect.

Current Losses: It reflects the net deficit resulting from the operations of the Central Bank, when its expenses have exceeded the revenue of the annual period that same year.

Annual Budget of the Central Bank: It is the annual estimate of revenues and expenses of the Central Bank, including both current and capital income and expenses, in agreement with the

functions assigned to it by the Monetary and Financial Law and other related laws, approved annually by the Monetary Board and including any modifications that said Body may, from time to time during the subject fiscal period, deem necessary or expedient.

Gross Domestic Product (GDP): The total market or nominal value of all final goods and services produced in a given country in a given period of time.

Monetary Program: Monetary model interrelating the sectors of the economy (external, fiscal, monetary and real) which proposes a set of measures of policies to reach the objectives and goals to be pursued in a given period in order to achieve price stability.

Current Operational Results of the Central Bank: Reflect the deficit or surplus generated by all the operations conducted by the Central Bank for each fiscal year; i.e., from January 1st to December 31st of any given year.

Repurchase Agreements (repos or buy-backs): Consist of the sale of securities with the commitment to repurchase the securities from the original buyer at a later date.

Budget Surplus: Reflects the net income from the operations of the Central Bank, when revenues have exceeded expenses in any given year.

Interest Rate: Represents the annual percentage applied to an investment made in a financial instrument in order to calculate its actual return.

Rate of Yield of the Bills: It is the rate of return in a given period, taking into account the redemption value at maturity and the purchase price.

Security: Financial instrument issued by both public and private organizations to raise funds from the market. For the purpose of Law No. 167-07, securities shall be deemed to be Bills and/or Bonds issued as public debt by the State Secretariat of the Treasury for the Recapitalization of the Central Bank.

Purchase Price of a Zero-Coupon Bill: It is the result of multiplying the nominal value or face value by the percentage price, which reflects the discount applied to the face value at the moment the Bill is purchased.

Nominal Value or Maturity Value: Amount that the issuer agrees to pay to the owner of the certificate at its maturity date.

CHAPTER III PROCEDURE FOR THE RECOGNITION OF LOSSES

Article 3. The General Directorate of Public Credit shall record as internal government debt the entire amount of accrued losses from the year 1947 to December 31, 2005, as indicated in Article 2, of Law No. 167-07, which, according to an Audited Statement at year-end 2005, amounted to two hundred two billion one hundred forty million, five hundred eighty three thousand eight hundred and ten Dominican pesos with 00/100 (RD\$202,140,583,810.00). The Directorate shall as well notify the Central Bank of the relevant entry not later than thirty (30) days after the publication of this Regulation.

Article 4. For the purpose of recognition of the Central Bank's accrued and current losses which have been generated from January 1st, 2006, as government debt, the Central Bank and the State Secretariat of the Treasury shall observe the following procedures:

- a) The Central Bank shall prepare its Financial Statements in agreement with international standards in matters of central Banking and in compliance with the International Financial Reporting Standards that are applicable to it, under Article 16 of Law No. 183-02, as amended.

Paragraph: Current operational results presented in these Financial Statements of the Central Bank shall contain expenses regarding the execution of its monetary policy, including all the interest accruing annually on instruments issued by the Central Bank, interest in respect of unremunerated reserve requirement, if any, and other operations incidental to, or appertaining to Monetary Policy pursuant to the Budget adopted annually by the Monetary Board. Also, these operational results shall consider general, administrative and operational costs not associated to this policy, which the Central Bank shall seek to maintain within suitable and consistent with international standards for similar institutions belonging to economies of comparable size to that of the Dominican Republic.

- b) In accordance with the provisions contained in the existing Monetary and Financial Law, the annual Financial Statements of the Central Bank shall be audited by an external auditing firm and published before April thirtieth (30th) following the date of closing of the year covered therein.
- c) The Central Bank shall submit the audited Financial Statements to the State Secretary of the Treasury not later than May fifteenth (15th) of the subject year. In the event of a deficit, as provided in the existing Monetary and Financial Law, the Central Bank shall notify the State Secretary of the Treasury, through the General Directorate of Public Credit, the amount of the current losses that shall be needed to recognize as government debt in the term in question.
- d) The Main Directorate of Public Credit shall record as internal government debt the amount of losses contained in the audited Financial Statements of the Central Bank that has been submitted to it, and shall notify the Central Bank of the relevant entry not later than June thirtieth (30th) of the same year specified under letter (c) of this Article.

CHAPTER IV COVERAGE OF ACCRUED LOSSES

Article 5. In the period between the years 2007 and 2016, by debiting against the global issuance of securities for the Recapitalization of the Central Bank in the total amount of up to three hundred twenty billions of Dominican pesos with 00/100 (RD\$320,000,000,000.00), as authorized by Article 5 of Law No. 167-07, the State Secretariat of the Treasury shall conduct partial issuances annually to cover the accrued losses of the Central Bank, effective as of January 1st of each year, except for the case laid down in Article 13 of the said Law No. 167-07; it being understood that the institutions involved shall comply fully with the obligations and the requirements therein stated.

Paragraph: In order to fulfill the provisions of this Article, the State Secretariat of the Treasury shall be entitled to conduct partial issuances of *Treasury Bills and/or Bond for the Recapitalization of the Central Bank*, which may be negotiable in the Secondary Market. Any such partial issuances

shall, in denomination and characteristics, abide by the provisions established in Sections I and II of this Chapter of this Regulation, in accordance with the framework established in Law No. 6-06 on Public Credit and its regulatory standards.

**SECTION I:
ISSUANCE OF TREASURY BILLS
FOR THE RECAPITALIZATION OF THE CENTRAL BANK**

Article 6. *Treasury Bills for the Recapitalization of the Central Bank* are zero-coupon securities issued for a term of up to one (1) year, placed at a discount, for which reason their yield shall be determined by the difference between their acquisition value or purchase price and their face value. The Bills to be issued must have the following characteristics:

- a) **Denomination of the Securities:** *Treasury Bills for the Recapitalization of the Central Bank*.
- b) **Currency:** Dominican pesos.
- c) **Maturity dates:** 3, 6, 9 and 12 months. Placements shall be conducted, in each instance, on the basis of days to maturity, from the date of issue to the maturity date of the Bills, in compliance with the Instructions to be given by the Public Debt Council for that purpose.
- d) **Form of issue:** The securities shall be nominative, issued either in a physical or dematerialized form through a central securities deposit. In the event of book entry, a global certificate for the full amount of the bills shall be issued.
- e) **Amounts of Bills:** Multiples of RD\$100,000.00 (one hundred thousand Dominican pesos), with a minimum amount set at RD\$1,000,000.00 (a million Dominican pesos).
- f) **Guarantee:** These securities shall have the unlimited guarantee of the Dominican State.
- g) **Placement:** Bills issued on behalf of the Central Bank and/or other investors through the Government Debt National Market, provided that the funds obtained in this manner are destined for the Recapitalization of the Central Bank, which, in both instances, shall be specified in the records of the Central Bank.
- h) **Bills percentage price:** The price of the Bills issued on behalf of the Central Bank shall be calculated at the time of their acquisition, on the basis of the resulting rate of yield in the last competitive bid conducted by the Central Bank, in terms of the nearest dates to the Bills to be issued by the State Secretariat of the Treasury.
- i) **Basis for price calculation:** The price of the *Treasury Bills for the Recapitalization of the Central Bank* shall be computed on the basis of a year of three hundred and sixty (360) days.

- j) **Value of acquisition or purchase price:** It shall be determined by multiplying the price at maturity by the percentage price.
- k) **Transferability:** For the case of book entry securities, the transfer procedure laid down in stock market law 19-00 shall be observed. In case of physical certificates, it shall be conducted by means of endorsement, according to the legally established procedure.
- l) **Form of Payment of the Principal:** At maturity.

Article 7. The price to be recognized for the purpose of the recapitalization of the Central Bank shall be that corresponding to the acquisition price or the purchase price of the Bills.

Paragraph I: The yield in Dominican pesos, computed by the difference between the price of purchase and the face value of the Bill, shall be paid by the issuer in cash on the date of maturity thereof.

Paragraph II: In no case shall the State Secretariat of the Treasury be entitled to issue securities for the payment of the yield of *Treasury Bills for the Recapitalization of the Central Bank*.

Article 8. *Treasury Bills for the Recapitalization of the Central Bank*, issued on behalf of the Central Bank may, at maturity, be exchanged for similar securities, only in the proportion corresponding to the principal. To such end, the new price of the bill shall be calculated at the time of its replacement, on the basis of what has been laid down in letter (h) of Article 6 of this Regulation. For the purpose of replacement of the security, payment in cash of the corresponding yields shall be previously required.

Paragraph: The mechanism for replacement of the Bills at maturity shall not be understood as automatic renewals of the securities, for it is required that new instruments be issued under the existing market conditions at the time of the replacement, it being understood that the terms and conditions of the rates of yield may be modified.

Article 9. Prices of *Treasury Bills for the Recapitalization of the Central Bank*, including their different terms, which shall be specified in the Instructions to be given the Public Debt Council for placement thereof, shall be determined as follows:

**Formulas for determining the price for
Treasury Bills for the Recapitalization of the Central Bank**

•	<u>Price</u>	=	$[360 / 360 + i *d] * 100$
•	<u>Purchas Price</u>	=	VN* (%) Price
•	<u>Discount</u>	=	VN - VC
•	Rate of Yield	=	$[Discount / VC] * [360/d]$

Where :

- VN = Nominal Value or Maturity Value of the Bill
- VC = Purchase Price
- i = Annual Yield Rate
- d = Number of Days to Maturity

**SECTION II:
TREASURY BONDS ISSUE
FOR THE RECAPITALIZATION OF THE CENTRAL BANK**

Article 10. *The Treasury Bonds for the Recapitalization of the Central Bank* shall be medium and long-term securities, with six-month coupon payment and return of principal at maturity, as provided in the Instructions of Placement to be given by Public Debt Council for the issuance thereof, and shall have the following characteristics:

- a) **Denomination of the Titles:** *Treasury Bonds for the Recapitalization of the Central Bank.*
- b) **Currency:** Dominican Pesos.
- c) **Maturity dates:** 3, 5 and 7 years. Placements shall be conducted, in each instance, on the basis of days to maturity, from the date of issue to the maturity date of the Bonds, in compliance with the Instructions to be given by the Public Debt Council for that purpose.
- d) **Form of issue:** The securities shall be nominative, issued either in a physical or dematerialized form through a central securities deposit. In the event of book entry, a global certificate for the full amount of the bonds shall be issued.
- e) **Amounts of Bonds:** To be issued in multiples of RD\$100,000.00 (one hundred thousand pesos Dominican), with a minimum amount set at RD\$1,000,000.00 (a million Dominican pesos).
- f) **Guarantee:** To be issued under the unlimited guarantee of the Dominican State.
- g) **Placement:** To be issued on behalf of the Central Bank and/or recipients to other investors through the Government Debt National Market, provided that the funds obtained in this manner are destined for the Recapitalization of the Central Bank, this, in both instances, shall be specified in the records of the Central Bank.
- h) **Interest rates:** The nominal interest rates of the coupons of the Bonds shall be established by taking into consideration the resulting interest rate from the most recent public offering for the issues of securities conducted by the Central Bank for securities with similar maturity.
- i) **Basis of calculation of the coupons:** Interest coupons shall be calculated on the basis of current days and a year of 365 (three hundred sixty and five) days, adjusted for leap years. These coupons shall be paid semiannually.
- j) **Transferability:** For the case of book entry securities, the transfer procedure laid down in stock market law 19-00 shall be observed. In case of physical certificates, it shall be conducted by means of endorsement, according to the legally established procedure.
- k) **Form of Payment of the Capital:** At maturity.

ARTICLE 11. *The Treasury Bonds for the Recapitalization of the Central Bank*, issued on behalf of the Central Bank may, at maturity, be exchanged for similar securities, only in the proportion corresponding to the principal. Establishment of the new interest rates shall be then required, to which end the current issues of Central Bank securities resulting from the public offering

conducted by this institution at the time of the replacement shall be taken as reference. The proportion corresponding to the interest coupons shall be given to the Central Bank, in Dominican pesos, on the days of maturity of the coupons of the bonds issued.

PARAGRAPH: The mechanism for replacement of the Bonds at maturity shall not be understood as automatic renewals of the securities, for it is required that new instruments be issued under the existing market conditions at the time of the replacement, i.e., the terms and conditions of the rates of yield may be modified.

ARTICLE 12. The price of *Treasury Bonds for the Recapitalization of the Central Bank* shall be determined according to the conventional formula for the valuation of securities of this nature. To that end, the following equation shall be used:

$$P = \sum_{t=1}^n \frac{C}{(1+r)^t}$$

$$P = \frac{C_1}{(1+r)^1} + \frac{C_2}{(1+r)^2} + \frac{C_3}{(1+r)^3} + \dots + \frac{C_n}{(1+r)^n}$$

Where:

P = Price of the Treasury Bonds for the Recapitalization of the Central Bank.

r = Rate used to discount the coupons and the nominal value or maturity value.

n = Number of coupon payments

C = Flows in respect of coupons or maturity value at t moment

For calculation of the price on dates other than coupon payments dates, the previous equation shall be adjusted as follows:

$$P = \frac{W \cdot C_1}{(1+r)^w} + \frac{C_2}{(1+r)^{1+w}} + \frac{C_3}{(1+r)^{2+w}} + \dots + \frac{C_n}{(1+r)^{n-1+w}}$$

Where:

W= Fraction determined by dividing the number of actual days into the operation value-date and the payment date of the next coupon into the days in the coupon period

$$w = \frac{\text{Days between the value date and payment date for the next coupon}}{\text{Days in the coupon period}}$$

Article 13. When the State Secretariat of the Treasury, through the General Directorate of Public Credit, issues *Treasury Bills and/or Bonds for the Recapitalization of the Central Bank* in a dematerialized form, it shall contract with a duly authorized depository for the provision of book entry services to guarantee the transferability of said securities.

**SECTION III:
PROCEDURE FOR ISSUANCES OF TREASURY BILLS AND BONDS FOR
THE RECAPITALIZATION OF THE CENTRAL BANK**

Article 14. In order to proceed to the partial issues mandated in this Regulation, the following actions, without limitation, shall be conducted:

- a) The Central Bank shall, not later than on March thirty first (31st) of each year, submit to the State Secretariat of Economy, Planning and Development its target for average annual inflation as well as its forecast for the average rate of exchange of the economy expected for the subject fiscal year.
- b) The State Secretariat of Economy, Planning and Development shall, not later than on April thirtieth (30th) of each year, submit to the Secretariat of State of the Treasury, through the General Directorate of Public Credit, with a copy attached to the Central Bank, the estimates corresponding to the country's macroeconomic framework for the next fiscal year, which shall include, among others things, projections for nominal and real gross domestic product

In the event that the State Secretariat of Economy, Planning and Development should, under the Paragraph in Article 27 of Law No. 498-06, make some type of revision to the economic program after April thirtieth (30th), in response to changes in the projections of the state of the economy, it shall notify it to the Central Bank and the Secretariat of State of the Treasury so that such revision shall be considered in order to keep up-to-date the assumptions of the economic model underlying the Plan for the Recapitalization of the Central Bank.

- c) The Central Bank shall, not later than May fifteenth (15th) - and thereafter on a quarterly basis- submit to the State Secretariat of the Treasury, through its General Directorate of Public Credit, with a copy to the State Secretariat of Economy, Planning and Development, the updated assumptions and the estimated results being generated by the economic model underlying the Plan of Recapitalization of the Central Bank corresponding to the next fiscal year. This would also take account of all the variables intervening in the said model, including relevant information on quasi-fiscal losses projected in the Monetary Program and eventual changes, if any, in regard to the expected term for the Recapitalization of the Central Bank.
- d) The Central Bank shall, not later than on the fifteenth (15th) day of each month, submit to the General Directorate of Public Credit the characteristics of the portfolio of certificate and/or Bills and/or any other instruments issued by the Central Bank, corresponding to the previous month, including their maturity schedules, agreed and/or implicit interest rates for each one of the issued instruments, their currency and interest payment schedules. In the case of issues of zero-coupon Bills, the discounts at which they were issued shall be submitted. Similarly, public offering calendars for instruments corresponding to the following month shall be submitted.
- e) The Central Bank shall, not later than on May fifteenth (15th) of each year, submit to the State Secretariat of the Treasury, through the General Directorate of Public Credit, and with a copy to the Secretariat of State of Economy, Planning and Development, the amount of the partial issuance of the securities to be issued from the 1st of January of

the following year, including recommendations as to the financial characteristics which shall have been presented by the Inter-institutional Commission, as provided in Chapter VI of this Regulation.

For the calculation of this item, the following formula shall be applied:

Annual issuance

$$E = \frac{Y * C_t}{i}$$

Where:

E = *Amount of Annual Issue*

i = *Weighted average interest rate on the issuances of the Central Bank*

Y = *Nominal GDP*

C_t = *Transfer Coefficient as percentage of GDP, according to Article 6 of Law No. 167-07.*

- f) The State Secretariat of the Treasury shall, not later than June thirtieth (30th) of each year, approve, prepare, and deliver to the Central Bank the Securities for the Recapitalization of the Central Bank to be issued as of January 1st of the following year, in agreement with the financial strategy and policies drawn up by the Public Debt Council under Public Credit Law No. 6-06 and subject to current budgetary regulations.

Paragraph: The Public Debt Council shall, within a term not to exceed forty and five (45) days from the publication of this Regulation, determine, based on the recommendations agreed between the Central Bank and the Secretariat of State of the Treasury, the relevant conditions for the first issuance of *Treasury Bills and/or Bonds for the Recapitalization of the Central Bank* referred to in Article 13 of Law No. 167-07. In addition, the Council shall, on that same date, approve the Instructions instituting the operational mechanisms for the issues of *Treasury Bills and/or Bonds for the Recapitalization of the Central Bank*.

Article 15. The recommendation on the annual partial issues of securities for the Recapitalization of the Central Bank shall be made jointly by the Central Bank and the State Secretariat of the Treasury, through the creation of an Inter-institutional Commission provided for in Chapter VI of this Regulation.

Paragraph I: The net issue of Securities for the Recapitalization of the Central Bank is defined as the balance or “stock” difference between consecutive periods. Such issue shall be comprised of securities of different terms to maturity and rates, whose characteristics are defined in Articles 6 and 10 of this Regulation.

Paragraph II: The Central Bank shall be entitled to sell *Treasury Bills and/or Bonds for the Recapitalization of the Central Bank* in the secondary security market, in amounts not to exceed those established by the Public Debt Council for such purposes and insofar as Monetary Policy conditions shall permit, except for the case of repo-type operations. It is understood that the total amount of interest to be paid by the Central Government on the *Treasury Bills and/or Bonds for the Recapitalization of the Central Bank* shall not change regardless of whether the holder of said Bonds is the Central Bank or whether they are circulating in the secondary security market.

SECTION IV
FUNDS TRANSFERS

Article 16. The State shall have available mandatory and additional sources to absorb the entire current losses of the Central Bank, it being understood that the expenses of this institution shall be reflected in both the Monetary Program and in the Budget adopted for each year by the Monetary Board.

Article 17. Transfers contemplated in Article 6 of Law No. 167-07 constitute obligatory sources for the absorption by the State of the Current Losses of the Central Bank. This law lays down the allocations to be set apart annually in the Revenues Budget and Public Expenditure Law in respect of interest payments for all the *Treasury Bills and/or Bonds for the Recapitalization of the Central Bank* issued, including other contributions contemplated in the above-mentioned Law. Such allocations and contributions shall be determined, based on the nominal GDP growth estimates used to formulate the budget of the subject year, according to the following annual scale:

<u>Year</u>	<u>Transfer % GDP</u>
2007	0.5
2008	0.6
2009	0.7
2010	0.8
2011	0.9
2012	1.0
2013	1.1
2014	1.2
2015	1.3
2016	1.4

Paragraph I: Starting from the year 2017, the Public Debt Council shall, with the joint recommendation of the Central Bank and State Secretariat of the Treasury, establish the criteria to be applied in order to gradually scale down State transfers to that banking institution in terms of nominal GDP percentage (%) as stipulated in the aforementioned Article 6 of Law No. 167-07, until it reaches the minimum percentage of 1% of nominal GDP provided for in the Paragraph of the above-mentioned Article 6, which shall remain in force until completion of the redemption of the *Treasury Bills and/or Bonds for the Recapitalization of the Central Bank* referred to in Article 3 of Law No. 167-07.

Paragraph II: The annual transfers of the State to the Central Bank shall be mandatorily allocated as financial operations in the Revenues Budget and Public Expenditure Law for each year, i.e., as interest payments for the *Treasury Bills and/or Bonds for the Recapitalization of the Central Bank* and/or reduction of the “stock” of these securities issued under Law No. 167-07. Such transfers shall act as minimum amounts; it being understood that any additional contributions therein shall result in smaller terms and costs to allow the State to carry out the process of Recapitalization of the Central Bank.

Paragraph III: The frequencies of the transfers to the Central Bank referred to in this Article shall be included annually in the Revenues Budget and Public Expenditure Law of the Central Government, subject to the design of the characteristics of the *Treasury Bills and/or Bonds for*

the Recapitalization of the Central Bank comprising the partial issue of each year, pursuant to the provisions in Article 5 of the Law No. 167-07, and subject to the redemption schedules of these securities as it shall eventually be agreed under Article 3 of the above-mentioned Law.

Article 18. The following shall constitute additional sources for the absorption by the State of current losses of the Central Bank, pursuant to Article 4 of the above-mentioned Law No. 167-07, provided that they contribute to capitalize the Central Bank and to preserve at all times financial consistency with the Plan of Recapitalization indicated in Article 1 of the aforementioned Law, and that they be included in the Nation's Revenues Budget and Public Expenditure Law, according to the mechanisms provided for in that Law:

- a) Direct transfers of funds.
- b) Contributions from funds obtained by the State through long-term international financing.
- c) Contributions from funds arising out of the development of the market of other securities and/or public-debt bonds. These securities and/or bonds may also be issued for the Recapitalization of the Central Bank and to that end, be delivered directly to it, as indicated in Paragraph II of Article 5 of Law No. 167-07.

SECTION V: RECAPITALIZATION OF THE CENTRAL BANK

Article 19. For the purpose of implementing Law No. 167-07, the Central Bank shall be deemed to have reached its recapitalization when it shall have fulfilled each one of the following requirements and conditions:

- a) The accumulated losses of the Central Bank shall have been totally covered through *Treasury Bills and/or Bonds for the Recapitalization of the Central Bank* and/or other of the sources laid down in Law No. 167-07 which shall have been used under the premise that they are conducive to preservation of financial consistency with the Plan of Recapitalization of the Central Bank.
- b) The Central Bank's equity funds and reserves laid down in the modification to letter (e) of Article 16 of the Monetary and Financial Law No. 183-02, introduced by Article 3 of Law No. 167-07, shall have reached, overall, ten percent (10%) of the total liabilities of the Central Bank.

Paragraph: The process of recapitalization of the Central Bank as stipulated in Law No. 167-07 shall be deemed to have ended when the surplus generated by the Central Bank and the other sources laid down in that Law shall have made possible the redemption all the securities issued for the recapitalization of the Central Bank.

CHAPTER V USE OF CENTRAL BANK'S SURPLUS

Article 20. For each fiscal year, the Central Bank's surplus or earnings shall be distributed by allocating one third (1/3) for the purpose of increasing equity resources, with a cap equivalent to five percent (5%) of the amount of the Central Bank's liabilities; another third (1/3) shall be used to increase the Bank's General Reserve until matching the total amount in the Fund of Equity Resources, which is limited to five percent (5%), and which shall be used exclusively to compensate any Central Bank's deficit; and the remaining third (1/3) shall be transferred to the State, who shall apply it exclusively to amortize or to redeem the government debt securities issued to capitalize the Central Bank. Once the Fund of Equity Resources and General Reserve, when considered together, shall have reached ten percent (10%), the surplus shall be transferred entirely to the State, who shall apply it exclusively to redeem the securities issued to capitalize the Central Bank. Once such securities shall have been totally redeemed, this surplus or earnings obtained shall, after consideration of the Financial Statements in compliance with Monetary Board's provisions and based on the provisions in the Monetary and Financial Law, be transferred to the State.

Paragraph I: In order to transfer the surplus to the Dominican State destined to amortize or to redeem government debt securities issued for the recapitalization of the Central Bank, an unremunerated account denominated "Fund for the Repayment of *Treasury Bills and/or Bonds for the Recapitalization of the Central Bank*" shall be opened. Proceeds from such Fund shall be applied to redeem government debt securities issued on behalf of the Central Bank under Law No. 167-07 in compliance with the Instructions as may be approved for such purpose by the Public Debt Council.

Paragraph II: If, after the Central Bank shall have reached a point where its equity exceeds its liabilities by the ten percent (10%) referred to in Article 3 of Law No. 167-07, a reduction below the indicated percentage should take place, the subsequent current surplus shall be applied to replace the said funds until they reach the stipulated 10% requirement; after which time the mechanism for redemption of the *Treasury Bills and/or Bonds for the Recapitalization of the Central Bank* contemplated in the above-mentioned Article 3 of Law No. 167-07 shall be resumed.

Paragraph III: The moment the above-mentioned securities shall be totally redeemed, the funds shall be transferred to the State Secretariat of the Treasury in order to redeem the securities in the name of other investors in the Market of Government Debt Securities which shall have been issued under Law 167-07. Once completed the processes described, the entire surplus generated by the Central Bank shall be transferred to the State, without application of the afore-mentioned specialization restrictions being necessary for its availability.

CHAPTER VI INTER-INSTITUTIONAL COMMISSION FOR THE RECAPITALIZATION OF THE CENTRAL BANK

Article 21. For the coordination in the making of the technical recommendations and follow-up to the actions and acts arising out of the implementation of Law No. the 167-07 and this Regulation, an Inter-institutional Commission, composed of representatives of the Central Bank and the State

Secretariat of the Treasury, shall be created not later than ten (10) business days from the entry into effect of this Regulation. This Commission shall make its decisions by consensus, by endorsement of a written documentation comprising information that provides evidence of the decisions so made, and shall be directed by the State Secretariat of the Treasury, through the General Directorate of Public Credit.

Article 22. Central Bank members shall be comprised of the directors of the Departments of Monetary Programming, Finance, Treasury and other civil servants designated by the Governor of the Central Bank.

Article 23. State Secretariat of the Treasury members shall be comprised of the Undersecretary of the Treasury, the Head of the General Directorate of Public Credit and other civil servants designated by the Secretary of State of the Treasury.

Article 24. This Commission, which shall present its recommendations to the Governor of the Central Bank and to the State Secretary of the Treasury- shall, without any limitations, be responsible for the following functions:

- a) Make proposals on the annual partial issuances of securities for the Recapitalization of the Central Bank, including the amounts and the characteristics of the *Treasury Bills and/or Bonds for the Recapitalization of the Central Bank*, to be issued within the purview, conditions and terms provide in this Regulation.
- b) Ensure that the interest flows resulting from the bonds issued for the subject fiscal is equivalent in Dominican pesos to the transfers laid down in Article 6 of Law No. 167-07.
- c) Based on the maintenance of fiscal sustainability, recommend the time and the amounts of *Treasury Bills and/or Bonds for the Recapitalization of the Central Bank* to be offered in the primary and secondary markets during the following fiscal year in order to gradually create a yield curve for them, allowing for their accounting valuation in agreement with generally accepted criteria.
- d) Prepare reports, records and submissions as may be required by the Public Debt Council, the National Congress and other bodies referred to in Law No. 167-07.
- e) Prepare the documentation required for accountability purposes, as indicated in Article 8 of Law No. 167-07, including:
 - I. A summary of the report of the external audit contracted for the purposes established in Paragraph II of Article 3.
 - II. A report of the actions, goals and the results achieved within the Plan of Recapitalization at the closing of the last fiscal year just passed.
 - III. A report on the objectives, the goals and the projections expected for the following fiscal year and in the medium term for the application of the Plan of Recapitalization of the Central Bank, taking into account the possible modifications of the assumptions that were used as basis for the design of the Plan.
- f) Follow up on the results of the implementation of Law No. the 167-07 and this Regulation, and

brief the corresponding instances.

- g) Any other function within the competency of this Regulation that may be conferred upon it by the Governor of the Central Bank and the State Secretariat of the Treasury.

Article 25. The scope and the boundary of the responsibilities of this Inter-institutional Commission shall be subject to the stipulations to be drafted in a Memorandum of Understanding between the Central Bank and the State Secretariat of the Treasury, which shall be finalized within a term not to exceed forty and five (45) days from the creation of said Commission as provided in Article 21 of this Regulation.

CHAPTER VII TRANSPARENCY AND ACCOUNTABILITY

Article 26. According to the provisions of Article 8 of Law No. 167-07, and for the duration of the above-cited Law, the Governor of the Central Bank and the State Secretary of the Treasury shall submit to the Senate and to the Chamber of Deputies, through its respective Presidents, and to the Executive Branch, a report on the aspects laid out in the afore-mentioned Article. Such remission shall be due during the first ordinary legislature, which begins February 27th of each year, lasting for 90 days. A copy of this report shall be sent to the Bicameral Commission, created by virtue of Article 11 of Law No. 167-07.

Article 27. In order to make viable the provisions in the preceding article, the following assumptions shall be adopted:

- a) The Central Bank shall record in its accounting books relevant entries allowing for the separate evaluation of its general administrative and operational expenses, and the costs incidental to the execution of operations in respect of the monetary policy, pursuant to the objectives laid down in Monetary and Financial Law No.183-02.
- b) Before the end of the month of February of each year, the State shall conduct a public bidding process in order to hire a national external auditing firm associated to an international firm of recognized experience in the matter to perform a Compliance Audit of the costs of monetary policy operations.

Paragraph: In addition to the external audit of its financial statements laid down in Article 16, subsection (b) of the Monetary and Financial Law 183-02, the Central Bank shall be subject to an Audit of Compliance on the costs associated to the monetary policy pursuant to Law No. 167-07. This Audit, whose scope is defined in Article 2 of this Regulation, shall be performed by an external auditing firm hired by the State Secretariat of the Treasury in the manner described in this section. To such end, the Central Bank shall provide the information that may be required by said auditing firm to prepare it.

- c) In the event that an auditing firm wins the bid in two consecutive years, it shall be barred from participating again in this bidding process for two fiscal periods from its last contract.
- d) The Compliance Audit shall be performed on the basis of the Audited Financial Statements submitted to the State Secretariat of the Treasury within the terms specified in this Regulation.

- e) The Report of Compliance Audit shall be an integral part of the documentation to be submitted to the National Congress, in accordance with Article 8 of Law No. 167-07. Therefore, this Report shall be submitted to the Public Debt Council not later than May fifteenth (15th) of each year.

CHAPTER VIII SANCTIONS

Article 28. In event of violation of the provisions in Law No.167-07 and this Regulation, the sanctions established in Article 14 of the above-cited Law shall apply.

Article 29. This Decree shall come into force following its publication in the official Gazette.

Article 30. Have [this Decree] forwarded to the State Secretariat for Finance and the Central Bank of the Republic for all appropriate purposes.

Given [under my, hand] in Santo Domingo de Guzmán, National District, the capital of the Dominican Republic, this, the () day of the month of , [in the year of our Lord] two thousand and seven (2007)], of the Independence [of the Dominican Republic], the 164th, and of the Restoration, the 145th.

Leonel Fernandez