



RULES

FOR THE PRIMARY SALE

**of Medium-Term and Long-Term Government Bonds
Organised by the Czech National Bank**

May 2009

Contents

Part 1. General Provisions	4
Article 1 Introductory provisions	4
Article 2 Conditions of issuance	4
Article 3 Organisation of primary sale.....	4
Article 4 Administrator of the issue	5
Article 5 Naming of issues	5
Part 2. Criteria for Becoming a Direct Participant	6
Article 6 Conditions for membership in a group of DPs	6
Article 7 Duties of DPs	7
Article 8 Applications to become a DP.....	8
Article 9 Handling of applications to become a DP.....	8
Article 10 Exclusion from the group of DPs.....	8
Part 3. Auction Rules	9
Article 11 Auction announcement	9
Article 12 Submission and acceptance of bids.....	9
Article 13 Auction limit	10
Article 14 Processing of bids	10
Article 15 Announcement of auction results.....	10
Article 16 Claims	11
Part 4. Procedure in the Event of Non-compliance with the Rules	11
Article 17 Infringement of the Rules	11
Article 18 Corrective Measures and Penalties	11
Part 5. Final Provisions	12
Article 19 Amendments to the Rules	12
Article 20 Repealing Provision	12
Article 21 Effect	12
Annex 1. Forms and Notes	13
a) Comprehensive bids for primary purchase in competitive part of auction (Annex 1a),	13
b) Bid for primary purchase in non-competitive part of auction (Annex 1b),.....	13
c) List of investors (Annex 1c),.....	13
d) Specimen signatures of direct participant in auctions of medium-term and long-term government bonds (Annex 1d),.....	13
e) Contact persons and addresses of direct participant in auctions of medium-term and long-term government bonds (Annex 1e).....	13

Annex 2.	Algorithm and processing of bids	22
Annex 3.	Authorised persons and contact addresses of the CNB	26

Part 1. General Provisions

Article 1 Introductory provisions

(1) The Czech National Bank (hereinafter referred to as the “CNB”) on the basis of Article 31 (1) of Act No. 6/1993 Coll., on the Czech National Bank, as amended, and Article 26 (5) of Act No. 190/2004 Coll., on Bonds (hereinafter referred to as the “Act on Bonds”) shall put up for sale government bonds and may, on the authority of the Ministry of Finance, also perform activities connected with their administration, repayment and transfers and, as the case may be, also further activities required.

(2) These Rules for the primary sale of medium-term and long-term government bonds organised by the Czech National Bank (hereinafter referred to as the “Rules”) are issued after having been discussed with the Ministry of Finance. The Rules govern, if not otherwise stipulated in Article 3, the procedures and rules applied at the primary sale of medium-term and long-term government bonds (hereinafter referred to as “GBs”) issued in dematerialized form in the Czech Republic, registered at the Czech Securities Centre (hereinafter referred to as the “SCP”), for which the Czech National Bank (hereinafter referred to as the “CNB”) is entrusted with the organisation of the primary sale.

(3) If the bonds issued abroad, are sold in the Czech Republic, provisions of these Rules are applied appropriately. Any prospective details of procedures and rules for primary sale shall be described in the auction announcement or in a document which would be an analogy to the conditions of issuance according to Act No.190/2004 Coll., on bonds.

(4) The issuer of GBs is the Czech Republic, represented by the Ministry of Finance of the Czech Republic (hereinafter referred to as the “Issuer”).

Article 2 Conditions of issuance

(1) The issuance of GBs shall be governed by the Terms and Conditions of Issuance of GBs.

(2) The Terms and Conditions of Issuance of GBs shall be published in the Collection of Laws and further in a manner which enables remote access and shall be also available from the Issuer, the administrator of the issue and the CNB.

Article 3 Organisation of primary sale

(1) GBs shall be sold on the primary market principally by auction to direct participants in the auctions (hereinafter referred to as “DPs”) or by direct sale to selected DPs or the administrator of the issue.

(2) Other interested parties, be they legal entities or natural persons, residents or non-residents (hereinafter referred to as “clients”), may participate indirectly in the primary GB market through DPs in such a way that the DPs include those parties’ requests in their bids.

(3) The CNB shall, with the agreement of the Issuer, set the auction limit (Article 13 of the Rules – Auction Limit) binding on DPs. The CNB may, with the agreement of the Issuer, change or abolish this limit in the case of a particular auction.

(4) Auctions for DPs shall be organized by the CNB. The point of auction shall be the CNB. The auction rules are given in Part 3 of the Rules – Auction Rules.

(5) Primary sales shall be settled on the date of issue. The legal entity or natural person which, as a result of the auction, becomes the first purchaser of the book-entry bonds issued (hereinafter referred to as the “Underwriter”) shall be obliged to pay the Issuer for the bonds issued not later than on the settlement date for the primary bond issue. If the Underwriter is not a member of UNIVYC, a.s. (hereinafter referred to as “Univyc”) it shall, for the purposes of settlement of the primary bond issue, use the services of a Univyc member.

(6) Univyc shall credit the bonds to securities owner accounts at the SCP according to:

- a) information on the results of the auction,
- b) information on the underwriters of the securities,
- c) the Underwriter’s payment.

(7) Lead managers of the public issues of GBs issued abroad and counterparties for secondary market GB operations shall be chosen by the issuer only from applicants that are either DPs of GBs in the Czech Republic, or that control a DP of GBs in the Czech Republic, or that are controlled by an entity that controls a DP of GBs in the Czech Republic.

(8) The issuer shall enter into derivative transactions mainly with counterparties that are either DPs of GBs in the Czech Republic, or that control a DP of GBs in the Czech Republic, or that are controlled by an entity that controls a DP of GBs in the Czech Republic.

Article 4 Administrator of the issue

(1) The administrator of the issue (hereinafter referred to as the “Administrator”) shall arrange for the requisite activities associated with the issuance, administration and servicing of the government debt arising by virtue of the GBs, in particular for the registration of the GBs at the SCP and for settlement in accordance with the results of the auction, payment of the yields and payment of the principal at maturity of the GBs. The Administrator shall arrange for these activities on the authority of the Issuer.

(2) If the Administrator is the CNB, then the rights and duties of the Administrator of the issue shall be stipulated in an agreement concluded between the Issuer and the CNB, in other cases in an agreement between the Administrator, the Issuer and the CNB.

Article 5 Naming of issues

(1) A GB issue shall be named in the following manner:

ČR, x,xx %, yy,

where x,xx is the percentage amount of the GB coupon given to two decimal places and yy is the last two digits of the year of maturity of the GB.

(2) In case of the variable coupon bond the “VAR” abbreviation shall be used instead of coupon percentage.

(3) ISIN and bond serial number shall also be unique identifiers of a bond.

Part 2. Criteria for Becoming a Direct Participant

Article 6 Conditions for membership in a group of DPs

(1) The following entities only may become a DP:

- a) a bank with a banking licence granted pursuant to Article 4 of Act No. 21/1992 Coll., on Banks, as amended (hereinafter referred to as the “Act on Banks”), which on the basis of this licence is authorised to provide investment services pursuant to Article 4 (2) a) to c) and e) of Act No. 256/2004 Coll., on Business Activities on the Capital Market (hereinafter referred to as the “Act on Business Activities on the Capital Market”),
- b) a foreign bank branch with a banking licence granted pursuant to Article 5 of the Act on Banks, which on the basis of this licence is authorised to provide investment services pursuant to Article 4 (2) a) to c) and e) of the Act on Business Activities on the Capital Market,
- c) a foreign entity having its registered office in another member state of the European Union, which on the basis of the single licence pursuant to Article 5c et seq. of the Act on Banks is authorised to perform activities pursuant to Article 5d d) and g) of item 4 of the Act on Banks on the territory of the Czech Republic,
- d) a securities dealer pursuant to Article 5 of the Act on Business Activities on the Capital Market which is authorised to provide investment services pursuant to Article 4(2) a) to c) and e) of the Act on Business Activities on the Capital Market,
- e) a foreign entity providing in accordance with Article 28 of the Act on Business Activities on the Capital Market investment services pursuant to Article 4 (2) a) to c) and e) of the Act on Business Activities on the Capital Market through its organisational component,
- f) a foreign entity having its registered office in another member state of the European Union, which is authorised on the basis of the single licence pursuant to Articles 24 and 25 of the Act on Business Activities on the Capital Market to provide investment services pursuant to Article 4 (2) a) to c) and e) of the Act on Business Activities on the Capital Market on the territory of the Czech Republic,
- g) a foreign entity having its registered office in another member state of the European Union, which is a bank, bank’s branch, securities dealer or securities dealer’s branch, and which is authorised to provide investment services pursuant to Article 4 (2) a) to c) and e) of the Act on Business Activities on the Capital Market on the territory of the state of the European Union.

(2) The entity, referred to in the Article 6 (1) c), f) and g), must have the status of DP (or a similar one) in other European Union member state at the same time.

(3) A DP must fulfil the following conditions:

- a) it must have an account at the CNB’s Clearing Centre or be connected to the CNB’s Clearing Centre via a bank;
- b) it must be a Univyc member or be able to settle both its own trades and trades of its clients through another Univyc member;
- c) it must be able to submit its auction bids through the Bloomberg auction system pursuant to Article 14 of the Rules;
- d) it must be active on the secondary GB market, meaning that
 - i) it is able to trade on organised markets and on the OTC market,
 - ii) it operates as a market maker for the most liquid issues of the Czech government bonds on working days between 9 a.m. to 4.30 p.m and on days prior to weekends or bank holidays between 9 a.m. and 3 p.m. Prague local time. The list of such bonds is stipulated by the issuer by agreement with the CNB and the Czech Bond Dealers Club

- and is published in a manner which enables remote access (for example through the Internet, etc.),
- iii) contributes its prices into the Fixing of Bond Prices pursuant to the Stock Exchange regulations part VIII. – Determination of an average reference price for a bond,
 - iv) it will make it possible in an appropriate manner for the Ministry of Finance and the CNB to have access to its quoted prices.
- e) its trustworthiness among other capital market participants must be intact.

Article 7

Duties of DPs

(1) A DP must fulfil the following conditions:

- a) it must comply with these Rules and with any other conditions of the individual auctions, set and announced by the CNB in accordance with these Rules and must, upon request, provide the CNB with evidence of the fulfilment of the duties of DPs ensuing from the Rules;
- b) it must fulfil the information duty towards the CNB stipulated in paragraph 2; activity evaluation carried out by the issuer has no impact on the status of DP and is based on the information duty specified in the document "Conduct of Cooperation and Performance Evaluation of the Activities of Primary Dealers in the Czech Government Bonds" which is published in the "Financial Newsletter of the Ministry of Finance" and further in a manner which enables remote access;
- c) it must accept, to the extent of its free limit, investors' bids and take them to the auction and in an appropriate manner publish the procedures for accepting such bids;
- d) it must ensure that each underwriter has submitted to the Administrator of the issue, within the time limit set by the Administrator, Univyc's authorisation to remove a bond from the Underwriter's account at the SCP where the Underwriter fails to meet its obligation to pay for the underwritten bonds not later than on the settlement date for the bond issue; it must also ensure that the Underwriter, where it fails to meet its obligation to pay for the underwritten bonds not later than on the settlement date for the bond issue, pays Univyc's fee and covers the SCP's costs associated with the failure to meet its obligation;
- e) it must comply with the terms and conditions set and announced by the Administrator;
- f) it must give its consent to inclusion in the list of DPs published by the CNB and to publication of the list of trading places and trading terms and conditions to the extent of the information disclosed to the CNB;
- g) it must complete and send to the CNB the form "Specimen signatures of direct participant in auctions of government bonds" (Annex 1d of the Rules); only the persons given in the form "Specimen signatures of direct participant in auctions of government bonds" shall be entitled to submit or sign auction bids;
- h) it must complete and send to the CNB the form "Contact persons and addresses of direct participant in auctions of government bonds" (Annex 1e of the Rules);
- i) it must account for at least 1% of the total yearly turnover of all DPs on the secondary GB market;
- j) it must subscribe within the evaluation period for at least 3% of the total nominal volume of GBs offered at auctions. The evaluation period shall be the period for which the evaluated DP was part of the group of DPs, however, no longer than a calendar year.

(2) The DP shall fulfil its information duty pursuant to paragraph 1b) by delivering to the CNB's contact address given in Annex 3 to the Rules – "Authorised persons and contact

addresses of the CNB” an extract from the Companies Register or another document confirming the fulfilment of Article 6 (1) of the Rules and the data pursuant to paragraph 1 g) and h) immediately after any change.

(3) The list of DPs for GBs published by the CNB shall contain in particular the name and registered office of each DP.

Article 8

Applications to become a DP

(1) An applicant to become a DP (hereafter in Part 2 referred to as the “Applicant”) shall submit a written application to become a DP to the CNB, to its contact address.

(2) At the time of submitting the request, the Applicant must fulfil the following conditions:

- a) it must be compliant with Article 6;
- b) in the three months period preceding the submitting the request it has participated, through one or more DPs, in GB auctions announced by the CNB and has subscribed for at least 3% of the total volume offered in this period;
- c) it must be able to meet the conditions placed on DPs to the extent of Article 7.

(3) Appended to the application, the Applicant shall give:

- a) an extract from the Companies Register or another document confirming the fulfilment of Article 6 (1) of the Rules;
- b) the data pursuant to Article 7 (1) g) and h);
- c) information on its satisfied bids in GB auctions for the period pursuant to above mentioned in (2) b);
- d) information on monthly turnovers on the secondary GB market for the period pursuant to above mentioned in (2) b).

Article 9

Handling of applications to become a DP

(1) The Issuer shall decide on acceptance of the Applicant into the group of DPs by agreement with the CNB and shall do so within 30 days of receiving the complete application.

(2) The CNB shall inform the Applicant of the decision on acceptance into the group of DPs in writing.

(3) There shall be no entitlement to become a DP and no reason shall be given for the rejection of the Applicant’s application.

Article 10

Exclusion from the group of DPs

A DP may be excluded from the group of DPs:

- a) at the request of the DP to be excluded from the group of DPs,
- b) by the procedure pursuant to Part 4 of the Rules as part of the penalties imposed in the event of infringement of the rule.

Part 3. Auction Rules

Article 11 Auction announcement

(1) The CNB and the issuer shall publish an auction announcement in a manner which enables remote access, through information agencies or the press, as a rule four working days before the auction, but not later than three working days before the auction.

(2) The auction announcement shall include:

- a) the ISIN of the issue,
- b) the type of the auction and the manner of submitting bids,
- c) the auction date,
- d) the issue date,
- e) the maturity date,
- f) the total nominal volume offered at the auction,
- g) the time limit for accepting bids.

(3) If, for technical reasons, it proves impossible to publish the auction announcement, the CNB informs the DPs' contact persons directly.

(4) If the auction announcement is not published pursuant to paragraph 1, the DP shall refer to an authorised member of staff of the CNB.

Article 12 Submission and acceptance of bids

(1) DPs shall submit their auction bids through the CZTS function in the Bloomberg system from the terminal of one of the authorised users given on the form "Specimen signatures of direct participant in auctions of government bonds" (Annex 1d of the Rules).

(2) If it proves impossible to submit the bid pursuant to paragraph 1, the DP shall, at the earliest opportunity, notify an authorised member of staff of the CNB and shall, within the stipulated time limit, fax the bid on the prescribed form (Annexes 1a and 1b of the Rules) to the contact fax number or deliver it directly to the authorised members of staff of the CNB (hereinafter referred to as "alternative submission of bids").

(3) Contact addresses, telephone numbers and fax numbers are given in Annex 3 of the Rules – Authorised persons and contact addresses of the CNB. The names and specimen signatures of the authorised members of staff of the CNB shall be sent directly to the DPs.

(4) Each DP shall send on the prescribed form (Annex 1c of the Rules) by the means of Bloomberg message system or to the CNB's contact fax number a list of all investors (both clients and itself) whose bids have been submitted to the auction. The list of investors shall be delivered by the day after the auction date at the latest.

(5) Competitive bids shall be submitted in a format, which complies with the published manner of submission of the bids.

(6) In the event of formal deficiencies in the bid or the list of investors, the authorised members of staff of the CNB may ask the DP to rectify them, but they shall not be obliged to do so. This shall be without prejudice to the duty of the DP to complete the bid and the list of investors correctly, both formally and materially, and to deliver them to the CNB.

(7) The DP is responsible for the formal and material correctness of the information contained in the bid and the list of investors.

Article 13
Auction limit

(1) The maximum possible share of DP total bids in the competitive part of auction shall be up to 50 % of the total auction amount.

(2) The adherence to the auction limit pursuant to the Article 1 shall be done by the CNB before the auction allocation.

Article 14
Processing of bids

(1) The CNB shall be entitled to decide to exclude or reduce any bid submitted by a DP if the auction rules are not complied with.

(2) The individual bids submitted by DPs shall be processed according to Annex 2 – Algorithm and processing of bids in dependence on the manner of submission of bids for the auction.

(3) An individual bid submitted by a DP with the highest yield or the lowest price shall not be processed if that bid would cause the auction limit to be exceeded. In the event that by not processing of such bid the volume bid should fall below the stipulated auction limit, the CNB shall reduce the volume of the bid in such a way that the total volume of the bids should equal the auction limit

(4) The Issuer shall be entitled, during the course of an auction, to reduce or increase the nominal volume of GBs offered for auction. Any non-compliance with the auction limits resulting therefrom shall not be deemed an infringement of the Rules.

(5) The specific description of the individual steps of the auction algorithm used to process the bids of individual DPs is given in Annex 2 of the Rules – Algorithm and processing of bids.

Article 15
Announcement of auction results

(1) The CNB shall publish information on the results of auctions in a manner which enables remote access, through information agencies, or the press, as a rule on the date of the auction.

(2) The published auction results shall include:

- a) the requested nominal volume of competitive and non-competitive bids,
- b) the total issue volume sold, broken down into competitive and non-competitive bids,
- c) the minimum, average and maximum accepted yield to maturity and the minimum, average and maximum price,
- d) the bid satisfaction coefficient with the maximum or minimum accepted yield and the minimum or maximum accepted price.

(3) After the auction ends, the DPs shall have access to the information on the satisfaction of individual bids on the Bloomberg system through the CZTS function. In the event of alternative submission of bids, this information shall be sent to the contact fax number as a rule on the date of the auction, but no later than at 10.00 a.m. on the working day following the auction.

(4) If a DP does not receive the notification referred to in paragraph 3, it shall turn to authorised members of the staff of the CNB (Annex 3a) and ask them to send it the notification.

Article 16

Claims

(1) A DP discovering a mistake in the auction results or any other mistake arising during the auction shall immediately communicate this fact in writing (hereinafter referred to as the “claim”) to the CNB at the contact address for sending claims (Annex 3b). The claim must be signed by one of the persons whose signature is given in the DP’s valid specimen signature form at the CNB.

(2) Within three working days of receiving the claim, the CNB shall provide information in writing to the DP that lodged the claim on the handling of that claim.

(3) If the DP is not satisfied with the way in which the claim is being dealt with, it may send the CNB a written complaint to the contact address for sending claims. The CNB shall investigate the complaint and shall inform the DP of the results of that investigation and of its conclusions in the matter in question within five working days of receiving the complaint.

Part 4. Procedure in the Event of Non-compliance with the Rules

Article 17

Infringement of the Rules

(1) “Infringement of the Rules” shall mean:

- a) a breach of the conditions for membership in the group of DPs (Article 6) or the duties of DPs (Article 7),
- b) a breach of the auction rules on the part of a DP (Part Three),
- c) misrepresentation or attempted misrepresentation of any information provided by the DP within the scope of these Rules.

(2) Non-compliance with any of the provisions of the Rules resulting from penalties imposed shall not be deemed an infringement of the Rules.

(3) The Czech Bond Dealers Club informs the Issuer and the CNB about a breach of obligation to be a market maker within the meaning of Article 6 (3) d) ii) on a monthly basis.

Article 18

Corrective Measures and Penalties

(1) If it is found out that a DP infringes the Rules (Article 17), the Issuer, after consultation with the CNB, may impose corrective measures or penalties, depending on the nature of the infringement..

(2) The CNB may, as a corrective measure, require in particular that the DP should cease to infringe the Rules within the stipulated time limit.

(3) The penalties which may be imposed on a DP include in particular:

- a) a ban on taking part in one or more auctions,

- b) a reduction of the auction limit pursuant to Article 13 (1) of the Rules for one or more auctions,
- c) exclusion from the group of DPs.

(4) The decisions on penalties shall be taken by the Issuer on the proposal of the CNB. The penalties may be imposed with immediate effect.

(5) The CNB will inform the contact persons of the DP mentioned in Annex 1e to the Rules of the imposition of a penalty in writing. Part 6. Final Provisions.

Part 5. Final Provisions

Article 19 Amendments to the Rules

(1) The CNB shall publish these Rules in the form of Official Information in the Bulletin of the Czech National Bank and further in a manner which enables remote access.

(2) The CNB shall be authorised to amend and supplement the Rules after an agreement with the issuer.

(3) The CNB shall publish any amendments or supplements to the Rules in the form of Official Information in the Bulletin of the Czech National Bank and further in a manner which enables remote access.

(4) On each amendment to the Rules the CNB shall provide the DPs with adequate time to adjust their activities.

(5) These Rules may be translated into other languages. If there is any inconsistency between the different language versions of the Rules, the Czech version shall be the conclusive version.

Article 20 Repealing Provision

As at the effective date of these Rules the seventh version of the Rules for the Primary Sale of Medium-Term and Long-Term Government Bonds Organised by the Czech National Bank, published in the Official Information of the CNB No. 24/2006 of 22 December 2006 in the Bulletin of the CNB, Volume 21/2006 shall be repealed.

Article 21 Effect

These Rules shall take effect on 4 May 2009.

The Bank Board Member and Chief Executive Director
doc. Ing. PhDr. Vladimír Tomšík, in his own hand

Annex 1. Forms and Notes

The following forms (with accompanying notes) are given in this Annex:

- a) Comprehensive bids for primary purchase in competitive part of auction (Annex 1a),**
- b) Bid for primary purchase in non-competitive part of auction (Annex 1b),**
- c) List of investors (Annex 1c),**
- d) Specimen signatures of direct participant in auctions of medium-term and long-term government bonds (Annex 1d),**
- e) Contact persons and addresses of direct participant in auctions of medium-term and long-term government bonds (Annex 1e).**

Annex 1a

Sequence no.:

DP name	<input type="text"/>
Issue ISIN and name	<input type="text"/>

Bid no.: /

Comprehensive bids for primary purchase in competitive part of auction

Sequence no. of bid	GB volume in nominal value (in CZK 000s)	Yield/Price of GBs	Point of auction Ref. no.
1			
2			
3			
4			
5			
6			
7			
8			
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			
26			
27			
28			
29			
30			
Total		0 CZK 000s	

.....
DP's signature

Comprehensive bids for primary purchase in competitive part of auction

(1) The sequence number on the “Comprehensive bids for primary purchase in competitive part of auction” form (hereinafter referred to as the “Competitive Bids”) shall be completed by an authorised member of staff of the CNB.

(2) The “Bid no.” shall be completed by the DP in the format X/Y, where X is the sequence number of the form and Y is the total number of forms. If only one form is used, 1/1 shall be given. If there are two, the first shall be labelled 1/2 and the second 2/2, and so on.

(3) On each form the DP shall give the following information:

- the identity of the DP (DP name)
- basic issue identification information (ISIN and name of issue)

(4) In the “Yield/Price of GBs” column the DP shall mention, in dependence on the manner of submission of bids for the auction given in the Announcement of an Auction, either the yield in per cent p.a., or the price, specified to the required number of decimal positions.

(5) Entries in the “Point of auction ref. no.” shall be completed by the point of auction.

(6) The Competitive Bids must be signed by an authorised person whose specimen signature is given on the form “Specimen signatures of direct participant in auctions of government bonds” (Annex 1d) which the CNB has at its disposal.

Sequence no.:

DP name	<input type="text"/>
Issue ISIN and name	<input type="text"/>

Bid for primary purchase in non-competitive part of auction

Bid	GB volume in nominal value (in CZK 000s)	Point of auction ref. no.
N	<input type="text"/>	<input type="text"/>
Total	0	CZK 000s

.....
DP's signature

Bid for primary purchase in non-competitive part of auction

(1) The sequence number on the “Bid for primary purchase in non-competitive part of auction” form (hereinafter referred to as the “Non-competitive Bid”) shall be completed by an authorised member of staff of the CNB.

(2) On each form the DP shall give the following information:

- the identity of the DP (DP name)
- basic issue identification information (ISIN and name of issue)

(3) Entries in the “Point of auction ref. no.” shall be completed by the point of auction.

(4) The Non-competitive Bid must be signed by an authorised person whose specimen signature is given on the form “Specimen signatures of direct participant in auctions of government bonds” (Annex 1d) which the CNB has at its disposal.

List of investors

(1) The list of investors (hereinafter referred to as the “List”) shall pertain to the Competitive Bids whose number is given in the entry “For bid no.” and to the Non-competitive Bid. In this entry, the DP shall give the figure contained in the “Bid no.” entry on the relevant “Comprehensive Bids for Primary Purchase in competitive part of auction” form.

(2) The DP shall give the “List no.” in the format X/Y, where X is the sequence number of the form and Y is the total number of List forms. If only one List is used, 1/1 shall be given. If there are two, the first shall be labelled 1/2 and the second 2/2, and so on.

(3) The DP shall give the same DP name and issue identification information (ISIN and name of issue) as given on the Bid form.

(4) The “Investor name” column shall contain the unabbreviated name or identity of the investor – client or DP.

(5) The “IČ (ID number)” column shall contain the IČ (ID number) or birth identity number of the investor (client or DP), if he has been allocated one.

(6) The DP shall state the investor’s individual requests (these shall also comprise the customer bids settled after the auction on the secondary market) in the column “GB volume in nominal value”. In the columns “Investor name” and “IČ (ID number)”, the investor’s identity need only be given in the first row of the investor’s requests.

(7) In the “Yield/Price of GBs” column the DP shall mention, in dependence on the manner of submission of bids for the auction given in the Announcement of an Auction, either the yield in per cent p.a., or the price, specified to the required number of decimal positions, according to the yield or price with which the investor’s requirement is included in the Competitive Bid. In the case of non-competitive bids, the DP shall insert the letter “N” in the “Yield/Price of GBs” column.

(8) The List must be signed by an authorised person whose specimen signature is given on the form “Specimen signatures of direct participant in auctions of government bonds” (Annex 1d) which the CNB has at its disposal.

**SPECIMEN SIGNATURES
OF DIRECT PARTICIPANT IN AUCTIONS
OF MEDIUM-TERM AND LONG-TERM GOVERNMENT BONDS**

Page:

IČ (ID number) and name of DP:		
Registered address of DP:		

The persons given hereunder are authorised to confirm by signature the bids of the aforementioned direct participant in auctions of medium-term government bonds. They are also authorised to submit bids through the Bloomberg information system.

	Title, first name and surname Function	Telephone no. Fax no.	Bloomberg UUID	Signature
1				
2				
3				
4				
5				
6				

At, date

.....
DP's signature

**CONTACT PERSONS AND ADDRESSES
OF DIRECT PARTICIPANT IN AUCTIONS
OF MEDIUM-TERM AND LONG-TERM GOVERNMENT BONDS**

IČ (ID number)
and name of DP:

Registered address of DP:

	Title, first name and surname Function	Telephone no. Fax no.	Address
A			
B			

A: For relations with the CNB

B: For relations with investors

At, date

.....
DP's signature

Annex 2. Algorithm and processing of bids

- a) The manner of submitting bids for an auction in the price
- b) The manner of submitting bids for an auction in the yield

Annex 2a – The Manner of Submitting Bids for an Auction in the Price

(1) The nominal volume of the issue shall be set in advance, but may be changed during the course of the auction.

(2) If one of the parameters of the auction is the minimum acceptable price, bids with a price lower than the minimum acceptable price will be rejected.

(3) The auction usually comprises of the competitive and non-competitive part. DPs firstly submit their bids to the competitive part of auction, in which minimally 85% of the nominal value of the auction is offered. When results of the competitive part of the auction are released the non-competitive part of the auction can be opened, in which maximum 15% of the nominal value of the issue is offered.

(4) The competitive part of the auction

- a) the part of issue sold in the competitive part of the auction shall be divided among the competitive bids in such a way that bids with a higher price are satisfied first.
- b) if the volume of the bids at the minimum accepted price is bigger than the as yet undistributed remainder of the issue, then:
 - i) either the volume of the issue will be increased, so that all bids at the minimum accepted price might be fully satisfied; the bids with a lower price will be rejected;
 - ii) or all bids at the level of the minimum accepted price shall be proportionately reduced, i.e. multiplied by the allocation ratio. The result is rounded down to the nearest integer multiple of the minimum traded amount (individual pieces). If the whole amount of the issue is not subscribed in this manner, undistributed bonds shall be distributed one by one among the reduced bids according to the remainder (part of the digit after the decimal point) sorted in descending order. In case of equality of remainders the time of bid submission shall decide. If there are equal times of submission the remaining undistributed bonds shall be distributed randomly.
- c) the minimum accepted price will be determined as the lowest price at which it is possible at the given nominal volume offered for the auction to satisfy the incoming bids at least partially;
- d) successful competitive bids are satisfied at the price at which they were submitted
- e) the average price of the auction which will be stipulated as a weighted average of the prices of the satisfied competitive bids;
- f) the Issuer can change the allocation of satisfied bids among the participants of the auction if the nominal volume of the issue sold in the auction is decreased.

(5) The non-competitive part of the auction

- a) when results of competitive part of the auction are released, maximum volume of every participants non-competitive bid is counted (hereinafter referred to as “non-competitive limit”). This non-competitive limit is defined by:

$$NL = \frac{N_1 + N_2 + N_3}{T_1 + T_2 + T_3} * 100$$

where: NL non-competitive limit (in per cent)

N_1 volume bought by individual participant in the competitive part of the current auction

N_2, N_3 ... volume bought by individual participant in the competitive part of two previous auctions

T_1 total amount sold in the competitive part of the current auction

T_2, T_3 total amount sold in the competitive part of two previous auctions

- b) the non-competitive bids are satisfied maximally up to the level of the non-competitive limit. If the volume of all satisfied non-competitive bids is lower than the volume offered at this part of auction, the remainder of the issue shall not be sold.
- c) the price at which the non-competitive bids are satisfied will be stipulated as a weighted average of the prices of the satisfied competitive bids.

(6) For the satisfied bids shall be calculated corresponding yield to maturity as percentage p.a. The relationship between the yield to maturity (YTM) and the price is defined by:

$$P = \sum_{i=1}^N \frac{S_i}{(1+y)^i}$$

where: P ... direct participant's bid price

S_i ... sum of payments obtained by the owner of the GB in year i
(interest paid and repayment of nominal value)

y ... annual yield to maturity (in decimal format)

N ... maturity in years.

Annex 2b – The Manner of Submitting Bids for an Auction in the Yield

(1) The nominal volume of the issue shall be set in advance, but may be changed during the course of the auction.

(2) If one of the parameters of the auction is the maximum acceptable yield, bids with a yield higher than the maximum acceptable yield will be rejected.

(3) The auction usually comprises of the competitive and non-competitive part. DPs firstly submit their bids to the competitive part of auction, in which minimally 85% of the nominal value of the auction is offered. When results of the competitive part of the auction are released, non-competitive part of the auction can be opened in which maximum 15% of the nominal value of the issue is offered.

(4) The competitive part of the auction

- a) the part of issue sold in competitive part of the auction shall be divided among the competitive bids in such a way that bids with a lower yield are satisfied first.
- b) if the volume of the bids at the maximum accepted yield to maturity is bigger than the as yet undistributed remainder of the issue, then:
 - i) either the volume of the issue will be increased, so that all bids at the maximum accepted yield might be fully satisfied; the bids with a higher yield will be rejected;
 - ii) or all bids at the level of the minimum accepted price shall be proportionately reduced, i.e. multiplied by the allocation ratio. The result is rounded down to the nearest integer multiple of the minimum traded amount (individual pieces). If the whole amount of the issue is not subscribed in this manner, undistributed bonds shall be distributed one by one among the reduced bids according to the remainder (part of the digit after the decimal point) sorted in descending order. In case of equality of remainders the time of bid submission shall decide. If there are equal times of submission the remaining undistributed bonds shall be distributed randomly.
- c) the maximum accepted yield will be determined as the highest yield at which it is possible at the given nominal volume offered for the auction to satisfy the incoming bids at least partially;
- d) successful competitive bids are satisfied at the yield at which they were submitted;
- e) the average yield of the auction which will be stipulated as a weighted average of the yields of the satisfied competitive bids;
- f) the Issuer can change the allocation of satisfied bids among the participants of the auction if the nominal volume of the issue sold in the auction is decreased.

(5) The non-competitive part of the auction

- a) when results of competitive part of the auction are released, maximum volume of every participants non-competitive bid is counted (hereinafter referred to as “non-competitive limit”). This non-competitive limit is defined by:

$$NL = \frac{N_1 + N_2 + N_3}{T_1 + T_2 + T_3} * 100$$

where: NL non-competitive limit (in percentage)
 N_1 volume bought by individual participant in the competitive part of current auction

$N_2, N_3 \dots$ volume bought by individual participant in the competitive part of two previous auctions
 $T_1 \dots\dots\dots$ total amount sold in the competitive part of current auction
 $T_2, T_3 \dots\dots\dots$ total amount sold in the competitive part of two previous auctions

b) non-competitive bids are satisfied maximally up to the level of the non-competitive limit. If the volume of all satisfied non-competitive bids is lower than the volume offered at this part of auction, the remainder of the issue shall not be sold.

c) The yield at which the non-competitive bids are satisfied will be stipulated as a weighted average of the yields of the satisfied competitive bids.

(6) For the satisfied bids shall be calculated corresponding price. The relationship between the yield to maturity (YTM) and the price is defined by:

$$P = \sum_{i=1}^N \frac{S_i}{(1+y)^i}$$

where: P ... direct participant's bid price
 S_i ... sum of payments obtained by the owner of the GB in year i
 (interest paid and repayment of nominal value)
 y ... annual yield to maturity (in decimal format)
 N ... maturity in years.

Annex 3. Authorised persons and contact addresses of the CNB

Section 1 Authorised persons

(1) The list of authorised members of staff of the CNB and their specimen signatures on the form on the following page will be distributed to all DPs.

(2) The specimen signatures of the authorised members of staff of the CNB point of auction shall be authorised by the Executive Director of the CNB's Financial Markets Department.

**SPECIMEN SIGNATURES
OF AUTHORISED MEMBERS OF STAFF
OF THE CNB POINT OF AUCTION
FOR MEDIUM-TERM AND LONG-TERM GOVERNMENT BONDS**

	Title, first name and surname	Telephone no.	Signature
1			
2			
3			
4			
5			
6			
7			
8			

At Prague, date:

.....
Executive Director of the
CNB's Financial Markets Department

**CONTACT INFORMATION
OF THE CNB POINT OF AUCTION
FOR MEDIUM-TERM AND LONG-TERM GOVERNMENT BONDS**

Name:

--

Registered address:

--

Contact address for sending correspondence:

Name of the department	Telephone no. Fax no.	Address

Contact address for sending prospective complains about the manner of settling a claim:

Name of the department	Address

At Prague, date:

.....
On behalf of CNB