



# RULES

## FOR THE PRIMARY SALE

**of Treasury Bills  
Organised by the Czech National Bank**

**May 2004**

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## **Part 1. General Provisions**

### **Article 1 Introductory provisions**

(1) The rules for the primary sale of treasury bills organised by the Czech National bank (hereinafter referred to as the “Rules”) govern the procedures and rules applied during primary sale of treasury bills (hereinafter referred to as “T-bills”) issued in dematerialised form in the SKD system, for which the Czech National Bank (hereinafter referred to as the “CNB”) is entrusted with organisation of primary sale by the Ministry of Finance of the Czech Republic (hereinafter referred to as the “Issuer”) and is the agent for the Issuer pursuant to the Rules of the SKD System.

(2) The sale of T-bills shall hereupon be governed by the Rules of the SKD System to the extent set forth herein.

### **Article 2 Conditions of issuance**

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

(2) The Terms and Conditions of Issuance of T-bills shall be published in the Collection of Laws. The CNB may provide information about the wording thereof in the Bulletin of the Czech National Bank and further in a manner which enables remote access (for example through the Internet, etc.).

### **Article 3 Organisation of primary sale**

(1) T-bills shall be sold on the primary market only to direct participants in the auctions (hereinafter referred to as “DPs”) or, as the case may be, to other entities designated by the Issuer.

(2) Other interested parties may participate indirectly in the primary T-bill market through DPs in such a way that the DPs include those parties’ requests in their orders.

(3) T-bills shall be sold on the primary market by means of:

- a) a) auctions for DPs,
- b) b) direct sale to selected DPs.

(4) Auctions for DPs shall be organised by the CNB. The point of auction pursuant to the Rules of the SKD System shall be the CNB. The auction rules are given in Part 4 of the Rules – Auction Rules.

(5) Primary sales shall be settled in accordance with the Rules of the SKD System.

(6) As part of the settlement of primary sales, T-bills shall be credited to the DPs’ owner accounts according to the results of the auction. In the case of other interested parties whose requests a DP has included in its order, the DP shall ensure settlement in the manner agreed.

**Part 2. Criteria for DPs**

**Article 4  
Conditions for becoming a DP**

- (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 is authorised on the basis of the single licence pursuant to Article (5c) et seq. of the Act on Banks to perform activities pursuant to Article (5d)(d) and item 4(g) of the Act on Banks on the territory of the Czech Republic,
  - d) a securities dealer authorised pursuant to Article 5 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,
  - 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 unit,
  - f) a foreign entity having its registered office in another member state of the European Union, 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.
- (2) An applicant to become a DP (hereinafter referred to as the “Applicant”) must fulfil the following conditions:
- a) it must be a SKD System participant as an agent and client with authorisation to make purchases on the primary market and to buy and sell on the secondary market;
  - b) it must be active on the secondary T-bill market and quote at least one-way prices for all T-bill issues;
  - c) its trustworthiness among other money market participants must be intact.
- (3) The Applicant shall submit a written application to become a DP to the CNB, to the contact address of the point of auction, by 31 October of the given calendar year.

**Article 5**  
**Duties of DPs**

- (1) A DP must fulfil the following conditions:
- a) at auctions it must comply with all the procedures in Part 4 of the Rules – Auction Rules;
  - b) it must take part in T-bill auctions in accordance with Part 3 of the Rules – Auction Limits;
  - c) it must comply with these Rules and with any other terms and conditions set and announced by the CNB for individual auctions in accordance with these Rules;
  - d) it must ensure that payments are made for the orders satisfied at auctions;
  - e) it must fulfil the prescribed information duty to the CNB;
  - f) to the extent of its free limit, it must accept the orders of investors and take them to the auction; and publish its procedures for accepting such orders in an appropriate manner;
  - g) it must give its consent to its inclusion in the list of DPs to be published by the CNB in a manner which enables remote access (for example through the Internet, etc.);
  - h) it must submit to the CNB on the prescribed form specimen signatures of the persons authorised to sign auction orders on its behalf.
- (2) The information duty pursuant to Article 5(1)(e) of the Rules shall mean the duty to deliver to the point of auction's contact address new contact person names, telephone numbers, fax numbers and addresses at the earliest opportunity after any change.

**Article 6**  
**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. In the event of acceptance into the group of DPs, the Applicant shall become a DP for the entire calendar year, with effect from 1 January of the following year.
- (2) The CNB shall maintain and publish a list of DPs. The list of DPs shall contain the name and registered address of each DP.
- (3) In the event of a negative decision, the CNB shall inform the Applicant of this fact in writing.
- (4) There shall be no right to become a DP, and the Issuer is not obliged to give its reasons for rejecting the Applicant's application.

**Article 7**  
**Exclusion from the group of DPs**

- (1) 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 means of the procedure pursuant to Part 5 of the Rules – Procedure in the Event of Non-compliance with the Rules.

### **Part 3. Auction Limits**

#### **Article 8 Basic limits**

(1) Unless stipulated otherwise, competitive and non-competitive orders may be submitted at auctions.

(2) The maximum possible share of an individual DP's total order in the nominal volume of T-bills offered at auction shall be 50%.

(3) Where it is possible to submit non-competitive orders at an auction, the volume of non-competitive orders submitted by an individual DP may not exceed 50% of the volume of competitive orders submitted by that DP at that auction.

(4) Where it is possible to submit non-competitive orders at an auction, no more than 30% of the volume of T-bills offered at auction may be sold in the form of non-competitive sale.

(5) With the agreement of the Issuer, the CNB may change the limit provided in Articles 8(2) and 8(3) in the case of a single auction. In this event, the provisions of Article 8(6) shall apply *mutatis mutandis*.

(6) At primary T-bill auctions, the DP shall be obliged to acquire at least 3% of the total nominal volume of T-bills offered at these auctions in a given calendar year.

(7) Where it is possible to submit non-competitive orders at an auction, the DP may submit no more than one non-competitive order.

#### **Article 9 Inspection of compliance with the auction limits**

(1) An inspection of compliance with the auction limits referred to in Articles 8(2), (3) and (4) of the Rules shall be conducted before the orders are processed.

(2) An assessment of compliance of the individual DPs with the minimum acquisition obligation pursuant to Article 8(6) of the Rules shall be carried out immediately after the termination of the last auction in the given calendar year.

### **Part 4. Auction Rules**

#### **Article 10 Information on auctions**

(1) The CNB shall publish information on auctions as a rule through information agencies, the SKD system and in a manner which enables remote access (for example through the Internet, etc.) or, as the case may be, through the press as a rule on the day before the auction, but not later than on the date of the auction.

(2) The information on the auction shall include:

- a) the issue code,
- b) the type of auction,
- c) the auction date,
- d) the issue date,
- e) the maturity date,
- f) the time limit for accepting orders.

(3) If, for technical reasons, it proves impossible to publish the information, the CNB shall inform the DP's contact persons directly.

## **Article 11**

### **Submission and acceptance of orders and essential elements of orders**

(1) The DP may place, change and cancel its orders within the time limit provided in Article 10(2)(f) without any restrictions. The DP is not entitled to make any changes to its orders once this time limit has expired.

(2) DPs shall submit their auction orders electronically through the SKD system. Such orders shall be electronically signed.

(3) If, for technical reasons, it proves impossible to place orders electronically, the DP may send its orders on the prescribed forms by fax to the point of auction's contact fax number within the stipulated time limit. The DP shall verify delivery of the faxed order using the contact telephone number. Non-compliance with this requirement may result in the DP's order not being included in the auction.

(4) If it proves impossible to send the order to any of the contact fax numbers, the DP shall, using the contact telephone number, agree another way to submit the order.

(5) Unless stipulated otherwise, orders shall be submitted with the yield given to two decimal places.

(6) The volume of each order must be exactly divisible by the face value of the T-bill being issued.

(7) No DP may, within the scope of its limit, submit two or more orders with the same yield.

(8) The order form must be signed by the person/persons whose signatures are given on the DP's valid specimen signature form at the CNB's disposal.

(9) The DP is responsible for the overall correctness of the order.

(10) If, within the time limit provided in Article 10(2)(f), the DP wishes to change its auction order, it shall send a new order pursuant to paragraph 1 and shall communicate this fact by telephone using the point of auction's telephone number. The sending of the new order shall cancel the DP's previous order for the relevant owner account. If more than one order is received for a particular owner account without it being stipulated which is the valid order, the CNB shall process the last order received.

## **Article 12**

### **Processing of orders**

(1) Non-competitive orders shall be processed ahead of competitive orders. If the volume of all non-competitive orders does not exceed the limit provided in Article 8(4), all the non-competitive orders shall be satisfied. If the volume of all non-competitive orders exceeds the limit provided in Article 8(4), all the non-competitive orders shall be reduced pro rata so that the volume of all non-competitive orders satisfied does not exceed this limit. Non-competitive orders shall be satisfied at a price corresponding to the average yield achieved in the competitive orders rounded to two decimal places. The remainder of the issue shall be split among the competitive orders in accordance with the set auction algorithm.

(2) The individual competitive orders submitted by each DP shall be processed according to the yield of the order in sequence from the lowest to the highest.

(3) No order submitted by a DP shall be processed if the condition provided in Article 11(8) of the Rules is not fulfilled.

(4) An individual competitive order submitted by a DP shall not be processed if it does not fulfil the conditions provided in Article 11(5) of the Rules.

(5) An individual order submitted by a DP shall not be processed if it does not fulfil the conditions provided in Article 11(6) of the Rules.

(6) An individual order with the highest yield submitted by a DP shall not be processed, if that order would cause the DP's auction limit pursuant to Article 8(2) or (3) of the Rules to be exceeded. In the event that by not processing this order the volume ordered would fall below the stipulated auction limit, the CNB shall reduce the volume of the order, so that the total volume of the orders should equal the auction limit.

### **Article 13**

#### **Announcement of auction results**

(1) The CNB shall publish information on the results of auctions as a rule through information agencies, the SKD system and in a manner which enables remote access (for example through the Internet, etc.) or, as the case may be, through the press, immediately after the completion of the assessment of the auction results.

(2) The published auction results shall include:

- a) the volume of T-bills issued,
- b) the issue yield,
- c) the satisfaction coefficient.

(3) The DP shall obtain information on the satisfaction of individual orders through the SKD system. If, for technical reasons, the DP cannot ascertain this information electronically, it shall contact the point of auction's contact department and agree an alternative means of transfer.

### **Article 14**

#### **Claims**

(1) A DP discovering a mistake at the point of auction,<sup>1</sup> shall immediately communicate this fact in writing (hereinafter referred to as the "claim") to the point of auction's contact address.

(2) The CNB shall within three working days 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 a written complaint to the point of auction's contact address. 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.

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<sup>1</sup> Article 46 of the Rules of the SKD System.

## **Part 5. Procedure in the Event of Non-compliance with the Rules**

### **Article 15 Infringement of the Rules**

- (1) “Infringement of the Rules” shall mean:
  - a) a breach of the duties of the DP given in Article 5(1)–(2) of the Rules,
  - b) non-compliance with the minimum purchase volume of T-bills pursuant to Article 8(6) of the Rules,
  - c) a breach of the auction rules on the part of the DP (Part Four),
  - d) misrepresentation, or any attempt at 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.

### **Article 16 Corrective Measures and Penalties**

- (1) If it is found out that a DP infringes the Rules (Article 15) then, depending on the nature of the infringement, corrective measures, or penalties, or corrective measures and penalties may be imposed on it.
- (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 may consist in particular in:
  - a) a ban on taking part in one or more auctions,
  - b) a temporary individual reduction of the auction limit pursuant to Article 8(2) and (3) of the Rules for one or more auctions,
  - c) exclusion from the group of DPs.
- (4) Decisions on penalties shall be taken by the Issuer on the proposal of the CNB. Penalties pursuant to the previous paragraph may be imposed with immediate effect.
- (5) The CNB shall inform the DP of the imposition of a penalty by sending a fax to its contact fax number and subsequently by sending a letter to its contact address.

## **Part 6. Final Provisions**

### **Article 17 Publication of and amendments to the Rules**

- (1) The CNB shall publish these Rules in the CNB Bulletin in the form of Official Information, and further in a manner which enables remote access (for example through the Internet, etc.).
- (2) The CNB is authorised to amend these Rules.
- (3) The CNB shall publish amendments to the Rules in the CNB Bulletin in the form of Official Information and further in a manner which enables remote access (for example through the Internet, etc.).
- (4) The CNB shall provide the DP with adequate time to adjust its 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 18**  
**Repealing provision**

On the date of issuance of these Rules, the Rules for the Primary Sale of Treasury Bills Organised by the Czech National Bank, published as the Official Information of the CNB No. 15/2002 of 2 December 2002 in the CNB Bulletin, Volume 19/2002 shall be repealed.

**Article 19**  
**Effect**

These Rules enter into effect on 1st May 2004.

Chief Executive Director  
Ing. Pavel Štěpánek, CSc., in his own hand

## **Annexes**

### **1. Forms**

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

- Application to become a direct participant in auctions
- Primary purchase order
- Specimen signatures of direct participant in auctions
- Contact persons and addresses of direct participant in auctions
- Contact information for the point of auction

**APPLICATION TO BECOME  
A DIRECT PARTICIPANT IN AUCTIONS  
OF TREASURY BILLS**

Line title	To be completed by the applicant
Full name	
Abbreviated name	
Client code	
Address – street	
Address – town	
Address – postcode	
IČO (ID number)	
Quotation on REUTERS	
Quotation on BLOOMBERG	
Quotation elsewhere	

The applicant hereby affirms that he/she has read the current version of the Rules for the Primary Sale of Treasury Bills Organised by the Czech National Bank and agrees to abide by those Rules.

Annexes:

At ....., date: .....

.....  
Applicant

**Application to become  
a direct participant in auctions**

(1) The Applicant shall state its full name, abbreviated name and client code in accordance with the Contract on SKD System Participation with a Client which it has concluded with the CNB.

(2) If the Applicant publicly quotes its prices through the REUTERS or BLOOMBERG systems, it shall identify the relevant pages. If it publishes its quotations in another manner, it shall state this in the “Quotation elsewhere” line and provide full details in the annex.

(3) In the annexes to the application to become a direct participant in auctions (hereafter in Annex 1 referred to as the “application”) the Applicant shall state the contact persons, address, telephone number and fax number for its dealings with the CNB.

(4) The application must be stamped and signed by the Applicant’s authorised representative.

## PRIMARY PURCHASE ORDER

Owner account number:		Order number:	
Code and abbreviated name of DP:			
Code and abbreviated name of agent:			
Issue code:			

Auction date	Issue date	Maturity date

**Competitive orders:**

	Order volume (CZK)	Order yield (% p.a.)	Point of auction ref. no.
1			
2			
3			
4			
5			
6			
7			
8			
9			
10			

**Non-competitive order:**

	T-bill volume	Point of auction ref. no.
1		

At ....., date .....

.....  
DP's signature according to specimen signature

## **Primary purchase order**

(1) The “Owner account number” shall denote the DP’s owner account to which the securities acquired by the DP are to be credited on the issue date. The DP may use more than one owner account, but must complete a separate “Primary purchase order” form for each of them (hereafter in Annex 1 referred to as the “order”).

(2) The “Code and abbreviated name of DP” shall be given in accordance with the Contract on SKD System Participation with a Client concluded between the CNB and the DP.

(3) The “Code and abbreviated name of agent” shall be given in accordance with the Contract on a Securities Owner Account in the SKD System for the owner account pursuant to paragraph 1 concluded between the CNB and the DP.

(4) The “Issue code” shall be given in accordance with the published auction information.

(5) The “Auction date”, “Issue date” and “Maturity date” shall be completed by the DP in accordance with the published auction information.

(6) The “Order volume” shall be given in CZK and the “Order yield” in per cent p.a.

(7) The entries in the “Point of auction ref. no.” shall be completed by the point of auction.

(8) The order must be signed by the authorised person whose specimen signature given on the form “Specimen signatures of direct participant in auctions” which the CNB has at its disposal.



### **Specimen signatures of direct participant in auctions**

(1) Specimen signatures of direct participants in auctions (in annex 1 hereinafter referred to as the “Specimen signatures of DP”) could be given on several forms. In the item “Page” the information “ordinal number of the form” / “total number of valid forms” shall be given. If just one form is used then 1/1 is given.

(2) The code and abbreviated name of the DP, the full name of the DP and the registered address of the DP shall be given in accordance with the Contract on SKD System Participation with a Client concluded between the CNB and the DP.

(3) Specimen signatures of DP must be signed by the authorised representative of the DP.

**CONTACT PERSONS AND ADDRESSES  
OF DIRECT PARTICIPANT IN AUCTIONS  
OF TREASURY BILLS**

Code and  
abbreviated name of DP:  
Full name of DP:


Registered address of DP:

	First name and surname Function	Telephone no. Fax no.	Address

At ....., date .....

.....  
DP

### **Contact persons and addresses of direct participant in auctions**

(1) The code and abbreviated name of the DP, the full name of the DP and the registered address of the DP shall be given in accordance with the Contract on SKD System Participation with a Client concluded between the CNB and the DP.

(2) The contact persons and addresses of the DP must be signed by the authorised representative of the DP.

(3) The CNB will send all information pertaining to primary sales to the contact address.

**CONTACT INFORMATION  
FOR THE POINT OF AUCTION  
OF TREASURY BILLS**

Name:

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Address:

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Name of department	Telephone no. Fax no.	Address

At ....., date .....

.....  
for and on behalf of the CNB

## 2. Rules for calculating prices from yields

(1) To calculate the “Total value of securities” (expressed in Czech korunas to two decimal places) for a given yield (given in per cent p.a.), transaction volume and number of days to maturity, the following formula shall be used:

“Total value of securities” =  
{Transaction volume / (1+“Yield” \* <days to maturity> / 360)}, rounded to the heller.

The price shall be rounded up if the digit in the third decimal place is between 5 and 9, and rounded down if the digit in the third decimal place is between 0 and 4.

(2) To calculate the “Price of security” for a given yield (given in per cent p.a.) and number of days to maturity, the following formula shall be used:

“Price of security” =  
{100 / (1+“Yield” \* <days to maturity> / 360)}, rounded to 5 decimal places.

The price shall be rounded up if the digit in the sixth decimal place is between 5 and 9, and rounded down if the digit in the sixth decimal place is between 0 and 4.