



**RULES FOR EARLY REDEMPTION AUCTIONS OF  
TRADABLE GOVERNMENT BONDS**

September 2010

1. **General**

1.1 This procedure specifies the rules that apply to reverse auctions (hereafter: "**auctions**"), at which the Government Debt Management Unit in the Accountant General Division of the Ministry of Finance (hereafter: "**the Unit**") will purchase Government bonds before their redemption dates (hereafter: "**bonds**").

1.2 The bonds will be purchased by means of multi-price auction and by means of non-competitive offers.

1.3 The auctions are intended for Primary Dealers and/or for Tel Aviv Stock Exchange ("**TASE**") members and for the additional corporations that will be given written advance approval by the Unit and that are specified here: banking corporations, insurance companies (on behalf of the funds managed by them), Provident Funds management companies (on behalf of the Provident Funds managed by them), and companies that administrate Pension Funds (on behalf of the Pension Funds managed by them), companies that manage Mutual Funds (on behalf of the Mutual Funds managed by them).

1.4 "**Sum Due**" – The amount of money that shall be transmitted to a winner. This amount shall be calculated in the following manner: the nominal value of the bonds multiplied by the price and divided by 100, for all the offers from a certain participant that were accepted;

1.5 "**Ministry of Finance Securities Account**" – the Ministry of Finance account with the Stock Exchange Clearing House, which was opened especially in order to receive the bonds purchased from a certain participant;

1.6 "**Amended Sum Due**" – the amount of money that will be transmitted to a winner according to the following calculation: the nominal value of the bonds divided by 100 and multiplied by the price determined according to section 6.2.1.

1.7 "**the Auction's Average Price**" – the weighted average price of the



accepted offers, including the offers that were accepted partially;

- 1.8 **"The Auction's New Average Price"** – the weighted average of the prices of the accepted offers, not including the prices of the erroneous offers.
- 1.9 **"Ranking"** – Primary Dealers' ranking based on their performances during the month prior to the auction month last week, which includes 4 trading days. For determining eligibility for the Non Competitive Auction (Green Shoe), the calculation will take into consideration the week held two weeks prior to the Auction. In case of non trading days, will take into consideration the days before. The ranking will be done separately for the ILGOV (Mimshalit Shiklit) and for the CPI linked bonds, the floating rate will be considered under the ILGOV ranking.
- 1.10 The auctions shall be conducted via the Bloomberg Auction BAS (hereafter: **"BAS"**).
- 1.11 The Local Debt and Issuance Department of the Unit is at your service by phone (03-9778795/6) fax (03-9795370) or E-mail: [gdmu@inbal.co.il](mailto:gdmu@inbal.co.il).
- 1.12 In any case of contradiction between this circular and the law and/or its regulations – the law and/or regulations shall prevail.

## 2. Publication of the auction's details

- 2.1 Particulars of the auction will be posted on the Unit's Internet site [www.mof.gov.il/gdmu](http://www.mof.gov.il/gdmu), not later than three business days before each auction.
- 2.2 3 days prior to each auction the Unit will publish on BAS the following details for each auction: names of the purchased bonds, the date of the auction and the latest date and hour to submit offers.

## 3. Conduct of the Auctions

### 3.1 Auctions exclusive to Primary Dealers:

- 3.1.1 Only Primary Dealers are entitled to participate in this auction;



3.1.2 The minimal offer for this auction is 10,000,000 NIS nominal value, and above that sum – in multiples of 1,000,000 NIS nominal value.

### 3.2 Other Auctions

3.2.1 All participants, as described in paragraph 1.3 hereabove, are entitled to participate in this auction.

3.2.2 The minimal offer for this auction is 10,000 NIS nominal value, and above that sum – in multiples of 1,000 NIS nominal value.

### 3.3 Non-competitive offers:

3.3.1 A Primary Dealer that sells bonds at an Exclusive or at another auction, shall be entitled to sell an additional quantity of the same bonds (nominal value), at the Auction's Average Price or the New Average Auction's Price, as the case may be. The additional quantity shall be calculated as a percentage of the bonds (nominal value) that were sold at the auction as follows:

3.3.1.1 The six leading Primary Dealers in the ranking shall be entitled to sell 20% (twenty percent).

3.3.1.2 All other Primary Dealers in the ranking shall be entitled to sell 10% (ten percent).

3.3.2 The non-competitive offers can be placed up to 24 hours from the auction's closing time.

3.4 The Unit reserves the right to cancel any offer that does not conform to paragraphs 3.1, 3.2 and 3.3.

## 4. The Multi-Price (discriminatory) Auction

### 4.1 Placing offers for the auction:

4.1.1 Offers to sell bonds shall be submitted to the Ministry of Finance through BAS.



- 4.1.2 Every offer shall include the offered quantity in terms of thousands of NIS nominal value and price, according to the rules of the auction.
- 4.1.3 The price shall be stated to a precision of two decimal places.
- 4.1.4 Any offer not submitted in accordance with these rules will be voided.
- 4.1.5 Participants, who for any reason will not be able to transmit their offers through BAS, may call the offices of the Unit by telephone, up to half an hour before the auction closes. The telephone numbers for such calls are +972-3-977-8795/6. Please note that any problem due to malfunctions of the internal systems of the offerors and/or of the systems that connect those internal systems to BAS (uploader) shall not be handled by the Unit.

After the Unit's approval has been obtained, the offers shall be transmitted to Fax +972-3-979-5370 up to fifteen minutes before the auction closes, using the offer form that is here attached as **Appendix "A"**, separately for each series of bonds. The Unit will key the offer into BAS.

Under exceptional circumstances, the Unit reserves its right to handle an offer even if such offer does not meet the aforesaid criteria.

**Please note** - the Unit will do its best to provide this service to participants but is not obliged to do so. It is possible that in certain cases only the first participants shall be attended, subject to time limitations.

#### 4.2 Procedure for determining the winning offers

- 4.2.1 In a multi-price auction, winners will receive the Sum Due according to the price proposed by them, according to each of their successful offers.
- 4.2.2 The offers submitted shall be filled (awarded) according to their price, beginning with the lowest price up to the last offer for which



there is cover. Notwithstanding the aforesaid, all the offers that will be submitted for an auction with a price higher than the maximum price that was set for the auction (even if that was not made public) will not be awarded.

4.2.3 The price of the last offer accepted is the highest price at which a transaction was conducted (hereafter: "**the Auction Price**").

4.2.4 Offers at prices lower than the Auction Price will be awarded in full.

Offers at prices higher than the Auction Price will not be awarded.

#### 4.3 Notification of Auction Results and Filled Offers

4.3.1 Precisely thirty minutes after the final time for the submission of offers, participants will be able to see the results of the auction on BAS.

4.3.2 At that time, every participant whose offer was filled will be able to see on BAS details of the quantity of bonds, in terms of nominal value, and the price for each of his offers that were filled.

4.3.3 If, due to technical problems, the results of the auction cannot be transmitted over BAS, then the results will be transmitted by E-mail or by any other available means of communication.

### 5. The Transaction – Transfer of Bonds and Deposit of the Sum Due

5.1 The winners at the auction shall see to it that the bonds that they have to transfer will be in their account in the Clearing House, not later than at 9:30 AM of the first business day after the auction.

#### 5.2 Payment of the Sum Due:

5.2.1 **The transfer of the entire quantity of bonds to the Ministry of Finance Securities Account is a precondition for transferring the Sum Due to the Possession of the winners.**

5.2.2 The Unit will pay the Sum Due to the winners as the bonds are transferred.



5.2.3 Participants who are not Clearing House members:

5.2.3.1 the Sum Due will be deposited with the Clearing House, in the account of their clearing member (to the credit of the participant's monetary account);

5.2.3.2 participants who submit offers both for their clients and for their own account (nostro) may make offers for two different accounts.

6 **Rules for the Correction of Erroneous Offers at the Auction**

6.1 Application to correct an erroneous offer at the auction:

6.1.1 The Unit shall consider offerors' requests at an auction to correct an erroneous offer, if **all** the following conditions are met:

6.1.1.1 The first approach to the Unit was within thirty minutes after the auction results were published. Any request that arrives after that deadline will not be considered.

6.1.1.2 The approach to the Unit shall include an irrevocable request to correct an erroneous offer, on the Form marked **Appendix "B"**.

6.1.1.3 The request shall be signed by a senior officer of the company, and it shall include his written undertaking to deal immediately with the various systems, in order to prevent additional errors in the future.

6.1.1.4 If there is an additional request to correct an erroneous offer within a one year period, then there must be a letter from a **higher** senior officer of the company that includes an undertaking in the formulation said in section 6.1.1.3 above.

6.1.1.5 The Unit reserves the right not to handle requests for the correction of erroneous offers –

6.1.1.5.1 if a participant submitted more than two requests to correct offers in the same year, in all



different auctions held by the Unit (issuance auctions, early redemptions and so on);

6.1.1.5.2 when there are special circumstances because of which the Unit decided not to deal with the request.

6.1.1.6 If there were errors in more than one auction, then **Appendix "B"** shall be filled out separately for each auction.

6.1.1.7 If the request addressed to the Unit referred to several offers, then the request shall be examined separately in respect of each offer.

6.1.1.8 The request to correct refers only to a filled offer.

6.2 In the event the Unit certifies that the correction request of an erroneous offer meets the above conditions –

6.2.1 the winner shall transfer the total quantity of bonds offered by him and he will receive therefore the Amended Sum Due, as specified in section 1.6 above; Price of sell will be determined by the Unit and is will be the smallest among:

6.2.1.1 the lowest price on TASE on the day of the auction up to the minute when the request for correction was received, provided that a transaction with a nominal value of at least one million NIS was carried out at that price;

6.2.1.2 the lowest price on MTS on the day of the auction up to the minute when the request for correction was received, provided that a transaction with a nominal value of at least one million NIS was carried out at that price;

6.2.1.3 the lowest price at the auction, other than the price(s) of the erroneous offer/s, less 5 ticks (for example: 101.95 instead of 102.00);

6.2.2 the winner shall pay to the Unit a fixed compensation of NIS 100,000 for all the bonds included in the request for the correction. As long as the winner has not transmitted the compensation to the



Unit, he shall be charged a daily fine, as specified in section 7.1.3 below;

- 6.2.3 the winner shall not be allowed to participate in the non-competitive offer derived from the auction in which the error occurred;
- 6.2.4 the Auction's New Average Price, as specified in section 1.8 above, shall be the Average Price for the non-competitive offer to all other Primary Dealers;
- 6.2.5 The Unit reserves the right to suspend the winner from participating in auctions for a certain period.

7. **Rules for handling erroneous quantities:**

7.1 In the event that –

7.1.1 The total nominal value of the bonds that a winner deposited in his account is less than the nominal value offered by him (that will result in the cancellation of the entire transaction by the Clearing House),  
or –

7.1.2 the winner did not transmit the compensation specified in section 6.2.2 above,

then the rules specified below shall go into effect:

7.1.3 the winner must supply the differential between the nominal value quantity offered by him and the actual nominal value that was transferred, so that the Clearing House will be able to transfer all the bonds to the Ministry of Finance Securities Account; The differential must be supplied as soon as possible, but in any case not later than three business days after the original transfer, and that with the addition of the **daily penalty**, as specified below:

7.1.3.1 if the total differential does not exceed NIS 5 million nominal value – a penalty of NIS 5,000 **per day**;

7.1.3.2 if the total differential exceeds NIS 5 million nominal



value, but does not exceed NIS 10 million nominal value –  
a penalty of NIS 10,000 **per day**;

7.1.3.2 if the total differential exceeds NIS 10 million nominal  
value – a penalty of NIS 25,000 **per day**.

7.1.4 If the winner is not able to supply the said differential within three  
business days, the Unit reserves the right to obligate the winner to  
transfer the quantity in his possession at a price that will be set by  
the Unit, with the addition of the penalty due thereon.

7.1.5 The Unit shall not transmit Sum Due to the winner until the  
differential and the fine in their respect have been fully transmitted.

7.2 The Unit shall take errors of this kind very seriously and reserves the right  
to suspend a participant, such as erred several times or did not transmit the  
differential within three business days, from participating in future  
Government bond switch auctions, either during a certain time or  
permanently.



**APPENDIX "A"**

To the  
Government Debt Management Unit  
Ministry of Finance  
by Fax: 972-3-9795370

re: **Offer at Redemption Auction of Tradable Government Bonds**

Further to our telephone conversation at \_\_\_\_\_, with Mr./Ms/  
\_\_\_\_\_ of your office,

we, \_\_\_\_\_ (*enter complete name of the offering entity*)  
hereby offer issued bonds according to the following particulars:

Date of the auction: \_\_\_\_\_

Name of the offered bond: \_\_\_\_\_

UUID at Bloomberg: \_\_\_\_\_

Offered quantity (nominal value)			
Price (hundredths of a percent)			

In accordance with section 4.1.5 of the Rules for Redemption Auctions of Tradable Government Bonds, we understand that the Unit will do its utmost to perform this service for the participants, but that the Unit is not under any obligation to do so. We also understand that under certain instances only the offers of the first offerors may be accepted, subject to the constraints of time.

Yours truly,

\_\_\_\_\_  
Company's seal and signatures

\_\_\_\_\_  
Name of signatory

\_\_\_\_\_  
Name of signatory



**APPENDIX "B"**

To the  
Government Debt Management Unit  
Ministry of Finance  
by Fax: 972-3-9795370

Gentlemen,

re: **Irrevocable request to amend one/several erroneous offers**

We, \_\_\_\_\_ (enter complete name of the offering entity)  
hereby request to amend the erroneous offer(s) at the auction according to the  
following particulars:

Date of the auction: \_\_\_\_\_

Name of the offered bond: \_\_\_\_\_

Offered quantity (nominal value)			
Price (hundredths of a percent)			

Attached is a letter from a senior officer of the company, as required by section 6 of  
the Rules for Redemption Auctions of Tradable Government Bonds.

We also assume the obligation that, if the Government Debt Management Unit  
approves this request, we shall transmit the Amended bonds quantity, together with  
NIS 100,000 compensation for all the requests for correction that we submit today.

Yours truly,

\_\_\_\_\_  
Company's seal and signatures

\_\_\_\_\_  
Name of signatory

\_\_\_\_\_  
Name of signatory