



Rules for the Issuance of Tradable Government Bonds

(September 2010)

1. General

- 1.1. These Rules describe the procedures for the issuance of the following types of government bonds:
 - 1.1.1 Nominal government bond.
 - 1.1.2 CPI-Linked government bond.
 - 1.1.3 Floating-Rate Government bond.
 - 1.1.4 Short-Term Government bond.
 - 1.1.5 Shahar.
 - 1.1.6 Galil.
 - 1.1.7 New Gilon.
- 1.2. Government bonds are issued subject to the Government Loans Law - 1979 and according to the regulations pertaining to the specific bond.
- 1.3. Bonds issuance will be conducted by the Government Debt Management Unit in the Ministry of Finance (“**the Unit**”).
- 1.4. The bonds shall be deposited in the Tel-Aviv Clearing House (“**Clearing House**”).
- 1.5. The bonds shall be traded on the Tel-Aviv Stock Exchange (“**TASE**”), on the Primary Dealers trading system (“**MTS**”) and on any additional trading platform authorized by the Unit.



- 1.6. The bonds will be issued to the Primary Dealers, and/or to TASE members and to the following asset managers if authorized in advance by the Unit: bank corporations, insurance companies (on behalf of the Funds managed by them), companies that manage Provident Funds (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).
- 1.7. Bond notation:
- 1.7.1 "Nominal Government bond", "CPI-Linked government bond", "Floating-Rate Government bond" – are identified by the bond's name, followed by the nominal interest rate, maturity month (2 digits) and maturity year (2 digits).
- 1.7.2 "Shahar", "Galil" and "New Gilon" bonds – are identified by the bond's name and serial number.
- 1.7.3 "Short-Term bonds" – are identified by the bond's name, maturity year (2 digits) and maturity month (2 digits).
- 1.8. The bonds are issued in a multi price ("discriminatory") competitive auction procedure and in non-competitive auction biddings.
- 1.9. **Sum Due** – the nominal value multiplied by the price and divided by 100 for all the filled bids of a specific bidder.
- 1.10. **The Ministry of Finance Special Account**–The Ministry of Finance's account in the Bank of Israel, opened specifically in order to receive the Sum Due of a specific bidder. The Unit shall inform each bidder in advance of the account number.



- 1.11. **The Amended Sum Due** – the nominal value divided by 100 and multiplied by the price as determined according to section 6.2.1.
- 1.12. **The Auction's Average Price** - weighted average price of all the bids that were accepted, including the bids partially filled.
- 1.13. **The Auction's New Average Price** - weighted average price of all the bids that were accepted excluding the erroneous bid/s prices.
- 1.14. **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.
- 1.15. Government bonds auctions shall be conducted via the Bloomberg Auction System ("**BAS**").
- 1.16. 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.
- 1.17. 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 The auction's details shall be published on the Unit's website: www.mof.gov.il/gdmu at the beginning of each month but not later than three (Israeli) business days prior to each auction.
- 2.2 3 days prior to each auction the Unit will publish on BAS the following details for each auction: name of the bond, date of the auction, the quantity offered (in thousands of NIS nominal value) and the latest date and hour to submit bids.
- 2.3 Prior to each auction, the Unit shall determine the minimal price for a specific auction and whether to publicize it. If publicized, the publication will be on the Unit's website.

3. 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 bid for this auction is 10,000,000 NIS nominal value, and upwards of this sum – in multiples of 1,000,000 NIS nominal value.
- 3.2 Other Auctions:
 - 3.2.1 All bidders, as described in paragraph 1.6 hereabove, are entitled to participate in this auction.
 - 3.2.2 The minimal bid for this auction is 10,000 NIS nominal value, and upwards of this sum – in multiples of 10,000 NIS nominal value.
- 3.3 Non – competitive Bidding:



- 3.3.1 A Primary Dealer that purchases bonds at an Exclusive or at another auction, shall be entitled to purchase 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 purchased at the auction as follows:
- 3.3.1.1 The six leading Primary Dealers in the ranking shall be entitled to purchase 20% (twenty percent).
- 3.3.1.2 All other Primary Dealers in the ranking shall be entitled to purchase 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 bid that does not conform to paragraphs 3.1, 3.2 and 3.3.

4. The Multi-price (discriminatory) auction procedures

- 4.1 Placing bids in the auction:
- 4.1.1 Bids for the acquisition of issued bonds shall be submitted to the Ministry of Finance through BAS.
- 4.1.2 Every bid shall include the requested quantity, in terms of thousands of NIS nominal value and a requested price expressed in percentage of value of 100 units' nominal value (i.e. 99, 101 etc), 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 bid submitted not in accordance with these rules shall be voided.

4.1.5 Participants, who for any reason will not be able to transmit their bids 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 bidders 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 bids shall be transmitted to Fax +972-3-979-5370 up to fifteen minutes before the auction closes, using the bid form that is here attached as **Appendix "A"**, separately for each series of bonds. The Unit will key the bid into BAS.

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

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

4.2 Allocation of bonds:

4.2.1 In a multi-price auction each bid is awarded at the bid's price.

4.2.2 The bids submitted shall be filled (awarded) according to their price, beginning with the highest price down to the last bid for which there is a cover, or until all the bids have been filled,



according to the smaller quantity amongst them. Notwithstanding the aforesaid, all the bids that will be submitted for an auction with a price below the minimum 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 order to be filled is the lowest price for which a transaction was conducted (“**the Auction Price**”).

4.2.4 All bids at a price higher than the Auction Price shall be awarded in full.

All bids at a price lower than the Auction Price shall **not** be awarded.

Bids at the Auction Price shall be awarded as follows: if there is an excess of supply, then the bids with prices identical with the Auction Price will be carried in full; if there is an excess of demand, then the quantity of supply not yet allocated will be divided by the quantity of demand that remains after the allocation to clients at prices above the Auction's Price, to determine the proportion to be allocated to winners at the Auction Price ("the Allocation Rate"). Every bid at the Auction Price will be accepted by allocating the quantity of the bid, multiplied by the Allocation Rate.

4.3 Notification of Auction Results and Filled Bids:

4.3.1 .Precisely thirty minutes after the final time for the submission of bids, 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 bids 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 payment and deposit of the bonds in the Clearing House

5.1 Payment of the Sum Due:

5.1.1 Bidders whose bids were filled shall pay the Sum Due one business day following the day of the auction via the Clearing House.

5.1.2 The Unit shall inform the Clearing House of each bidder's filled bids and of the Sum Due.

5.1.3 The Clearing House will debit the Sum Due from the account of the bidder or its clearing member on behalf of the bidder account on the first business day following the day of the auction and credit the Ministry of Finance's Special Account.

5.1.4 Non-Bank Bidders:

5.1.4.1 Should have a payment-agent agreement with a bank according to the rules of the Clearing House.



5.1.4.2 In the event that the abovementioned paying agent informs the Unit and the Clearing House in writing not later than 10:00 AM on the first business day following the auction, that it does not intend to honor the obligation of the bidder (i.e – pay the Sum Due), the allocation for the aforementioned bidder shall be cancelled and it will be treated as outlined in paragraph 7 hereunder.

5.1.4.3 If no such notice is given, the Unit and the Clearing House will consider the paying agent as liable for the Sum Due on behalf of the bidder.

5.2 Transfer of the bonds :

5.2.1 **The transfer of the Sum Due to the Ministry of Finance constitutes a precondition for transferring the bonds to possession of the winners.**

5.2.2 The Unit will credit the purchasers with the bonds as the Sum Due is transferred.

5.2.3 Clearing House members: the bonds shall be transferred to their security account in the Clearing House.

5.2.4 Purchasers that are not Clearing House members:

5.2.4.1 The bonds shall be deposited on their behalf in the security account of a Clearing House member which they will designate.

5.2.4.2 Such bidders shall submit to the Unit a request indicating the Clearing House member and the account number to be credited. This request will be



done on the form attached and marked as Appendix B, and will be submitted up to three days prior to the first participation in the auction. The bidder shall be entitled to change these details semi-annually through a written notice to the Unit.

5.2.4.3 Bidders that transmit bids of clients as well as proprietary (nostro) bids shall be entitled to bid in two separate accounts.

6. Rules for amending erroneous bids at the auction

6.1 Request to correct an erroneous bid at the auction:

6.1.1 The Unit shall consider bidders' requests at an auction to correct an erroneous bid, 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 bid, on the Form marked **Appendix "C"**.

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 bid to prevent additional errors in the future.

6.1.1.4 If there is an additional request to correct an erroneous bid 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 bids –

6.1.1.5.1 if a participant submitted more than two requests to correct bids in the same year, in all different auctions held by the Unit (switch, 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 "C"** shall be filled out separately for each auction.

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

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

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

6.2.1 the winner shall purchase his total requested quantity and shall transfer the Amended Sum Due, as specified in section 1.11 above. Price of purchase will be determined by the Unit and is will be the highest among:

6.2.1.1 The highest price of the relevant bond on the day of the auction on TASE, up to the minute when the request for correction of the error was received, provided that a



transaction of at least 1 million NIS nominal value was executed at such price.

- 6.2.1.2** The highest price of the relevant bond on the day of the auction on MTS, up to the minute when the request for correction of the error was received, provided that a transaction of at least 1 million NIS nominal value was executed at such price.
- 6.2.1.3** The highest price at the auction, excluding the price of the erroneous bid/s plus 5 ticks (for example: 102.05 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 penalty, as specified in section 7.1.4 below.
- 6.2.3 The winner shall not be allowed to participate in the non-competitive bidding derived from the auction in which the error occurred.
- 6.2.4 The Auction's New Average Price, as specified in section 1.13 above, shall be the Average Price for the non-competitive bidding 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 payments**

- 7.1 In the event that -



- 7.1.1 a bidder or a paying agent shall not deposit the Sum Due for its purchases in the auction as well as the purchases of all bidders which use it as a paying agent (excluding when notice has been given in accordance with paragraph 5.1.4.2 above)
- 7.1.2 the bidder 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 bidder shall appeal to the Unit in writing explaining the mistake. The letter shall be signed by a senior person in the company.
- 7.1.4 The bidder must supply the Sum Due as soon as possible, but in any case not later than three business days after the original transfer, and that with the addition of a **daily** penalty, that shall be transferred to the Ministry of Finance Special Account, as specified below:
- 7.1.4.1 if the Sum Due does not exceed NIS 10 million nominal value – a penalty of NIS 10,000 **per day**;
- 7.1.4.2 if the Sum Due exceeds NIS 10 million nominal value, but does not exceed NIS 50 million nominal value – a penalty of NIS 50,000 **per day**;
- 7.1.4.3 if the Sum Due exceeds NIS 50 million nominal value – a penalty of NIS 100,000 **per day**;

The Unit shall not transmit any issued bonds to the winner until the differential and the penalty 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 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: **Bid at the Auction of Tradable Government Bonds**

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

we, _____ (*enter complete name of the bidding entity*)
hereby bid issued bonds according to the following particulars:

Date of the auction: _____

Name of the bond: _____

UUID at Bloomberg: _____

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

In accordance with section 4.1.5 of the "Rules for the Issuance 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 bids of the first bidders 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
Accountant General Division
Ministry of Finance

To the:
Tel Aviv Clearing House Ltd.

Re: **Request to participate in the auctions**
of tradable government bonds

We: _____

Public company no./Private company no.: _____

Our address: _____

Paying Agent: _____

(For non-bank participants who pay through the Stock Exchange Clearing House)

Securities Clearing Member: _____

(For participants who are not members of the Clearing House)

We hereby declare that we intend to participate in the auctions of government bonds according to the Rules for the issuance of tradable government bonds and we request that the bonds be deposited on our behalf in the securities account/s, whose numbers are:

Proprietary (Nostro) - _____

(Required of Primary Dealers and institutional investors)

Clients - _____

(Required of participants transferring clients orders)



We are aware of the fact that the mode of payment chosen by us binds us for a minimal period of 6 months and that the Government Debt Management Unit and the Tel Aviv Clearing House shall act accordingly.

Stamp and signatures

Name of signatory

Name of signatory

Paying Agent Authorization (if relevant)

We hereby authorize the Stock Exchange Clearing House to debit our account on behalf of _____ and to inform the Government Debt Management Unit and the Tel Aviv Clearing House in writing, not later than 10:00 AM on the first business day following the auction, if we decide not to honor the debit.

Company's stamp and signatures

Name of signatory

Name of signatory



APPENDIX C

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

Gentlemen,

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

We, _____ (*enter complete name of the bidding entity*)
hereby request to amend the erroneous bid(s) at the auction according to the following
particulars:

Date of the auction: _____
Name of the bond: _____

Requested 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
"Rules for the Issuance of Tradable Government Bonds".

We also assume the obligation that, if the Government Debt Management Unit
approves this request, we shall transmit the Amended Sum Due, 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