



National Treasury Management Agency

Ireland's Government Bond Issuance Procedures and Related Debt Management Arrangements including the Primary Dealer System

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1. INTRODUCTION

Ireland's national debt is managed by the National Treasury Management Agency (NTMA). The NTMA issues Government bonds, Treasury Bills, Commercial Paper and other wholesale and retail debt products on behalf of the Minister for Finance.

This document explains and outlines the issuance procedures and related debt management arrangements in respect of nominal fixed rate euro denominated Irish Government bonds and supersedes all previous documents issued by the NTMA on this subject. The information herein is a guide for recognised Primary Dealers in Irish Government bonds, bond market participants and other interested parties. Market participants, including Primary Dealers, operate in the market at their own risk. The NTMA shall not be responsible, in any manner, for any losses, direct or indirect, arising in relation to any transactions entered into by any such participants.

All times referred to in this document are local times in the Dublin market.

2. CRITERIA FOR PRIMARY DEALERS

In order to participate in Irish Government bond issues, institutions must be recognised by the NTMA as "Primary Dealers". Primary Dealers are expected to play an active role in the issuance, distribution and marketing of Irish Government Bonds.

The NTMA applies the following broad criteria for the ongoing recognition of Primary Dealers:

Primary Dealers must be members of the Irish Stock Exchange.

Primary Dealers are required to be market makers in Irish Government bonds and to comply fully with the obligations arising therefrom (see section 3).

The NTMA will have regard to an institution's suitability for recognition by reference to its management depth and experience, dealing capability including the ability to participate in bond auctions (see section 4.1.1), marketing strategy, geographic distribution capacity, and its ability to support the NTMA's funding programme. A prospective Primary Dealer will also be required to certify that it is authorised to conduct business of the nature contemplated herein under the laws of the jurisdiction in which it is incorporated.

Primary Dealers shall be committed to developing, through their marketing strategy, new client investment in Irish Government bonds. To do this, Primary Dealers shall have available dedicated professionals, separate from their market-makers, selling Irish Government bonds, and shall regularly include coverage of developments in Ireland's economy and capital markets in their published research.

The NTMA reserves the right to review and withdraw recognition of a Primary Dealer particularly in the event of substantial change in its business, financial situation or human resources, or organisation or contribution to attainment of the criteria referred to above. The NTMA may also accord or withdraw recognition for market management purposes or for any other reason it deems necessary from time to time.

In the event that a Primary Dealer intends to resign, such firm should liaise in good time with the NTMA in order to ensure an orderly withdrawal, including the timing and date of resignation.

3. OBLIGATIONS OF PRIMARY DEALERS

Primary Dealers are obliged to quote on demand to clients, to agency-only stockbrokers acting on behalf of clients and to the NTMA, firm bid and offer prices in each benchmark bond notified from time to time by the NTMA on its website www.ntma.ie. Primary Dealers are also obliged to continuously display two-way indicative prices at which investors can, in the normal course, expect to transact, in each of the benchmark bonds.

The standard settlement period for Irish Government bonds is three days (T+3); and, unless indicated to the contrary, Primary Dealers' bond prices must be quoted on the basis of three-day settlement.

Primary Dealers are required to quote bid and offer prices for designated benchmark Irish Government bonds on any one of the following recognised electronic trading platforms, EuroMTS, BGC Partners Inc. and BrokerTec, or on any other platform of good market standard as agreed with the NTMA. Primary Dealers are obliged to quote in minimum sizes of €10 million.

A Primary Dealer shall be deemed to be compliant in respect of its quoting obligations if it maintains a bid-offer spread within one standard deviation of the average bid-offer spread recorded in the market by all Primary Dealers across all platforms for each benchmark bond for at least five hours per day. For the purposes of measurement and comparison, if a Primary Dealer provides quotations for more than five hours per day in any benchmark bond, the five hours with the narrowest bid-offer spread shall be used. The obligations to quote will apply between the hours of 8:00 a.m. and 4:00 p.m. every day on which the Irish Stock Exchange is open. However, a Primary Dealer will not be obliged to quote on public holidays in the financial centre from which it operates. The NTMA will monitor the bid-offer spreads on a regular basis and the degree of compliance with the quoting obligations will form part of the basis for the non-competitive auction allocation as outlined in section 4 below.

The NTMA and the Primary Dealer group may, from time to time, agree other standards for measuring compliance with the obligation to quote bid and offer prices to other market participants.

In general the NTMA will regard the bid-offer spreads maintained by each Primary Dealer on its platform of choice for compliance and in the broader market as a key component in assessing the Primary Dealer's ability to provide liquidity and show commitment to the Irish Government Bond market.

A Primary Dealer which is part of a wider corporate group conducting Irish Government bond business in other, separate, capacities (such as funds management) must ensure that there are no actual or potential conflicts of interest in the performance of its functions as a Primary Dealer. A Primary Dealer shall ensure that its employees engaged in carrying out functions as Primary Dealer and other business involving Irish Government bonds function independently and do not share information by operating a strict separation by way of 'Chinese Walls' between the business units.

4. FUNDING / ISSUANCE ARRANGEMENTS

4.1 Auctions

- (1) The NTMA will undertake funding in designated benchmark bonds in order to continue the practice of creating large liquid issues. However, the NTMA may also issue other bonds for liquidity purposes pursuant to its debt management functions.
- (2) Bonds are issued by way of scheduled auctions held by the NTMA. An indicative auction calendar for bonds will be published by the NTMA at the beginning of each year, and as required during the course of the year, outlining auction dates for the following quarter, half year or year as determined by the NTMA in the light of market conditions and its own funding plans.
- (3) The auction calendar may be changed from time to time or the NTMA may, at any stage, decide not to hold any further auctions (or auction) during the year depending on the evolution of the Government's funding needs and/or market conditions.
- (4) Scheduled bond auctions will normally take place at 10.00 a.m. on the third Tuesday of each month indicated in the auction calendar.
- (5) Participation in auctions is restricted to recognised Primary Dealers.
- (6) One or more bonds may be offered in each auction.
- (7) The bond(s) to be issued through any scheduled auction will be announced by the NTMA at 10.00 a.m. on the second Tuesday of each month indicated in the auction calendar. An overall size for the auction, or a range within which the overall size will be determined by the NTMA, will be announced on the Friday immediately following this at 10.00 a.m.
- (8) The NTMA reserves the right, in exceptional conditions, not to proceed with a previously announced auction.

- (9) The Bloomberg Auction System will be used to conduct the auctions and announce the results. In the event of a Bloomberg network fault at any time during the bidding process the auction will be cancelled and all bids deemed void. An alternative time, and if necessary alternative arrangements, for the auction will be announced as soon as possible.
- (10) The NTMA reserves the right to make other arrangements for the conduct of any auction if it is not fully satisfied with the operation of the Bloomberg Auction System.
- (11) Each auction will consist of two phases, a competitive auction and, immediately afterwards, a non-competitive auction.

4.1.1 Competitive Auctions

- (a) Primary Dealers are required to submit their bids via the Bloomberg Auction System.
- (b) Bids may be submitted from 8.00 a.m. up to the deadline indicated in the auction announcement, normally 10.00 a.m.
- (c) Primary Dealers may amend bids on the Bloomberg Auction System up to the announced cut off time for the auction.
- (d) Primary Dealers may submit multiple bids, but each Primary Dealer's total bids may not exceed the stated auction size or the upper end of the stated range within which the auction size will be determined by the NTMA.
- (e) Each bid will indicate the bond, the nominal amount and the price. Bid prices must be in multiples of one euro cent.
- (f) Each Primary Dealer is required to submit bids at or above the market bid level for aggregate amounts up to at least ten per cent of the maximum amount indicated for the auction.
- (g) The NTMA reserves the right at its absolute discretion to reject all or any bids submitted by a Primary Dealer in a competitive auction and to allocate less than the full amount of the bond(s) on offer.
- (h) Primary Dealers will be informed of the bids that have been accepted and of the overall results of the auction approximately fifteen minutes after the close of the auction, unless technical problems occur that call for contingency measures.
- (i) The auction allocations will be in minimum lots of €1,000.
- (j) The results of the auction, including the total amount of bids, the nominal amount sold, cover, highest accepted price, weighted average price and

lowest accepted price will be announced to the market on Bloomberg page NTMA2 and on www.ntma.ie.

4.1.2 Non-competitive Auctions

- (a) After the announcement of the results of the competitive auction the NTMA will accept, in the period of up to 4:00 p.m. on the second TARGET business day after the auction, bids in a non-competitive auction from Primary Dealers at the weighted average price in the competitive auction.
- (b) Primary Dealers will be notified of their entitlement in the non-competitive auction by the NTMA as soon as practicable after the competitive auction.
- (c) The three Primary Dealers who are adjudged by the NTMA to have best fulfilled their quoting obligations (see section 3 above) in the previous calendar month shall each be entitled to a non-competitive auction allocation of five per cent of the amount of each bond sold in the competitive auction.
- (d) A further 15% of the amount of each bond sold in the competitive auction will be made available in each non-competitive auction and the entitlement to this will be divided among Primary Dealers in proportion to their allocations in the competitive auction.
- (e) Settlement of the amount subscribed by each Primary Dealer in the non-competitive auction will take place on a delivery versus payment basis on the day on which the competitive auction settles (i.e. T+3, T+2 or T+1 according to the timing of the non-competitive bids).
- (f) The arrangements for the allocation to the Primary Dealers of their entitlements in the non-competitive auctions may be changed from time to time by the NTMA following discussions with the Primary Dealer group.

4.1.3 Extraordinary Auctions

From time to time, in response to demonstrated investor demand, the NTMA reserves the right to hold an extraordinary auction of existing bonds or issue a new bond outside of the auction calendar without regard to the notice periods indicated in section 4.1 above. All Primary Dealers will be notified by Bloomberg message of any such extraordinary auction and all will be eligible to participate.

4.2 Syndication

The NTMA may issue a new bond or a further tranche of an existing bond via syndication from time to time. The form and procedure for the syndication will be in line with the custom and practice of the market and as is necessary under the prevailing market conditions.

4.3 Tap Issuance

- (a) The NTMA may issue to the Primary Dealers from time to time a new bond or a further tranche of an existing bond via a tap mechanism. A tap will, upon consultation with the Primary Dealers and other interested parties, be opened at either 10.00 a.m. or 2.30 p.m. on any trading day.
- (b) The NTMA will announce, electronically to Primary Dealers and the market generally, the bond and target size five minutes before the tap opens (i.e. at 9.55 a.m. or 2.25 p.m.). The price will be electronically notified to Primary Dealers at 10.00 a.m. or 2.30 p.m. and will be open for two minutes (10.02 a.m. or 2.32 p.m.). Primary Dealers may place their orders electronically once the tap is opened. An electronic message will be sent by the NTMA to the Primary Dealers when the tap is closed. All aggregated orders received up to the tap size will be satisfied in full. To the extent that aggregated demand exceeds the tap size, orders will be satisfied on a proportional basis so that the aggregate amount issued is equal to the announced target size (but see (d) below). The NTMA reserves the right in its absolute discretion to reduce or reject all or any order in a tap.
- (c) As market conditions warrant, the tap posted price may be varied by the NTMA, and, upon each change in the offer terms, the amount remaining on tap will be open to the Primary Dealers for two minutes and the procedure outlined in (b) above followed.
- (d) If there is excess demand for a tap, the NTMA may at its discretion supply exceptionally up to the full amount demanded.
- (e) If the NTMA buys all or part of a tap, for funds under its control, all the Primary Dealers will be advised simultaneously of the amount bought and the price, and the market generally will be informed, via Bloomberg page NTMA2, of the amount bought. If the tap bond purchased by the NTMA is subsequently sold or cancelled, the general market will be informed of the amounts sold or cancelled, via Bloomberg page NTMA2. In the case of a sale, all the Primary Dealers will be advised simultaneously of the price.
- (f) The general market will be advised via Bloomberg page NTMA2 when a tap is closed and of the amount sold. The price will not be communicated.

4.4 Limited Direct Issuance

The NTMA will quote prices directly to certain eligible financial institutions for amounts of up to €100,000 to facilitate purchase of bonds by retail / personal investors. This facility will be confined to financial institutions that:

- (j) are authorised by the Central Bank and Financial Services Authority of Ireland under the Markets in Financial Instruments Regulations of 2007 to undertake the type of business contemplated herein;
- (ii) are general Trading Member Firms of the Irish Stock Exchange with approval to deal in Irish Government bonds;
- (iii) maintain an active private client business that trades in Irish Government bonds with retail / personal investors.

5. BOND SWITCHES

A 'switch' is the purchase of one bond and the simultaneous sale of another.

5.1 Switches initiated by NTMA

- (a) Switches can be initiated by the NTMA, at its sole discretion, at any time during the official market hours of 8:00 a.m. to 4:00 p.m.
- (b) The general market will be informed by the NTMA on Bloomberg page NTMA2 of switches on offer.
- (c) The initial amount of bonds available for switching and the price terms will be communicated electronically to all the Primary Dealers simultaneously and left open for two minutes during which bids will be accepted directly from the Primary Dealers, via the Bloomberg message system.
- (d) If there is excess demand, bids will be prorated. If a switch is not all sold during the two minute period, the amount left on offer and the price will be simultaneously transmitted electronically to all the Primary Dealers and sold on a first-come-first-served basis during the official market hours of 8:00 a.m. to 4:00 p.m. However, the NTMA reserves the right to close a switch at any time without the full amount being sold. As market conditions warrant, the posted price of the switch may be varied by the NTMA, and, on each change in the offer terms, the switch amount remaining will be open to the Primary Dealers for two minutes and the procedure as set out above repeated as necessary.

The NTMA reserves the right to simultaneously issue one or more new bonds via the switching mechanism.

5.2 Switches at Request of Primary Dealers

In the normal course the NTMA would expect Primary Dealers to satisfy their switching requirements in the secondary market. Only in exceptional circumstances would the NTMA provide switching facilities.

The NTMA, at its absolute discretion, may offer bond switching facilities in response to direct requests from Primary Dealers in order to be of assistance to them in managing their positions. However, in the interests of long-term market liquidity, the NTMA would expect Primary Dealers to seek, in the first instance, to execute switches in the market so that recourse to the NTMA would be on a residual basis. In such circumstances the following arrangements will apply:

- (1) These switches will be dealt bi-laterally between a Primary Dealer and the NTMA and will be treated as confidential between the parties.
- (2) Switches dealt between a Primary Dealer and the NTMA will be priced, in the normal course, at the current bid or offer levels, as the case may be, obtaining in the market. Exceptionally, duration weighted switches or switches between contiguous bonds on the yield curve may be offered within the bid / offer spread.
- (3) The NTMA may, at its absolute discretion, offer terms in respect of other switching proposals.

6. REPOS AND REVERSE REPOS

The NTMA may, at its sole discretion, supply bond repos and reverse repos to the Primary Dealers in response to their requirements. In the normal course such transactions will be for benchmark bonds only and will be in line with current practice and custom in the market generally including the necessary legal arrangements.

7. NTMA'S BOND BID PRICES AND SALES POLICY

- (a) *Bids initiated by the NTMA*
The NTMA will communicate electronically to all the Primary Dealers simultaneously its bid prices and will indicate the period for which the bid remains open. The NTMA also reserves the right to vary the price of its bids in response to changing market conditions.
- (b) *Bids initiated by the Primary Dealers*
The NTMA will quote, on request, a firm bid price to a Primary Dealer on the telephone in €10 million size in each of the benchmark bonds. In response to a request to quote bid prices in more than one bond, the NTMA reserves the right to re-quote new prices if the Primary Dealer deals in one of the bonds quoted – unless at the outset the Primary Dealer has asked for a firm bid price in a specific size in each bond.
- (c) *Sale of Bonds Purchased from Primary Dealers*
Bonds purchased by the NTMA through its bid facility may be re-sold to the Primary Dealers through an offer electronically communicated to all the Primary Dealers simultaneously or directly to a Primary Dealer.

In the normal course, the NTMA would not envisage initiating bids or responding to requests for bids. The NTMA would expect Primary Dealers to meet all their requirements for bids or offers in the secondary market except in the most extraordinary circumstances.

8. REPORTING ARRANGEMENTS FOR PRIMARY DEALERS

The Irish Stock Exchange has provision in its Rules, as approved by the Financial Regulator, for the timely reporting to the Exchange by Primary Dealers of each bond trade (including bond trades with the NTMA) undertaken by the firm. All trades should be reported to the Irish Stock Exchange before 6.00 p.m. on the day they are undertaken. Trades entered into before market hours should be included with the trade report for that day. Trades entered into after market hours should be included in the next trading day's report.

In addition, the NTMA requires each Primary Dealer to provide a daily report on its end-day net open position in specified bonds. Each Primary Dealer will also be required to supply the NTMA in arrears on a monthly basis with detailed turnover data certified by its Compliance Office.

The NTMA will include a review of the overall market making system in its annual report.

9. NTMA SECONDARY TRADING FUNCTION

The NTMA maintains a secondary trading function to trade in Irish Government bonds in the secondary market, including market makers and agency-only brokers. The purpose of the secondary trading is to support market liquidity and to acquire market intelligence. The NTMA would expect the Primary Dealers to actively engage with its secondary trader at market levels.

10. LIAISON

The NTMA will meet regularly with Primary Dealers to review the working of the arrangements set out herein, including issuance arrangements, in order to improve the liquidity and efficiency of the market for Irish Government bonds, to examine market trends, and to consult on proposed operational changes that appear desirable to the running of the bond market. The NTMA reserves the right, in its absolute discretion, following consultation with the Primary Dealers and other important market participants, to make such revisions to this Statement as in its judgement are required from time to time.

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