

**STATEMENT BY THE
NATIONAL TREASURY MANAGEMENT AGENCY**

**REVISED ARRANGEMENTS FOR ISSUANCE PROCEDURES
AND RELATED DEBT MANAGEMENT,
INCLUDING THE PRIMARY DEALER SYSTEM**

NOVEMBER 1998

STATEMENT BY THE NTMA
REVISED ISSUANCE PROCEDURES AND RELATED
DEBT MANAGEMENT ARRANGEMENTS

1. INTRODUCTION

The National Treasury Management Agency (NTMA) is responsible for the management of the national debt. As part of its obligation in discharging this function, the NTMA published on 8 May 1995 a document entitled: "Market Making: Issuance Procedures and Related Debt Management". The objective of that document was to bring the market in Irish Government bonds into line with its competitor markets and to improve liquidity so that funding could be executed by the Agency at the lowest possible cost. For this purpose, a Primary Dealer System was introduced on 3 December, 1995. The arrangements outlined in the present Statement will come into effect in respect of Irish Government bonds denominated in euro on 4 January, 1999.

The information contained in this Statement is published for the assistance of applicants for recognition as Primary Dealers by the NTMA under the revised arrangements. It should be understood by all market participants, including Primary Dealers recognised by the NTMA, that they participate in the market at their own risk and that the NTMA shall not be responsible in any manner for the decisions of any participants in the market and in particular for any losses, direct or indirect, arising in relation to any transactions entered into by such participants.

If there is not a satisfactory number of acceptable applicants (see 2 below), it will not be feasible to proceed with the arrangements outlined in this Statement. As an alternative to these arrangements more general access than applies at present to the NTMA's bond issues would probably be necessary.

2. CRITERIA FOR PRIMARY DEALERS

A Primary Dealer in Irish Government euro-denominated bonds will be recognised by the NTMA (following consultation with the Central Bank) and

will be registered as a Primary Dealer member with the Irish Stock Exchange (a "Primary Dealer").

A newly recognised Primary Dealer will be subject to a formal review by the NTMA after an initial twelve months' probationary period to ensure that it has met all of the terms and conditions set out herein. In the event that the NTMA is of the view that it has not met the terms and conditions recognition of the Primary Dealer by the NTMA shall be withdrawn. The formal review shall be without prejudice to the NTMA's ongoing right to withdraw recognition as provided for in paragraph 10 below. The Agency may in its discretion recognise a new Primary Dealer in place of a dealer from which recognition has been withdrawn.

In making a decision on whether or not to recognise a particular institution as a Primary Dealer, the NTMA will have regard to its suitability by reference to the prospective Primary Dealer's management depth and experience, its dealing capability, marketing strategy, including demonstrated geographic distribution capacity, its capital adequacy based on the provisions of Council Directive 93/6/EEC and its ability to support the NTMA's funding.

In particular, a prospective Primary Dealer shall be committed to developing, through its marketing strategy, new client investment in Irish Government bonds. To do this, the Primary Dealer shall have available dedicated professionals, separate from its market makers, selling Irish Government bonds, and shall include coverage in its published research, on a regular basis, of developments in Ireland's economy and capital markets. The NTMA reserves the right to review recognition of a Primary Dealer in the event of substantial change in its business, or financial situation, or human resources, or organisation, or contribution to attainment of the criteria referred to above.

The NTMA is of the view that the interests of the market - the NTMA as issuer, intermediaries and investors - would be well served by say 6 Primary Dealers. If, therefore, the number of Primary Dealers were to fall below four the NTMA would review fundamentally its issuance procedures and debt management arrangements.

It is envisaged that the NTMA and the recognised Primary Dealers will commit themselves to the issuance and related debt management arrangements proposed in this Statement for a period of at least two years. However, in the light of a material change in market circumstances either the NTMA or the Primary Dealers may seek to amend those arrangements; and, following consultations between the NTMA and the Primary Dealers, the NTMA may revise the arrangements.

3. OBLIGATIONS OF PRIMARY DEALERS

A Primary Dealer will be 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 bond notified from time to time by the NTMA, following consultation with the Primary Dealers. Each Primary Dealer will continuously display electronically in respect of each of the bonds in question two-way indicative prices at which investors can in the normal course expect to transact. This commitment is valid for each of the bonds quoted.

The standard settlement period for Government bonds is one day (t+ 1); and, unless indicated to the contrary, Primary Dealers' bond screen prices and prices on the IDB screen will be quoted on the basis of one day settlement.

BONDS IN WHICH PRIMARY DEALERS ARE OBLIGED TO QUOTE TWO-WAY PRICES IN MINIMUM SIZE AND MAXIMUM SPREADS AND WHICH ARE ELIGIBLE FOR STOCK SWITCHING UNDER PARAGRAPH 5 OF THE STATEMENT

	Minimum Size (euro) Millions	Maximum Spread (euro) Cents
• Over 18 months to maturity and under six years to maturity	4	15
• 6 years to 11 years	3	25
• over 11 years to maturity	2	35

The NTMA would anticipate that, in the normal course, competitive forces would result in prices being quoted within these maximum spreads which are intended to be good for all market circumstances. The maximum spreads will be reviewed periodically by the NTMA and may be revised following consultation with the liaison committees (see paragraph 12 below), in the light of the changing maturities of the bonds, new issues and evolving market conditions.

The obligations to quote will apply on every day on which the Irish Stock Exchange is open for business and between the hours of 8:00 a.m. to 4:00 p.m.

In the interests of ensuring that there is an effective retail market distribution of Irish Government bonds and that the needs of investors are well served, the NTMA will review periodically with each Primary Dealer its retail market turnover and its distribution. In that regard in assessing a Primary Dealer's effectiveness the NTMA will take into account the number of its retail clients and their geographic diversification, as well as the maturity of the bonds in which the Primary Dealer is active. The NTMA will further expect each Primary Dealer's contribution to its gross funding (excluding stock switching and repo related issuance) broadly to reflect its relative retail market turnover; and in that regard the minimum target take-up is 10 per cent of the annual auctions (inclusive of non-competitive auctions), together with any taps take-up. For the purpose of this Statement the retail market excludes repos and reverse repos, transactions between the NTMA (other than the NTMA trader – see 11 below) and Primary Dealers and transactions between Primary Dealers themselves.

As a further earnest of commitment to the system each Primary Dealer will target over time a 10 per cent share of the wholesale market i.e. intra Primary Dealer transactions (see 6. Below).

A Primary Dealer entity which is part of a wider organisation conducting Irish Government bond business in other, separate, capacities, such as funds management, must ensure, in accordance with best practice, strict separation by way of 'Chinese Walls' of the business of the Primary Dealer entity from any other, separate, bond business that may be conducted within the wider organisation.

4. FUNDING/ISSUANCE ARRANGEMENTS

As indicated above, a Primary Dealer will be expected, over time, to participate in the NTMA's auctions and, where they arise, taps by reference to the Primary Dealer's relative share of the preceding year's retail market turnover. The NTMA will undertake funding in designated benchmark bonds, in order to continue the practice of creating large liquid issues. Moreover, the NTMA may also create issuance in other bonds in the interests of liquidity pursuant to its debt management functions: for example, in order to provide switching and repo facilities (see paragraph 5 below) in those bonds (as well as in benchmark bonds.)

- (i) **Auctions:** The NTMA will continue its practice of holding until further notice at least one auction on the third Thursday of each month (except January and December). Access to the auction is confined to Primary Dealers. They may submit directly to the NTMA bids by telephone (or exceptionally by fax). The NTMA will in the normal course announce electronically the auction results to the market generally within a half hour of the auction time, namely, the cover, together with the highest, lowest and average prices.
- (ii) **Non-Competitive Auctions:** Immediately after the announcement of the auction results as provided for under (i) above, the NTMA will accept for a period of 30 minutes, bids from Primary Dealers at the average dealt price in the auction. The aggregate amount on offer in the non-competitive auction will be 20 per cent of the amount sold in the competitive auction and each Primary Dealer's uptake will be limited to the equivalent of 20 per cent of the average of its bond acquisitions in the competitive element of the three previous auctions.
- (iii) **Taps:** Primary Dealers will have exclusive access to the NTMA's tap issues and for that purpose will deal directly by telephone with the NTMA. The NTMA will announce electronically to the market generally the amount of a tap when it is first opened for sale. The initial amount offered to the Primary Dealers at a particular posted price will be left open for 2 minutes. The general market will be advised via Reuters page NTMB when a tap is closed and of the amount sold. The price will not be communicated.

- (iv) ***Small Investors:*** At present small investors can buy designated benchmark bonds via a facility whereby the NTMA will continue to quote prices directly to members of the Irish Stock Exchange in the designated benchmark bonds for amounts of up to euro 75,000.

Full details of the operation of (i) to (iii) above and of 5 below are contained in Appendix I.

5. STOCK SWITCHING/REPOS

Switches Initiated by NTMA

- (i) Switches can be initiated by the Agency at any time during the official market hours of 8:00 a.m. to 4:00 p.m.
- (ii) The general market will be informed by the Agency on Reuters page NTMB of switches on offer (but not of the price terms).
- (iii) The switch price terms will be posted on an IDB screen and dealt with the Agency in a manner similar to a tap sale (see 4 (iii) above).
- (iv) The general market will be advised via Reuters page NTMB when a switch is closed and of the amount dealt.

Switches at Request of Primary Dealers

The NTMA may offer stock 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, for example, through an IDB, so that recourse to the NTMA would be on a residual basis.

The following arrangements will apply:

- (i) These switches will be dealt bi-laterally between a Primary Dealer and the NTMA and will be treated as confidential between the parties.

- (ii) 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. The availability of switch terms from the NTMA at any time may be affected by debt service considerations and the implications for the Debt / GDP ratio.
- (iii) Switches made at the request of Primary Dealers will be available within two maturity bands i.e. one to 6 years maturity; and 6 years and upwards.
- (iv) The NTMA may, at its absolute discretion, offer terms, exceptionally, in respect of other switching proposals.

Repos (and reverse repos)

The repo market in Irish Government bonds, which has developed rapidly in recent years, is underpinned by the NTMA being committed to making a repo, and reverse repo, facility to Primary Dealers in the bonds in which they are committed to quote two-way prices. This ensures that the bonds involved do not go “special” and that repo rates are maintained close to money market levels. The repos rates quoted to Primary Dealers by the NTMA are slightly below general repo rates, reflecting the residual nature of the facility. The repo market operates in general on the basis of the PSA/ISMA repo agreement.

The Revenue Commissioners’ statement of tax practice with respect to repo transactions is contained in Appendix II to this Statement.

6. INTER DEALER BROKER (IDB) FACILITY

All transactions between Primary Dealers (i.e. the wholesale market) will be executed through an IDB, which is a member of the Irish Stock Exchange.

7. NTMA'S BID PRICES

The NTMA will be identified in all communications posted, on its behalf, on an IDB screen. Immediately prior to any announcement by the NTMA it will put the IDB in question on notice so that IDB screen prices can be made “subject” and the IDB will advise Primary Dealers to expect an imminent announcement by the NTMA.

- (i) The NTMA will quote, on request, a firm bid price to a Primary Dealer on the telephone in euro 4 million size in each of the bonds in which Primary Dealers are obliged to quote prices. These bids will be set at up to 5 basis points above prevailing market yields.
- (ii) 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 Dealers 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.

8. SALE OF BONDS PURCHASED FROM PRIMARY DEALERS

Bonds purchased by the Agency through its bid may be re-sold to the Primary Dealers through an offer posted on the IDB screen (the NTMA will be identified as the seller) or directly to a Primary Dealer.

9. REPORTING ARRANGEMENTS

The Stock Exchange has provision in its Rules and Regulations, consistent with the requirements of the E.U. Investment Services Directive and as approved by the Central Bank, for the timely reporting to the Exchange by Primary Dealers of each bond transaction (including bond transactions with the NTMA) and for the reporting of such transactions by the Exchange to the wholesale market and to the market generally.

The NTMA will require each Primary Dealer to furnish it daily with 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 certified detailed turnover data. The purpose of these requirements is to enable the

NTMA to assess, on a continuous basis, requests from Primary Dealers for access to NTMA facilities such as stock switching, repos or reverse repos and to evaluate Primary Dealers' contributions to market liquidity.

The NTMA will include in its annual report a review of the overall market making system with particular reference to the discharge by the NTMA of its overriding statutory obligation relating to the national debt.

10. CESSATION OF NTMA FACILITIES

Failure by a Primary Dealer substantially to meet the criteria and obligations required by the NTMA would have serious consequences for the NTMA's ability to discharge its debt management functions and accordingly the NTMA reserves the right to withdraw its recognition and to cease to provide any such Dealer with the facilities available to Primary Dealers.

11. NTMA TRADER

The NTMA will maintain a secondary trading function to trade in bonds through the retail market, including agency only brokers. The secondary trading function will be subject to separation by means of "Chinese Walls" within the NTMA.

12. LIAISON COMMITTEES

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 Primary Dealers on proposed operational changes that appear desirable in the running of the bond market.

The NTMA will meet regularly with an institutional investor representative group (domestic and foreign).

The NTMA will also meet as required from time to time other market participants, including inter dealer brokers and agency only brokers.

The NTMA has a statutory obligation to manage the national debt in the most effective way possible. If it should emerge that any of the arrangements envisaged in this Statement are not conducive to the NTMA complying with that legal requirement the NTMA reserves the right, in its absolute discretion, following consultation with the liaison committees, to make such revisions to this Statement as are required to meet its statutory obligations.

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OPERATION OF THE BOND MARKET
UNDER
THE PRIMARY DEALER SYSTEM

1. Auctions

Auctions are held at 10:00 a.m. on the third Thursday of each month (except January and December). Two business days before each auction the Agency will announce to the market the bond to be auctioned and the amount. During the two business days before the auction and one business day after the auction, the Agency will not, in the normal course, issue a tap or provide switching facilities in the bond maturity range being auctioned.

The Agency reserves the right, in exceptional conditions, not to proceed with a previously announced auction.

Subject to the Agency giving one month's notice it may decide not to hold any further auction (or auctions) during the year depending on the evolution of the Government's funding needs and/or market conditions.

- (i) Access to auctions of **fixed rate bonds** is confined to Primary Dealers.
- (ii) Primary Dealers should submit telephone bids directly to the Agency (exceptionally the Agency will accept faxes to fax number 676-6582).
- (iii) All bids shall be irrevocable.
- (iv) After the announcement of the auction results the Agency will accept, for a period of 30 minutes, bids in the non-competitive auction from Primary Dealers at the average price in the competitive auction.
- (v) The amount on offer in the non-competitive auction will not exceed the equivalent of 20 per cent of the amount sold to the Primary Dealers in the current competitive auction; and any amount not sold in the non-competitive auction will not be offered for sale to the market subsequently. Each Primary Dealer's share in the non-competitive auction will be based on the average of its bond purchases in the last three competitive auctions held before the current auction.
- (vi) The general market will be informed via Reuters page NTMB of the results of the competitive and non-competitive auctions.

2. Tap Issuance

Access to taps of fixed rate bonds is confined to Primary Dealers.

Taps may be announced at two occasions on each day:

Announcement of Bond and Size at	Pricing of Tap at
8:45 a.m.	8:50 a.m.
2:00 p.m.	2:05 p.m.

- (i) At either 8:45 a.m. or 2:00 p.m. the Agency will post on Reuters page NTMB an announcement to the market generally re tap i.e. bond and target size. The IDB will post similar information. In general, the taps will be in the range IR£75 million to IR£150 million.
- (ii) At either 8:50 a.m. or 2:05 p.m. the initial amount of the bond being offered for sale and the price will be posted on the IDB screen (only) and left open for two minutes during which telephone bids will be accepted by the Agency directly from the Primary Dealers. If there is excess demand, bids will be pro-rated (but see (iv) below). If a tap is not all sold during the two minutes, the amount left on offer and the price will be indicated on the IDB screen (only) 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 Agency reserves the right to close a tap without the full amount being sold (or to buy all or part of it for funds under its control - see (v) below).
- (iii) As market conditions warrant, the tap posted price may be varied by the Agency; and, on each change in the offer terms, the amount remaining on tap will be open to the Primary Dealers for two minutes and the above procedure followed.
- (iv) If there is excess demand for a tap, the Agency may, at its discretion, supply exceptionally up to the full amount demanded. The Agency reserves the right in its absolute discretion to reduce or reject all or any order in a tap. These provisions are intended to discourage artificially inflated demand.
- (v) If the Agency buys all or part of a tap, for funds under its control, Primary Dealers will be advised, via the IDB screen, of the amount bought and the price; and the market generally will be informed, via Reuters page NTMB, of the amount bought. If the tap bond purchased by the Agency is subsequently sold or cancelled, the general market will be informed of the amounts sold or cancelled, via Reuters page NTMB; and in the case of a sale the Primary Dealers will also be advised via the IDB screen of the price.
- (vi) The general market will be advised via Reuters page NTMB when a tap is closed and of the amount sold. The price will not be communicated.

3. Launch of New Bond

A new bond may be issued by either tap or auction. The market will be given two business days' notice of the launch of any new bond.

Note: Variable rate treasury bonds are not part of the Primary Dealer system. Variable bonds are sold by auctions which are open to all market participants. One business days notice is given of such auctions.

4. Bid Prices

- (i) The Agency will quote, on request, a firm bid price to a Primary Dealer on the telephone in euro 4 million size in each of the bonds in which Primary Dealers are obliged to quote prices. These bids will be set in the normal course at up to 5 basis points above prevailing market yields.
- (ii) In response to a request to quote bid prices in more than one bond, the Agency 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.

5. Sale of bonds purchased from Primary Dealers

Bonds purchased by the Agency through its bid may be re-sold to the Primary Dealers through an offer posted on the IDB screen (the NTMA will be identified as the seller) or directly to a Primary Dealer.

6. Switches Initiated by NTMA

- (i) Switches can be initiated by the Agency at any time during the official market hours of 8:00 a.m. to 4:00 p.m.
- (ii) The general market will be informed by the Agency on Reuters page NTMB of switches on offer (but not of the price terms).
- (iii) The switch price terms will be posted on the IDB screen and dealt with the Agency in a manner similar to a tap sale (see 1. above).
- (iv) The general market will be advised via Reuters page NTMB when a switch is closed and of the amount dealt.

7. Switches at Request of Primary Dealers

The following arrangements apply:

- (i) These switches will be dealt bi-laterally between a Primary Dealer and the Agency in order to assist Primary Dealers in managing their positions.
- (ii) Switches dealt between the Agency and a Primary Dealer 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. The availability of switch terms from the Agency at any time may be affected by debt service considerations and the implications for the Debt / GDP ratio.
- (iii) Switches made at the request of Primary Dealers will be available within two maturity bands i.e. one to six years maturity and six years upwards.
- (iv) The Agency may, at its absolute discretion, offer terms, exceptionally, in respect of other switching proposals.

TAX BRIEFING - REVENUE COMMISSIONERS
TAX TREATMENT OF STOCK LENDING / REPURCHASE (REPO) TRANSACTIONS

Introduction:

Stock lending and Repo transactions are a common feature of well developed financial centres and are most notably seen in connection with market making in stocks and securities.

The transactions involve the temporary transfer of stock or securities from one party to another with a simultaneous commitment to reverse the transaction some point in the future (usually within days or weeks).

Reality of Transactions:

A key feature of these transactions is that a transfer of legal title occurs which is subsequently reversed on completion. If the taxation of these transactions were to reflect the form for what has occurred, a charge to Capital Gains Tax or Income/Corporation tax might arise. Notwithstanding this legal form the substance is essentially one of lending. In stock lending transactions the profit earned by the lender will either be reflected in a small margin between the "selling" and "repurchase" price or in the form of a side fee paid by the borrower. In the Repo context, this fee will be received by either the lender or borrower depending on the particular circumstances.

Revenue Approach:

Arrangements have been agreed by the Revenue Commissioners to recognise the substance of these transactions and to tax only the accounting profit earned.

The arrangements will apply as follows:

1. To lending/borrowing institutions whether trading or non-trading which are:
 - Irish resident companies; **or**
 - branches of non-resident companies.They will **not** apply to individuals.
2. Subject to the restrictions specified below, to:
 - all interest bearing, discounted and premium bearing securities; **or**
 - equities quoted on recognised stock exchanges.

Restrictions:

The restrictions will apply to **all** equities and to other securities, on which interest payments would be subject to withholding tax. This might arise

where no Double Taxation Treaty exists or where an existing treaty does not provide for full exemption from withholding tax.

In such cases the arrangements will not apply if the stock is "on loan" at the time when an interest or dividend payment is made. The reason for this is that any tax credit which might arise would be for the benefit of the "payee" of the interest/dividend. That payee may not be the person who is beneficially entitled to the credit.

There is no legislation in place at present to facilitate the orderly transfer of this tax credit to the person beneficially entitled to it and as there is no process of administrative enforcement the only practical solution is to prevent the situation arising in the first place. Since dividend dates are well known in advance, there will be little reason for this situation to arise. If, for whatever reason, a problem were to occur, the Revenue Commissioners will apply the relevant legislation strictly and take no account whatever of these proposed arrangements.

Quoted equities may be "lent" at any other time. Interest bearing securities may be "lent" at all times save for circumstances where tax credits might arise. In those circumstances the same restrictions will apply as for equities.

These arrangements will also apply to discounted and premium bearing securities. Difficulties are not expected in these cases as the returns would typically be received on redemption.

Any unusual situations not dealt with here will be examined on a case by case basis by the Revenue Commissioners.

3. Stock/Securities may be denominated in any currency.
4. Statutory audited accounts of the relevant companies, insofar as these transactions are concerned, must recognise the substance rather than the form of the activities. In this regard accounts must be unqualified. The Revenue Commissioners will apply the tax treatment in line with the accounting treatment. Deviations from this will not be considered.
5. Any "manufactured" dividends paid in respect of these securities will be taxed in full.
6. It has been decided to limit these arrangements to transactions extending for periods of 3 months or less.
7. These arrangements will be kept under review. The Revenue Commissioners reserve the right to withdraw any or all of these arrangements in the event of their being used for tax avoidance purposes.

