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REGULATION

On the Issue, Circulation, Registration and Redemption of Treasury Bills and Treasury Notes Issued by the Ministry of Finance of Georgia

Article 1. General Provisions

1. This regulation defines the rules for the issuance, circulation, registration and redemption of short-term discount securities and medium-term coupon government securities – Treasury Bills and Treasury Notes (hereinafter called “government securities”) issued by the Ministry of Finance of Georgia.
2. Government securities are issued in domestic currency, in dematerialized (electronic) form.
3. The nominal value of one government security is one thousand (1000) Georgian Lari (GEL).
4. Treasury Bills are issued with maturities of up to one year, with discount and are redeemed at nominal value.
5. Treasury Notes are issued with maturities ranging from one (1) to ten (10) years, with semi-annual coupon payments.

Article 2. Terms used in the Regulation

The terms in the aforementioned regulation shall have the following meaning(s):

- a) Treasury Bill – short-term discount government security (hereinafter Treasury Bill) issued by the Ministry of Finance of Georgia (hereinafter Ministry of Finance);
- b) Treasury Note – medium-term coupon government security (hereinafter Treasury Note) issued by the Ministry of Finance of Georgia
- c) Primary market for government securities – market, where government securities are sold at the time of issue;
- d) Participants of the primary market for government securities – commercial banks and their customers;
- e) Secondary market for government securities - sale/purchase of government securities after their respective sale in the primary market;
- f) Commercial Bank (hereinafter Bank) – a legal entity licensed by the National Bank of Georgia, which takes deposits and uses the respective funds for banking business/operations according to the Georgian Legislation;
- g) Customers of the Bank (hereinafter Clients) – resident and non-resident individuals and institutions;
- h) Nominal value – amount, which the issuer (Ministry of Finance) pays to the holder of the government security at maturity;
- i) Purchase price (settlement amount) – price which the buyer pays for the government security;
- j) Discount Amount – Difference between the nominal value and the price, which is less than the nominal value, of the government security;
- j¹) Premium Amount - Difference between the nominal value and the price, which is more than the nominal value, of the government security;
- k) Coupon – the fixed interest rate of a Treasury Note, which the owner of the Treasury Note receives at predetermined dates;

- l) Purchase date – the date when the auction is conducted;
- m) Settlement date – the day when the Ministry of Finance is paid equivalent price for the government security/securities purchased at the auction;
- n) Days to maturity – number of calendar days between the settlement date and the maturity date;
- o) Maturity Date – the date when the redemption of government securities must take place;
- p) Auction Cutoff Price – interest rate limit (maximum yield) as set by the Ministry of Finance, above which the bids will not be satisfied;
- q) Multiple Price method – method of conducting an auction, when each winning bid is satisfied according to the price (yield) indicated in the bid;
- r) Competitive bid – a participating bid in the auction which, in case of allocation, is satisfied according to the price indicated in the bid;
- s) Non-competitive bid – a bid, which does not participate in the auction and is satisfied at the average weighted interest rate (yield) fixed during the auction;
- t) Weighted average interest rate (yield) – average weighted rate, calculated according to the winning competitive bids of the auction;
- u) Issuance of Government Securities (Issue) – the volume of government securities sold at the auction;
- v) Issuer – Issuer of the government securities, which is obliged to repay the nominal value of the government securities on the maturity date;
- w) Owner of the Government Securities – a legal entity or an individual, who has the right of ownership over Treasury Bills and/or Treasury Notes.
- x) Nominal Holder – a market intermediary, which the owner grants written consent to account for and manage the securities on the owner's behalf in the registry.
- y) International Securities Identification Number (ISIN) – the number assigned to each issue of the government securities according to ISO-6166 standard.
- z) Government Securities Registry – electronic records in the Securities Settlement System where information about the security its owner and nominal holder is indicated;
- aa) Sub-Registry – registry held by commercial banks for their clients;
- ab) Electronic Trading Platform – platform, through which government securities are sold on the primary market and supports secondary market trading of government securities.
- ac) Securities Settlement System – electronic system operated by the National Bank where the registration and settlement of government securities takes place.
- ad) Settlement Account – the sum of systematic settlement account and subaccounts of a participant in RTGS system, which is related to the correspondent account of a commercial bank or a settlement account of another participant with which settlement operations are completed by a participant of the system. The sum of settlement account and subaccounts is an arithmetic sum of account balances.

Article 3. Organization of the Primary Market for Government Securities

1. Government securities are sold via auctions.
2. The auctions are conducted using an electronic trading system.
3. The auctions are conducted according to the multiple price method.
4. The auctions are held at the National Bank (hereinafter the National Bank).
5. Only commercial banks are eligible to participate in the auctions.
6. The Ministry of Finance receives information about the results of the auction through the electronic trading platform.

Article 4. Announcement of the Auction

1. The Ministry of Finance must announce the issue calendar for the next three (3) months no later than one (1) week prior to the beginning of the quarter.
2. The issue calendar contains information regarding the dates of issuance, the term of each security and their volumes.
3. The issue calendar, including any changes that are made to it, must be agreed with the National Bank and therefore, the Ministry of Finance must submit the issue calendar to the National Bank at least one week prior to the calendar's publication.
4. The Ministry of Finance must submit the information concerning the conduct of the auctions to the National Bank no less than five (5) calendar days prior to the auction and at the same time must publish the information in the media and on its web page.
5. At the time of the announcement of the auction, the Ministry of Finance determines the amount of issue, the date of the auction, settlement and maturity dates and also the coupon payment dates.
- 5¹. Ministry of Finance has the right to additionally issue (reopening) previously-issued securities at one or multiple auctions. Such issues will have the same ISIN, coupon rates determined at the initial auction, coupon payment and maturity dates.
6. The National Bank ensures the announcement of the auction through the electronic trading platform upon receipt of the relevant information from the Ministry of Finance.
7. At the time of the announcement of the auction, the National Bank shall specify the auction commencement time.
8. The Ministry of Finance has the right to cancel the announced auction, but it must provide information about the cancellation to the National Bank one day prior to the auction date and publish the relevant information on the Ministry's web page.

Article 4¹. (Canceled).

Article 4². The issuance of Government Securities for providing the economy with efficient facility to obtain long term resources

1. In addition to previously announced auctions, the Ministry of Finance issues the Government Securities for providing the economy with efficient facility to obtain long term resources.
2. The Ministry of Finance in agreement with the National Bank, preliminarily defines the volume of issue of the Government Securities defines in this article, which will be provided to Banks in advance.
3. In the auction announcement, the volume and quantity of the securities, which will be issued by the Ministry of Finance for providing the economy with efficient facility to obtain long term resources, will be discretely defined.
4. The Government Securities issued in accordance to this Article, will be auction based. Weighted average interest rate of competitive bids offered in auction will be used.
5. Before the auction of Government Securities issued in accordance to this Article, each bank submits the non-competitive bid according the defined rules on submission of bids; former could exceed the limits predetermined in article 5 paragraph 7 of this regulation.
6. In accordance to determined limits of each bank, non-competitive bids of Government Securities issued in accordance to this Article, will be satisfied automatically if the bids are submitted in accordance with the requirements of this regulation.

Article 5. Rules Concerning the Submission of Bids

1. The submission of bids commences on the day of the auction, fifteen (15) minutes before the commencement of the auction and ends when the auction starts.

2. The Banks have the right to submit bids in their own name (for the bank's portfolio) and/or on behalf of their clients (clients' portfolio).
3. Clients submit their bids through commercial banks.
4. Upon the request by the National Bank, each bank is required to send the list of clients with the corresponding bids and their respective volumes to the National Bank.
5. The Bids may be competitive and/or non-competitive.
6. Non-competitive bids (banks and their clients' bids) are submitted in full by the bank indicating the total amount and the number of bids.
7. Each non-competitive bid's volume must not exceed GEL 20,000.
8. The Bank, on behalf of its client may submit only one non-competitive bid.
9. The Bank on its own behalf is allowed to submit only one non-competitive bid.
10. The number of non-competitive bids submitted by each bank on behalf of its clients is unlimited.
11. The number of competitive bids submitted by the bank is unlimited.
12. The total amount of own bids submitted by each bank to auction must not exceed 75% of the issue.
- 12¹. The bid of another bank and/or client is considered as the bank's own bid, if the bank owns directly or indirectly 10% or more of such another bidder (another banks and/or clients).
- 12². The total amount of bids submitted by a bank to auction on behalf of its single client must not exceed 50% of the issue.
- 12³. The total amount and the total number of bids of all clients of a bank are not limited.
13. The minimum volume of one competitive bid equals GEL 50,000.
14. Commercial banks must submit their bids through the electronic trading platform.
15. By submitting an electronic bid, the bank is responsible for complying with and accepting the abovementioned rules.
16. Only those bids that are filled in correctly may participate in the auction. The form must include the following information:
 - a) In case of a competitive bid: the number of government securities the bank would like to purchase and the yield (rounded to the thousandth/three places to the right of the decimal point). The bank must make the corresponding indication when submitting the bid on behalf of its client.
 - b) In case of a non-competitive bid: the total number of government securities the bank would like to purchase, the number of bank's own bids and bids received from its clients.
17. The bank has the right to change, withdraw or cancel its bid before the commencement of the auction, and submit a new bid. But, once the auction commences, modification, withdrawal or cancellation of bids is not allowed.
18. In case of technical difficulties in receiving the bids, National Bank has the right to alter the auction commencement time, which is immediately notified to the Ministry of Finance and participant commercial banks. In such case, commencement time of new auction must be announced at least one (1) hour prior to the auction.

Article 6. Rules for Conducting the Auction

1. The auction starts with the summation of the submitted non-competitive bids.
2. Bids received on an auction are sent to the Ministry of Finance. If the Ministry of Finance does not send the notification with the auction cutoff rate to NBG within the next hour, the auction is finalized with:
 - a) Total issuance, if the sum of bids received on the auction is more than or equal to the announced issue.
 - b) Fully satisfying the bids received, if the sum of bids received on the auction is less than the announced issue.
3. The total volume of non-competitive bids (up to but no more than 25% of the whole issue) is deducted from the volume of the Issue and the volume of the competitive bids in the auction is determined by the remaining amount.

4. In case the total volume of non-competitive bids exceeds 25% of the issue, the bids will be satisfied according to the principle of proportional distribution.
5. All competitive bids submitted during the auction will be sorted in ascending order according to the yields.
6. The competitive bids of the auction will be satisfied in ascending order according to the yields and the auction will be deemed as closed when the total amount of the competitive bids equals the volume of the competitive bids, or when the interest rate (yield) reaches the determined cutoff rate.
7. After the auction is finished, if the sum of several bids with the maximum rate exceeds the amount of available government securities, these bids will be satisfied according to the principle of proportional distribution.
8. If needed, the amount of satisfied government securities may be increased or decreased due to proportional distribution by the software of the auction trading platform.
9. The coupon of the Treasury Note will be determined by rounding the weighted average interest rate of the auction to 1/8 summand.
- 9¹. In case the Ministry of Finance of Georgia additionally issues (reopens) the Treasury Notes, coupon rate for this issue is the rate determined at the initial auction of the Treasury Notes and is preannounced in the auction notification of the Ministry of Finance.
- 9². (canceled).
- 9³. On such Treasury Notes, when on its primary auction additional Treasury Notes is issued for providing the economy with efficient facility to obtain long term resources, the coupon will be the weighted average interest rate of the primary auction with three decimal place.
10. The National Bank is required to inform banks about the results of the auction through the electronic trading platform within one (1) hour from the conclusion of the auction.
11. If technical problems arise, the National Bank has the right to postpone the publication of the auction results.
12. The results of the auction will be published on the web pages of the National Bank and the Ministry of Finance no later than the day of the conducted auction.

Article 7. Price Determination

1. Settlement price of one Treasury Bill is calculated as follows:

$$S_t = P = \frac{N}{1 + \left[\frac{D}{100} \times \frac{N}{365} \right]}$$

2. The settlement price of one Treasury Note is calculated as follows:

$$P = \frac{F}{\left(1 + \frac{i}{n}\right)^W} \left[\frac{R}{n} \times \frac{\left(1 - \frac{1}{\left(1 + \frac{i}{n}\right)^N}\right)}{\left(1 - \frac{1}{\left(1 + \frac{i}{n}\right)}\right)} + \frac{1}{\left(1 + \frac{i}{n}\right)^{N-1}} \right]$$

Where:

P – settlement price

F – the nominal value of the Treasury Note

i – expected rate of return (yield)

n – number of coupon payments

W – the difference between the purchase date of the Treasury Note and the next coupon payment date, divided by the number of days between coupon payments.

R – the annual coupon rate divided by 100

N – the number of remaining coupon payments

3. Non-competitive bids will be satisfied according to the weighted average yield, which is calculated as follows:

$$C = \frac{\sum(N \times P)}{\sum(N)}$$

Where:

C – weighted average yield

$\sum$ – sum

N – nominal amount of satisfied competitive bids

P – yields of satisfied bids

4. The coupon payment that is to be made is calculated as follows:

$$Q = N \left(\frac{p}{2} \right)$$

Where:

Q – amount of the coupon

p – coupon rate

N – the nominal value of a Treasury Note

Article 8. Registration of Government Securities

1. Registration, pledging, secondary market operations and transferring of nominal ownership of government securities are recorded in the Securities Settlement System according to the relevant system rules.
2. The holder of the government security has the right to sell, pledge as collateral, or transfer the nominal ownership of the securities to a third party.
3. The Ministry of Finance defines an ISIN in accordance to ISO-6166 to each issue of government securities, which is registered by the National Bank in the Securities Settlement System.
4. ISIN of government securities consists of twelve (12) symbols as follows:
 - a) The first and second symbols identify the international country code: GE;
 - b) The third symbol identifies the issuer, Ministry of Finance: T;
 - c) The fourth symbol identifies the type of security:
 - ca) Discount government securities: D
 - cb) Coupon-bearing government securities: C
 - d) The fifth and sixth symbols identify the maturity year of the security: the last two digits of the maturity year;
 - e) The seventh symbol identifies the maturity month of the security: 1-9 identify the months from January to September, "A" is October, "B" is November, and "C" is December.
 - f) The eighth and ninth symbols identify the calendar day of the maturity day of the security.
 - g) The tenth and eleventh symbols identify the issue number of the security.
 - h) The twelfth symbol is a control digit (key), which is calculated using the prior eleven symbols in accordance to ISO-6166 standard.
5. Transferring the existing ownership or pledging the security as collateral on the purchase date or on the maturity date is strictly forbidden.
6. Banks participating in the Government Securities market are obliged to:

- a) keep sub-registries of government securities for their clients;
- b) open appropriate client accounts in Securities Settlement System if requested by the client, in compliance with the relevant system rules,

7. The sub-registry must contain the following information: issue registration number according to the issued government securities, the amount and the name of the owner or the nominal holder. In case of government securities kept on behalf of the clients, the bank must record information when a transfer of ownership, transfer of the nominal holder or a pledge takes place or when a client changes the servicing bank.

Article 9. Rules Pertaining to Settlement

1. Settlement takes place on the days indicated in the auction announcement notification of the Ministry of Finance.
2. On the day of settlement, no later than the conclusion of the business day, the Securities Settlement System operated by the National Bank will automatically debit the settlement accounts of banks with the winning bids and transfer the funds to the unified account of the Treasury.
3. If a bank cannot guarantee and does not have sufficient funds for the implementation of the operations outlined in the second clause of the article, all of the bids of the bank will be annulled, with the appropriate changes made in the registry.
4. The issuance of government securities shall be deemed as complete before the end of the business day of the settlement day, in the amount which equals to the completed transaction amounts of the winning bids transferred to the Treasury's unified account, and respective securities registered in the Government Securities Registry.
5. On the redemption date and on the coupon payment dates the National Bank will automatically transfer the funds equal to the purchase price and the respective discount amount of Treasury Bills, also the nominal value and respective coupon amount of Treasury Notes are debited from the Treasury's unified account and through the Securities Settlement System operated by the National Bank. National Bank notifies about the debit operation to the Treasury Service. The National Bank will credit the respective amounts to banks' settlement accounts in line with the government security registry.
6. The Ministry of Finance redeems the principle amount of the Treasury Bills by reducing the treasury code of the corresponding budget receipts, within the parameters of the state budget balance. The discount is paid from the state budget.
7. The Ministry of Finance redeems the principle amount of Treasury Notes by reducing the treasury code of the corresponding budget receipts within the parameters of the state budget balance. The discount and the coupon is paid from the state budget.
- 7¹. Amortization of the premium of the Treasury Notes is carried out gradually in a steady rate along with coupon payments by simultaneous reduction of a respective treasury code of the state budget revenue and state budgetary assignments.
8. After receiving the funds, the banks have an obligation to place the respective funds on their clients' accounts.
9. If the maturity date falls on a non-business day, the transfer of funds will take place on the following business day.

Article 10. Responsibilities of the Parties Involved

1. The auction participants must strictly comply with and accept the terms and conditions of this regulation.
2. The bank is responsible for its own bids and the bids of its clients.
3. The bank has a note to prepare and publish the procedures associated with government securities operations (purchase/sale, pledge, transfer of nominal ownership), such as service tariffs, application forms and standard agreements.
4. In case of infringement of the terms and conditions as set forth in this regulation from the side of the bank, the bank may temporarily be banned from participating in the auctions as per the decision of the National Bank.

Article 11. Prohibited Practices and Responsibilities of Banks

1. A bank is prohibited from making such deals and/or following any practices that put it solely, or along with other entities, into a dominant position on financial or credit markets. Additionally, a bank is prohibited from any manipulating practices, which put it solely, or along with other entities, into a privileged and/or uncompetitive position and create possibilities and/or threats of price fixing agreement on interest rates (yields) and commissions.
2. Participants of government securities auctions conducted by the National Bank are prohibited from the following practices:
 - a) agreeing on each other's bids prior to the auction;
 - b) sharing information about each other's bids before the auction is concluded;
 - c) using insider and/or other information acquired from a competitor in order to put themselves in undeserved privileged position at an auction in relation with other participants and/or third parties;
 - d) bidding on behalf and/or in favor of each other at an auction;
 - e) using information about their clients' bids in deciding their own bids at an auction. Banks are obliged to ensure, with appropriate procedures, processing of their clients' bids confidentially. The bank should not use such information at an auction in making decision on purchasing of government securities for its portfolio.
3. Banks are prohibited from engaging into secondary market deals, which aim at manipulating prices and yields of government securities.
4. In case National Bank reveals any practices infringing any clauses of this article or any reasonable suspicion is available, National Bank has the right, in its sole discretion, depending on the severity of the violation, to temporarily ban the bank from participating in the government securities auctions.