

**OFFICIAL INFORMATION
OF THE CZECH NATIONAL BANK**

dated 29 July 2011

**on the Manner of Execution of the Czech National Bank's Operations
on the Domestic Money Market**

I.

General Provisions

1. On the money market the Czech National Bank (hereinafter referred to as the "CNB") shall carry out monetary operations, provide automatic facilities and carry out other operations.
2. The CNB shall carry out monetary operations in a form of repo operations. The aim of monetary operations is a stabilisation of the short term interest rates at the requested level by means of maintaining balanced liquidity of the banking system. The repo operations are entered into in a form of repo tenders (Article IV.) or individual repo operations (Article V.).
3. The CNB shall provide automatic facilities in a form of accepted deposits (hereinafter referred to as the "deposit facility") (Article VI.) or the individual repo operations at the lombard rate (hereinafter referred to as the "lombard facility") (Article VII.).
4. The CNB shall carry out other operations in a form of:
 - a) securities transactions,
 - b) own securities issuance,
 - c) provision of funds (hereinafter referred to as the "intraday credit") for the purposes of payments settlement in the CNB clearing centre (hereinafter referred to as the "CERTIS system") (Article XII.) a
 - d) third parties operations (Article XI.).
5. The CNB shall carry out securities transactions in particular in the form of:
 - a) tenders for sale or purchase of securities (Article VIII.),
 - b) individual sales or purchases of securities (Article IX.) and
 - c) Buy/Sell Back operations (Article X.).
6. The CNB is authorised to carry out, pursuant to the Act No. 6/1993 Coll., on the Czech National Bank, other operations than those mentioned in this official information.

II Transaction counterparties

1. The CNB shall carry out repo operations pursuant to the Article I with the financial institutions mentioned in the Article 25, paragraph 1 of Act No. 6/1993 Coll., on the Czech National Bank, as amended, except as otherwise stated.
2. The CNB shall carry out monetary operations only with counterparties which are subject to the minimum reserves requirement¹, duly care about the fluency of their outgoing payments pursuant to Article XII and have concluded the Master Agreement for Financial Transactions with CNB (hereinafter referred to as the “Master Agreement”) which was published by the Czech Banking Association as banking activities standard. A template of the Master Agreement shall be published by the CNB in a manner which enables remote access.
3. The CNB shall provide automatic facilities only to counterparties which are subject to the minimum reserves requirement¹. The CNB shall provide access to the lombard facility only to counterparties having thereto concluded the Master Agreement with CNB.
4. The CNB shall carry out securities transactions only with direct participants of treasury bills (T-bills) auctions or medium-term and long-term government bonds auctions. The CNB shall carry out securities transactions in a form of the Buy/Sell Back operations and operations for third parties only with counterparties having thereto concluded the Master Agreement with CNB.
5. The CNB shall provide intraday credit only to counterparties which are subject to the minimum reserves requirement¹, have an interbank payment account in the CERTIS payment system and have concluded the Master Agreement and the Master Agreement for Provision of the Intraday Credit with CNB.

III Financial instruments eligibility criteria

1. When carrying out money operations on the domestic money market the CNB shall accept and provide only bonds denominated in CZK which are:
 - a) issued by the CNB,
 - b) issued by the Czech Republic,
 - c) unconditionally guaranteed by the Czech Republic,
 - d) issued by the European Union member states or the European Free Trade Association (hereinafter referred to as the “EFTA”) member states, having the minimum credit rating A+ (A1) from at least two of the following agencies: Fitch, S&P or Moody’s,

¹ The unabridged Provision of the CNB No. 2/2003 CNB Bull., dated 23 September 2003, stipulating the terms and conditions for creating minimum reserves, as later amended.

- e) unconditionally guaranteed by a member state of the European Union or the EFTA, having the minimum credit rating A+ (A1) from at least two of the following agencies: Fitch, S&P or Moody's,
 - f) issued by:
 - 1. the European Central Bank (ECB),
 - 2. the International Monetary Fund (IMF),
 - 3. the European Investment Bank (EIB),
 - 4. the Bank for International Settlements (BIS) or
 - 5. an international bank for development², having the highest credit rating from at least two of the following agencies: Fitch (AAA), S&P (AAA) or Moody's (Aaa) or
 - g) issued by an issuer, having the highest credit rating from at least two of the following agencies: Fitch (AAA), S&P (AAA) or Moody's (Aaa).
2. Bonds under paragraph 1 must be registered in the Centrální depozitář cenných papírů, a.s. (Central Securities Depository, hereinafter referred to as the "CDCP") or in the Short-term Bond System (hereinafter referred to as the "SKD"). The bonds registered in CDCP must be at the same time accepted for trading on the official market of Burza cenných papírů Praha a.s. (the Prague Stock Exchange).
3. The list of eligible securities acceptable as financial collateral under paragraph 1 shall be maintained by the CNB and shall be published in a manner which enables remote access.

IV. Repo Tenders

- 1. Repo tenders shall be organised by the CNB as a rule in the form of the American auction. A counterparty shall not be entitled to have access to a repo tender and the CNB may refuse the access to the counterparty in justified cases.
- 2. The CNB shall publish repo tenders announcements through information agencies and further in a manner which enables remote access. In the event of a technical fault the repo tender announcement shall be communicated in other suitable manner (e.g. by telephone or fax).
- 3. A repo tender announcement shall contain in particular information on:
 - a) the direction of the tender (supplying or withdrawing),
 - b) the date of beginning and termination of the repo operation,
 - c) the maximum number of bids which may be submitted by one counterparty (if not mentioned, it shall be 2 bids),
 - d) the minimum volume of each individual bid (if not mentioned, it shall be CZK 300 mil.),
 - e) the closing time for the acceptance of bids.
- 4. The repo tender announcement may also include further information, e.g. on:

² Article 1 paragraph 19 of the Directive of the European Parliament and of the Council 2000/12/EC dated 20 October 2000 relating to the approach to the activities of credit institutions and their performance, as amended.

- a) the limit interest rate acceptable,
 - b) the overall volume offered,
 - c) the maximum total bid limit of a single counterparty.
5. The eligible counterparties in a repo tender shall submit their bids in a technically suitable manner (e.g. through the Reuters system or by telephone) to the Financial Markets Department of the CNB, Interventions Division (hereinafter referred to as the “Dealing”). In the event of technical problems the CNB shall also accept other ways of submission of bids (e.g. a fax, a letter).
 6. When submitting a bid, the counterparty in a repo tender shall specify the volume and the interest rate (with act/360 convention). Unless stipulated otherwise in the announcement of the tender, the volume of an individual bid must be an integral multiple of CZK 100 mil. and the interest rate must be specified in percentage to two decimal digits.
 7. If the total volume of bids submitted by a single counterparty exceeds the maximum total bid limit of a single counterparty the CNB may reduce the bid volume of this counterparty or, eventually, completely reject its bids.
 8. The CNB shall apply 2 % haircut pursuant to the Master Agreement³ when entering into repo operations.
 9. The bids shall be satisfied according to the bid interest rate up to the volume of the repo tender. If it is not possible to satisfy all bids with the same interest rate level the bids shall be satisfied proportionately.
 10. The CNB shall announce the result of the repo tender in a similar manner as the repo tender announcement. The results announcement shall contain in particular:
 - a) the minimum, the average and the maximum accepted interest rates,
 - b) the percentage of allocation of bids in the event of proportionate reduction.

V.

Individual Repo Operations

1. Individual repo operations shall be carried out on the instigation of the CNB.
2. The CNB shall apply 2 % haircut pursuant to the Master Agreement³ when entering into individual repo operations.

VI.

Deposit Facility

³ Article 1 paragraph 3 of the Margin Maintenance Annex and Article 1 paragraph (II) letter (b) of the Special Provisions of the Master Agreement

1. Within the scope of the deposit facility the counterparties may place their available funds with the CNB. In a standard way the deposit shall start at the day of request and it is redeemable at the next business day (i.e. O/N maturity). The CNB may, in case of need, adjust the value date and maturity. The CNB may also decide on temporary cancellation or restriction of the deposit facility.
2. The minimum acceptable volume of deposit shall be CZK 10 million. The deposit is remunerated at the CNB discount rate using the act/360 day-count convention. The CNB may, before entering into a deposit transaction, unilaterally change or extend the conditions of the deposit facility. Possible changes of these conditions are published via Reuters or Bloomberg systems. In the event of technical fault the CNB shall publish the changes of the conditions in other suitable manner (e.g. by telephone or fax).
3. A condition for depositing funds with the CNB is the counterparty's request submitted not later than 15 minutes prior to the closing of the accounting day in CERTIS system.
4. Counterparties shall submit their requests for deposits through the Reuters system or by telephone to the CNB's Dealing. In the event of technical problems, the CNB shall also accept some other manner of submission of an bid (e.g. a fax, a letter).

VII.

Lombard Facility

1. Within the scope of the lombard facility the counterparties may refinance themselves from the CNB via lombard repo.
2. In a standard way the lombard repo shall start at the day of request and it is redeemable at the next business day (i.e. O/N maturity). The CNB may, in case of need, adjust the value date and maturity.
3. The minimum acceptable volume of a lombard repo shall be CZK 10 million. For the purpose of the repurchase price⁴ calculation the CNB's lombard rate and the act/360 day-count convention shall be used. The CNB may, before entering into a lombard repo, unilaterally change or extend the conditions of the lombard facility. Possible changes of these conditions are published via Reuters or Bloomberg systems. In the event of technical fault the CNB shall publish the changes of the conditions in other suitable manner (e.g. by telephone or fax)
4. The CNB shall apply 2 % haircut pursuant to the Master Agreement³ when entering into the lombard repo.
5. Counterparties shall submit their requests for the execution of a lombard repo to the CNB's Dealing (e.g. through the Reuters system or by telephone) no later than 25 minutes before the end of CERTIS scheduled operating hours. In the event of technical problems, the CNB shall also accept other suitable manners of submission of an order (e.g. a fax, a letter).
6. CNB shall not enter into a lombard repo with the counterparty when the term stipulated in paragraph 5 is not met or in the case when:

⁴ Article 2 paragraph (3) of the Product Annex for Repurchase Transactions

- a) CNB will have decided on a temporary cancellation or restriction of lombard repo,
 - b) due to technical reasons in CERTIS system, SKD, CDCP, communication systems or force majeure it is not possible to make a payment or securities transfer.
7. If it is not possible to tie the transfer of securities to the effecting of the payment (the delivery versus payment principle) during the settlement of the lombard repo, the CNB shall provide the funds ensuing from the agreed-upon lombard repo only after the counterparty's securities have been transferred to its securities account.
 8. If the delivery versus payment principle is not applied at the repayment of a lombard repo, the CNB shall transfer the securities to the counterparty's securities account only after the repurchase price has been transferred to the CNB's payment account in the CERTIS system.
 9. In the event that the conditions of the agreed-upon lombard repo are not fulfilled by either of the parties, the issues concerning penalties will be solved in accordance with the concluded Master Agreement.
 10. In the case when Master Agreement for Provision of the Intraday Credit stipulates conditions for entering into the lombard repo different from those laid down in this Article, the conditions of the Master Agreement for Provision of the Intraday Credit shall be used.

VIII.

Tenders for the Sale or Purchase of Securities

1. The CNB shall organise tenders for the sale or purchase of securities (hereinafter referred to as the "tenders") as a rule in the form of the American auction.
2. The CNB shall publish announcements of the tenders through information agencies and further in a manner which enables remote access. In the event of a technical fault the tender announcement shall be communicated by other suitable manner (e.g. by telephone or fax).
3. The tender announcement shall in particular contain information on:
 - a) the direction of the tender (purchase or sale),
 - b) the settlement date,
 - c) the securities (identification),
 - d) the maximum number of bids submitted by one eligible counterparty (if not mentioned, it shall be 2 bids),
 - e) the minimum volume of each individual bid (if not mentioned, it shall be CZK 100 million in the face value of securities),
 - f) the closing time for the acceptance of bids.
4. The tender announcement may also include further information, e.g. on:
 - a) the limit acceptable yield,
 - b) the total volume offered.

5. The eligible counterparties shall submit their bids through the Reuters system or by telephone to the CNB's Dealing. In the event of technical problems, the CNB shall also accept other suitable manners of submission of a bid (e.g. a fax, a letter).
6. When submitting a bid, the eligible counterparty in the tender shall submit the volume and the yield. Unless stipulated otherwise in the tender announcement, the volume of each individual bid must be an integral multiple of CZK 50 mil. of the face value of securities and the yield must be specified in percentage to two decimal digits.
7. Bids in the tender shall be satisfied according to the offered yield, up to the volume of the tender. If it is not possible to satisfy all bids with the same level of the yield, these shall be satisfied proportionately.
8. The CNB shall announce the result of the tender in a manner similar to that in which it provides the tender announcement. The results announcement shall contain in particular:
 - a) the minimum, the average and the maximum accepted yield,
 - b) the percentage of allocation of the bids in the event of proportionate reduction.
9. If it is not possible to settle the deal on the basis of delivery versus payment principle, the CNB shall perform only after it has been confirmed that its counterparty has fulfilled its obligation.

IX.

Individual Sales or Purchases of Securities

Individual sales or purchases of securities shall be carried out on the instigation of the CNB.

X.

Buy/Sell Back Operations

1. A Buy/Sell Back operation shall for the purposes of this Official Information mean sale and repurchase, or purchase and resale of a security, concluded with a single counterparty at one moment with different settlement dates.
2. Buy/Sell Back Operations shall be carried out on the instigation of the CNB.
3. The CNB shall apply 2 % haircut pursuant to the Master Agreement³ when entering into Buy/Sell Back operations.

XI.

Third parties operations

The CNB shall carry out the repo operations and deposits for third parties on the instigation and in line with the instructions of the client. CNB may restrict clients' access for these operations.

XII.

Provision of Intraday Credit for the Purposes of Fluent Settlement in the CERTIS System

1. With the aim to guarantee conditions for fluent payments processing in CERTIS system the CNB shall provide an intraday credit to the counterparties mentioned in Article II, paragraph 5). The intraday credit is provided pursuant to the SKD Rules⁵.
2. Due care about the fluency of outgoing payments pursuant to Article II, paragraph 2) shall mean preventing counterparty's outgoing payments holding due to the lack of cash balance on its CERTIS payment account. For this purpose counterparties may draw the intraday credit. The intraday credit shall be drawn in time and in sufficient volume. When a counterparty makes default in charging the intraday credit or when it draws the intraday credit in an insufficient volume the CNB shall appeal for correction. Covering the outgoing payments with the incoming payments in favour of the counterparty that were not yet transferred due to lack of cash balance on the counterparty's payment system account shall not be taken as due care about the fluency of outgoing payments.
3. The amount of the funds to be provided shall be determined by the CNB on the basis of the value of the financial instruments provided as financial collateral in the SKD. The CNB shall provide funds at the level of the market value of the provided securities adjusted with the coefficient announced by CNB before starting the accounting day in SKD. The CNB shall determine the market value of securities pursuant to the SKD Rules⁵ The eligible collateral shall be the financial instruments mentioned in the Article III which are registered in the SKD System.
4. In the event that the funds provided are returned to the CNB on the same day on which they were provided, interest shall not be calculated on these funds.

XIII.

Repealing Provision

The Official Information of the CNB No. 9/2007 CNB Bull., on the Manner of Execution of the Operations of the CNB on the Money Market shall hereby be repealed.

XIV.

Effect

This Official Information shall be adhered to from 15 August 2011.

⁵ Official Information of the CNB No. 10/2007 CNB Bull., on issuing the Rules of the short-term bond system.

Board member
Ing. Eva Zamrazilová, in her own hand

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