
Auction Procedure

for Austrian Government Bonds

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Auction Procedure for Austrian Government Bonds

Overview

For Austrian government bonds both price auctions and yield auctions are viable options.

In case of new issues bids shall be submitted in the form of yields. The coupon is calculated based on a weighted average of the accepted yields and an issue price as close to par as possible. In the last few years new government bonds were issued via a syndicate.

For tap issues price auctions have been employed since February 2001. To improve the liquidity of individual issues, only one or two new bonds are issued during a year to fill in the gaps in the maturity range. Taps are issued via auctions and take place once a month, as a rule.

The auction panel consists of a fixed group of banks who are obliged to submit competitive bids. As a performance incentive panel members may submit non-competitive bids as well.

The entire auction procedure is carried out electronically by means of ADAS (Austrian Direct Auction System), developed by OeKB. Among other things this software allows for the announcement of the results, immediately after the deadline for the submission of competitive bids has expired and the issuer has confirmed the issue.

Settlement of payments is handled by OeKB.

The auction calendar, the announcement of new issues, the fixed schedule for carrying out the auction procedure, etc. are examples of the issuer's desire to increase transparency of the entire auction procedure, for the investors as well as for the banks participating in the auction panel.

Issuing frequency / Schedule for the auction procedure

The issuance of government bonds is carried out monthly. At the end of each year the issuer announces the auction dates projected for the coming year.

1 week prior to the auction (T-7)	Maturity recommendation of the participants. Announcement of the auction parameters.
Tuesday (T) by CET 11:00 a.m.	Submission of competitive bids and immediate announcement of competitive results after the consent of the issuer.
Wednesday (T+1) by CET 11:00 a.m.	Submission of non-competitive bids and immediate announcement of the total results and individual allotments.
Friday (T+3)	Settlement Listing

Announcement of issues

The parameters for the issue of the government bond, its planned issue size and information on the submission of bids are submitted electronically via ADAS, Fax and E-mail to the auction participants and additionally published on the OeKB-website one week prior to the auction. In case of multiple-securities auctions the issuer may determine and announce also the total competitive issue volume to be auctioned. In this case the distribution of the total competitive issue volume to the respective government bonds is determined and announced after the deadline of the competitive bidding.

Submission of competitive bids

The start time for the bidding process is at 10:00 CET on auction day, the deadline for the submission of competitive bids is one hour later at 11:00 CET. The actual time is given by ADAS to guarantee equal opportunities for all bidders. Only those bids which have been submitted via the electronic auction system before the deadline expires are accepted.

The bids must be submitted in denominations of Euro 1 million or a multiple thereof containing the yield or the price at which the issuer is prepared to accept the nominal amount.

Multiple bids are allowed. Bids may be modified and submitted up to the deadline as often as desired.

The minimum total volume a bank is obliged to bid corresponds to the issue size announced by the issuer divided by the number of auction participants. The maximum volume a bank is allowed to bid amounts to 100% of the total issue size - in case of an issue size of Euro 1 billion or above the upper limit for bids is 30 % of the total issue size.

Bids are subject to a real-time plausibility check to avoid erroneous bids and to guarantee the above mentioned bidding limits.

Allotment of competitive bids

The bids submitted are ranked according to price in descending order. The allotment of bonds is carried out based on the corresponding bid. Bids at the lowest price accepted (cut-off-price) may be subject to pro rata curtailments to provide for a precise representation of the scheduled competitive issue size. On the basis of the actual set of bids all figures are calculated by the electronic system ADAS on a permanent basis.

Allotments per participant (nominal amount, price, amount payable, etc.) and the overall issue results are announced electronically via ADAS immediately after the expiration of the deadline for the submission of competitive bids and the confirmation of the issuer via ADAS.

Cancellation of an issue

The issuer may cancel an issue up to 12:00 p.m. CET on the day of the auction. In such a case, a new auction date is set for one week later. Since the introduction of electronic auction system in 1998 only one auction was cancelled by the issuer.

Submission of non-competitive bids

An additional 15 % of the competitive issue amount is made available to the participants for the submission of non-competitive bids. Each bank is entitled to submit a non-competitive bid via ADAS until 11:00 a.m. CET one business banking day after the announcement of competitive allotments. The individual amount of non-competitive bids for each bank must not exceed a certain percentage - corresponding to each bank's market-share (i.e. the weighted average of the competitive allotments as expressed in percent) of the previous two auctions and predefined secondary market criteria - of the non-competitive issue size. The allotment of the non-competitive bids is executed at the average price of the accepted competitive bids.

Determination of coupon and official issue price

In case of a new issue (where a yield auction is employed) the coupon is calculated on the basis of the weighted average of the accepted yields and an issue price which shall be as close to par as possible, after considering the maturity-dependent commission (1,05 % for 5 years, 1,50 % for 10 years). In practice new bonds have been issued via a syndicate for the last years.

In case of a fungible tranche (where a price auction is employed) the official issue price corresponds to the weighted average of the accepted prices plus the maturity-dependent sales commission.

Dissemination of auction results

The dissemination of total issue results and individual allotments per participant (amounts payable, prices, etc.) is carried out electronically by OeKB via ADAS, the electronic auction system, immediately after the issuer confirms the issue.

Austrian Direct Auction System (ADAS)

Since May 1998 the auction procedure has been carried out by ADAS, software developed for this purpose by OeKB. Starting from June 2008 a fully web-based version of ADAS is in use.

As this software has been adjusted continuously to accommodate changing requirements, it covers a wide range of possibilities (different auction procedures, submission of competitive and non-competitive bids, personalized reports, parallel auctions etc.). Constant communication and feedback from both sides (the issuer as well as the banks) before, during and after the auction has enhanced the development of ADAS. Thus ADAS was established as a reliable and user-friendly application with a high standard of security. In addition to technical support, OeKB assists all parties involved in dealing with questions concerning the auction procedure. All results may also be calculated using Excel-spreadsheets, in order to guarantee the participants a maximum of transparency and the possibility to arrive at the same results as calculated by the system.

The essential advantage of the electronic auction-system may be found in its ability to respond quickly:

- The submission of bids is carried out electronically.
- The issuer confirms the issue electronically after the deadline for the submission of competitive bids has expired.
- Then the total auction results are immediately made available to the participants.
- All information (total auction results, resulting parameters in case of a new issue as well as individual allotments per bank) is communicated electronically via ADAS and are also distributed automatically via email and/or fax without delay.

Auction Participants

The group of banks which participate in the auctions is selected by the Austrian Federal Financing Agency (OeBFA). The eligibility to participate is based on several criteria (sufficient equity capital, number of domestic and foreign branches, staff, size and turnover of fixed income securities denominated in Euro or any other major currency).

At present the following 24 banks (18 of them non-Austrian) are taking part in the auction procedure:

Banco Santander, S.A.

Barclays Capital

BAWAG P.S.K. Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse Aktiengesellschaft

BNP Paribas

Citigroup Global Markets Limited

Commerzbank AG

Crédit Agricole CIB

Credit Suisse Securities (Europe) Limited

Deutsche Bank Aktiengesellschaft

Erste Group Bank AG

Goldman Sachs International Bank

HSBC France

J.P. Morgan Securities Ltd.

Jefferies International Limited

Merrill Lynch International

Morgan Stanley & Co. International plc

Nomura International plc

Oberbank AG

Österreichische Volksbanken-Aktiengesellschaft

Raiffeisen Bank International AG

Raiffeisenlandesbank Oberösterreich Aktiengesellschaft

Royal Bank of Scotland

Société Générale S.A.

UBS AG



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