



Auction Procedure for Austrian Government Bonds

Auction Agent for Austrian Government Bonds

March 2019

**CAPITAL MARKET
SERVICES**

CeKB 

Oesterreichische Kontrollbank AG

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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 (Primary Dealers) 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.

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.

| Schedule for the auction procedure | |
|---|---|
| 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 |
| Thursday (T+2) | 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 email to the auction participants and additionally published on the OeKB-website one week prior to the auction. In case of multiple-securities auctions ('parallel auction') 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 per auction date 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 for each bond to be auctioned amounts to 100% of the announced total issue size - in case of an announced issue size of Euro 1 billion or above the upper limit for bids is 30 % of the announced 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 prices 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 20 % of the competitive issue amount is made available to the participants for the submission of non-competitive bids. Via ADAS, each bank is entitled to submit a non-competitive bid at the average price of all competitive allotments until 11:00 a.m. CET one business banking day after the competitive auction. The available amount is split among the participants as follows: 1/3 is based on predefined secondary market criteria, 2/3 is based on the individual weighted average of the competitive allotments of the two previous auctions.

Determination of coupon and 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. 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 issue price corresponds to the weighted average of the accepted prices.

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.
- After the deadline for the submission of competitive bids has expired the issuer confirms the issue and – in case of parallel auctions – determines the issue size per government bond electronically.
- 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.

Primary Dealers

The institutions directly eligible at Austrian Government Bond auctions - called Primary Dealers - are selected by the Austrian Treasury (OeBFA). The eligibility to participate is based on several criteria like sufficient capitalization, reputation, branch locations and distribution network, staff, size and turnover of fixed income portfolios in the European single currency and any other relevant currencies.

Primary Dealer rights

The most important rights of the Primary Dealers are

- right to participate in auctions and syndicated tranches of Austrian Government Bonds
- right to participate in buyback and exchange transactions for Austrian Government Bonds
- preferred status in other issues of the Republic of Austria
- preferred status as a counterparty of the Republic of Austria in debt and liquidity management operations

Primary Dealer obligations

Obligations are for example

- obligation to participate in Austrian Government Bond auctions
- active participation in secondary market trading for Austrian Government Bonds
- allocation of sufficient resources for trading of Austrian Government Bonds
- allocation of sufficient resources to support the Republic of Austria in its treasury operations for its debt and liquidity management
- promotion of Austrian Government Bond markets by adequate analysis, research, publications and yield forecasts

In addition, each Auction Participant informs the Republic of Austria about its primary and secondary market participation in Austrian Government Bonds using a standard form. These data shall be made available on a monthly basis, specifying the geographic distribution, the investor base and maturities involved.

Current Primary Dealers

At present the following 21 banks (16 of them non-Austrian) are taking part in the auction procedure:

- Barclays Bank PLC
- BAWAG P.S.K. Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse Aktiengesellschaft
- BNP Paribas
- BofA Securities Europe SA
- Citigroup Global Markets Limited
- Commerzbank AG
- Deutsche Bank Aktiengesellschaft
- Erste Group Bank AG
- Goldman Sachs International Bank
- HSBC France
- J.P. Morgan Securities plc
- Landesbank Baden-Württemberg
- Morgan Stanley & Co. International plc
- Natixis
- NatWest Markets Plc
- Nomura International plc
- Oberbank AG
- Raiffeisen Bank International AG
- Société Générale
- UniCredit Bank AG
- Volksbank Wien AG



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