

UNOFFICIAL TRANSLATION

**KINGDOM OF BELGIUM
FEDERAL PUBLIC SERVICE FINANCE
TREASURY DEPARTMENT
Kunstlaan 30 avenue des Arts
B-1040 BRUSSELS**

**CODE OF DUTIES
OF THE
PRIMARY DEALERS
IN BELGIAN GOVERNMENT SECURITIES
January 1st, 2012**

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LIST OF ABBREVIATIONS

“CB” for “Competitive Bid”

“CDS” for Credit Default Swap

“GR” for “Global Result”

“GSDC” for “Government Securities Dealers Committee”

“KOB” for Kingdom of Belgium

“MCR” for “Monthly Compliance Ratio”

“NBB” for the “National Bank of Belgium”

“NCS” for “Non-Competitive Subscriptions”

“OLO” for “Linear Bond”

“ONCS” for “Ordinary Non-Competitive Subscriptions”

“PD” for “Primary Dealer”

“RD” for “Recognized Dealer”

“SNCS” for “Special Non Competitive Subscriptions”

“TC” for “Treasury Certificate”

FOREWORD

The Minister of Finance appoints a group of « PRIMARY DEALERS IN SECURITIES ISSUED BY THE TREASURY OF THE KINGDOM OF BELGIUM » with a view to enhancing the placing of OLOs, strips and TCs, to ensuring the liquidity of these securities on the secondary market, and to promoting the Belgian Sovereign Debt.

SECTION I

THE PRIVILEGES OF PRIMARY DEALERS

1.1. Exclusive rights

1.1.1. The Primary Dealers have the exclusive right:

- 1° to carry the title of “Primary Dealer in Belgian Government Securities”;
- 2° to submit after the auction non-competitive subscriptions as stipulated in section 1.2 hereafter¹;
- 3° to be the privileged counter-parties of the Treasury in its debt management operations (see item 1.4.).

1.1.2. The Primary Dealers and the Recognized Dealers have the exclusive right:

- 1° to participate in the auctions of OLOs and TCs ;
- 2° to strip and to reconstitute OLOs, and to convert into BE-strips²;
- 3° to participate in the buyback operations organized by the Treasury;
- 4° to use the **repo facility** offered by the Treasury for OLO, TC and BE-strips.

1.2. Non-competitive subscriptions

The PDs have the right to acquire after the auction of OLOs or TCs a certain amount of the corresponding securities at the weighted average price or rate auctioned.

The PDs can submit either ordinary non-competitive subscriptions or special non-competitive subscriptions, following the conditions contained in appendix 2 of the present Code of Duties (or according to the conditions contained in the appendix 3 for the newly appointed Primary Dealers).

1.3. Special offers of OLOs and TCs at a fixed price

1.3.1 *Special market situation*

In the event of an abnormal development in the secondary market of TCs or OLOs caused by an imbalance in the distribution of the securities auctioned, the Treasury may offer to all PDs the possibility to acquire these securities during an additional non-competitive tour.

The amount of this additional allocation is, for all PDs, expressed as a percentage of their ordinary non-competitive allocation.
This percentage is identical for all PDs.

¹ Please note that the National Bank of Belgium has the right to submit non competitive subscriptions before the auction for account of foreign central banks and assimilated institutions and for account of international financial organizations of which Belgium is a member. The Belgian Securities Regulation Fund, the “Caisse des dépôts et Consignations – Deposito- en Consignatiekas” and the “Fonds Monétaire – Muntfonds have also the right to submit non competitive subscriptions before the auction.

² The Treasury has the same right but only in the framework of the BE-Strip Repo facility.

The applied percentage and the price or the rate of the offered securities, are set by the Treasury. These are announced at least a quarter of an hour before the opening of the additional non-competitive subscriptions.

1.3.2. Cancellation of an auction

On the day of the auction until 10 AM the Treasury may cancel an auction if an exceptional and unforeseen event occurs. In order to ensure the good functioning in the market, the Treasury may then accept from the PDs ordinary non-competitive subscriptions at the price or rate, and according to the rules, adapted to the specific case.

1.4. Counter-parties of the Treasury

The PDs or designated (group) companies are the privileged counter-parties of the Treasury in its debt management operations, They can only conclude derivatives transactions including FX transactions if :

- they have at least an “A” rating. This rating is the minimum rating as obtained from either Fitch Ratings, Moody’s or Standard & Poor’s. If not, derivatives transactions including FX-transactions, can be concluded if the parent company issues a guarantee and the latter has at least an “A” rating; and
- the PD’s or designated (group) companies have concluded an ISDA Master Agreement and a Credit Support Annex with the Treasury, under which the derivative transactions, including FX-transactions, will be documented;

1.5. Concertation meetings

The Treasury organizes regularly concertation meetings with the PDs. These meetings take place in principle every 6 months.

1.6. Announcement of target issuance ranges

The Treasury announces a target issuance range before each OLO and TC auction. The announced range applies to the total amount auctioned on a competitive basis, all lines combined.

In principle, the range is announced on the last TARGET2 day of the week preceding the auction.

In normal circumstances, the amount issued will be within the announced range. The Treasury reserves the right to limit the amount of the accepted CBs to 80 % of the amounts offered.

1.7 Buy Back operations

The Treasury starts buying back bonds when their remaining life to maturity is **12 months**. Buy back operations can be initiated by the Treasury on other bonds with prior advice to the Primary Dealers.

SECTION II
THE DUTIES OF PRIMARY DEALERS

2.1. Participation in the primary market

The PDs participate regularly to, and take a significant share in, the auctions.

At the end of the period for which the status of PD has been granted, the amount of the CBs accepted from each PD, expressed as a percentage of the total amount allocated by the Treasury on a competitive basis³, represents on average:

- at least 2 % for TCs on a duration weighted basis;
- at least 2 % for OLOs on a duration weighted basis.

The Treasury has the right to publish a league table ranking the PDs according to their market share in the auctions.

2.2. Participation in the secondary market

The PDs contribute significantly to the liquidity of the OLOs, of the stripped securities and of the TCs, including repos. The PDs carry out the major part of their transactions on one or more of the e-trading platform(s) selected in the framework of the procedure established by the Treasury and described in appendix 1, hereafter referred to as the selected e-trading platforms.

At the end of the period for which the status of PD has been granted, the amount of the purchases and sales reported by the PD to the competent authority (see section 2.5.4), expressed as a percentage of the total amount of the purchases and sales reported by all PDs, active during the entire reference period, represents on average:

- at least 2 % for TCs ;
- at least 2 % for OLOs.

The repos and the buy & sell back (or sell & buy back) are excluded from the aforementioned calculation.

The PDs participate actively in the liquidity management transactions of the Treasury.

2.3. Quotation of firm rates or prices

2.3.1. Quotations of OLOs and TCs to customers

PDs quote firm bid and offer rates or prices to their customers and post indicative prices and rates.

³ For the product concerned:
Percentage = $\frac{\text{Sum of CBs accepted from a PD during the reference period}}{\text{Total CBs accepted from all PDs active during the entire reference period}}$

2.3.2. Quotations Business to Business (B2B)

PDs participate as market maker in one or more of the selected e-trading platform(s).

1° Quoting obligations

The quoting obligations are defined by the Government Securities Dealers Committee (GSDC) of which all PDs are a member. Further information regarding the role and the operating procedures of the GSDC can be consulted on http://debtagency.be/_private/_pd/index.htm.

PDs are allowed to implement their quoting obligation on any selected e-trading platform. PDs can quote a part of their allocated securities on one e-trading platform and another part on one or more other e-trading platforms. A PD will be considered to have complied with its daily quoting obligations regarding a specific security only if it has complied with it on one platform.⁴

PDs commit to comply with the internal regulations of every selected e-trading platform on which they quote prices.

2° Appraisal of the quoting obligations

The rules of the performance appraisal are established by the Treasury. The Treasury provides information to the PDs with regards to these rules. The Treasury publishes daily information on the PD quoting performance.

PDs' compliance with their quoting obligation is checked by the Treasury on the basis of the activity reports submitted daily to the Treasury by the selected e-trading platforms

3° Market takers

PDs are encouraged to participate as market taker in all selected e-trading platforms.

4° Representation

PDs appoint one representative and up to two substitutes for the GSDC. Each change hereof shall be duly informed to the secretariat of the GSDC.

2.3.3 STRIPS

PDs assume on a voluntary basis the status of market maker in BE-strips on one or more of the selected e-trading platform(s). The compliance rules can be found on the private PD & RD website. The quality of the contribution made by the PDs market makers in BE-strips will be included in the appraisal of their activity and can be rewarded.

2.4. Promotion and placement of Belgian Government securities

PDs place OLOs, strips and TCs with final investors in Belgium and abroad. The Treasury may agree with the PDs on specific promotion or placement objectives.

⁴ Eg., a PD will not be considered as compliant if it has quoted half of the compulsory time for a given security on one platform and half in another.

2.5. Information and reporting

2.5.1. INFORMATION TO THE TREASURY

The PDs regularly report on developments in the financial markets and provide general information to the Treasury.

2.5.2. BUSINESS PLAN.

The PDs submit a business plan within the timing determined by the Treasury. The business plan contains at least the information requested by the Treasury.

The PD is expected to deploy its best efforts to realise the business plan. The business plan provides a reference point to the Treasury in its evaluation of the quality of the PDs business strategy.

The performance of the PDs, the implementation of the business plan and the presentation of the business plan for the year next, are discussed with the Treasury during a meeting at which each PD will be invited separately.

2.5.3. ACTIVITY REPORT.

PDs submit regularly to the Treasury a report on their activity. The activity report is structured according to the European harmonized reporting format, following the guidelines outlined in the website of the relevant Economic and Financial Committee (EFC) sub-Committee on EU Government bond and bill markets ⁵.

The report is transmitted by electronic mail following section A, XI of the "Technical Specifications Manual" published on the EFC website.

PDs submit to the Treasury a report on their activity on CDSs on the KOB, following the format required and provided by the Treasury, after consulting the PDs.

2.5.4 Reporting of transactions⁶

The PDs shall report to the competent authority all their transactions per type (outright and/or repo) in OLOs, strips and TCs, following the rules and procedures set by the competent authority. Strict attention will be paid to the integrity and the punctuality of the reporting.

PDs accept, and they co-operate with, any external control appropriate to check the integrity of the data which they are committed to report to the Competent Authority.

⁵ http://europa.eu/efc/sub_committee/primary_dealer/index_en.htm

⁶ The obligation of reporting to the competent authority is independent of the obligation to report on the activities as set in section 2.5.3.

2.6. Rules with regard to auctions of OLOs and TCs

2.6.1. General

The rules with regard to the auctions of OLOs and TCs are stipulated in the relevant Belgian legislation and in the procedure manual.

2.6.2. Particularities

The PD whose accepted competitive bids total more than 40 % of the amount issued in a line at an auction, informs the Treasury of the amount it has taken for its own account and for each of its customers (with no name disclosure).

In the event of abnormal trading conditions in a specific line, the **Treasury may require a PD** to disclose the size of the position taken for its own account in that line. If the size of the position is likely to cause market distortions, the Treasury may request the PD to reduce the amount of the position.

2.7 Participation in the automatic securities lending facility

PDs should participate at least as a lender of securities in the automatic securities lending facility of the National Bank of Belgium (NBB).

2.8 Ethical behaviour

PDs hold themselves to the highest standards in financial business practice. In particular, their activity in Belgian Government securities is consistent with the objective of the Treasury to maintain orderly, efficient and liquid markets.

SECTION III

ADMINISTRATIVE PROVISIONS AND APPRAISAL OF THE ACTIVITY OF THE PRIMARY DEALERS

3.1. The appointment of PDs and their status

The status of PD in Belgian Government securities is granted for a period of one year.

A PD may renounce to its status with a one month notice sent by registered letter to the Administrator General of the Treasury. The one month notice period starts on the first day of the calendar month following the reception of the letter.

3.2. Appraisal of the activity of the Primary dealers

The Treasury appraises the activity of the PDs every semester according to the quantitative and qualitative criteria contained in Section II of the present Code of Duties. The appraisals are forwarded to each PD individually.

3.3. Interpretation of the Code of Duties

If a provision of the Code of Duties raises a problem of interpretation, the Treasury shall propose to the PDs to resolve it in the framework of a concertation meeting (see section 1.5).

3.4. Sanctions

The Treasury may sanction a PD failing to meet his obligations.

The possible sanctions are a temporary reduction or suspension of some or all of the PDs rights and/or privileges and the termination of his appointment.

The Treasury may make the sanctions public in the manner it deems to be appropriate.

3.5. Appendices

The appendices form integral part of the present Code of duties.

**APPENDIX 1
TO THE CODE OF DUTIES OF THE PRIMARY DEALERS IN BELGIAN GOVERNMENT
SECURITIES**

**e-TRADING PLATFORM(S)
SELECTION PROCEDURE**

PDs select the e-trading platform(s) that they will use to comply with their quoting obligations, following the procedure below.

1. Eligible platforms

In order to be considered, a platform must :

- 1) **be a regulated market or a MTF under MiFID;**
- 2) **offer access to all PDs and RDs equal and fair and free of membership fee for market takers.** The transaction fees charged to market takers may not be prohibitively high;
- 3) **communicate its fee schedule to the Treasury;**
- 4) **agree to follow the guidelines set by the Government Securities Dealers Committee (GSDC)** so as to ensure that the platform technically enables PDs to comply with their quoting obligations;
- 5) **make public current bid and offer prices and the depth of trading interests at those prices which are advertised through its system** on a continuous basis during normal trading hours, on reasonable commercial terms to all market participants and free of charge to the Treasury;
- 6) **provide the Treasury with the market statistics** needed by the Treasury to monitor compliance with their quoting obligations and to appraise the performance of its PDs . The format under which these statistics are provided is set by the Treasury.
- 7) **send an application to the Treasury** satisfying that it fulfils the above criteria. The Treasury appraises applications pursuant to the above mentioned conditions.

The Treasury will publish a list of the platforms meeting the aforementioned eligibility requirements.

2. Selection process

A platform meeting the aforementioned requirements (“eligible platform”) must be recommended by a certain number of PDs . The selection procedure works as follows :

- 1) every PD chooses amongst the eligible platforms **up to three platforms** and ranks them by order of preference.
- 2) he assigns 3 points to the platform ranked first, 2 points to the platform ranked second and 1 point to the platform ranked third; This ranking is communicated to the Treasury by e-mail on the date set by the Treasury;
- 3) The three platforms that obtain the largest aggregated score are selected;

- 4) in the event of multiple platforms ranked third the procedure is repeated for the platforms in question

3. A selected platform :

- 1) **keeps its status for a period of two years:** its status is reviewed every 2 years in accordance with the aforementioned procedure.
- 2) **is not responsible for ensuring that PDs comply with their quoting obligations.**
This is the responsibility of the Treasury.

**APPENDIX 2
TO THE CODE OF DUTIES OF THE PRIMARY DEALERS IN BELGIAN GOVERNMENT
SECURITIES**

THE NON-COMPETITIVE SUBSCRIPTIONS OF PRIMARY DEALERS

PDs have the right to submit either Ordinary Non-Competitive Subscriptions (ONCS) or Special Non-Competitive Subscriptions (SNCS) after the auctions of TCs and OLO's under the following conditions:

1. The TCs

1.1. Ordinary NCSs

Exercise time

From 11:00 AM to 11:30 AM (CET) on the value date of the auction. The value date of the ONCSs is the same as the exercise date;

Amount

20% of the average of 2 amounts :

- the first being the amount of the accepted CBs of the **specific** PD in the relevant line at the **current auction**;
- the second being the amount of the accepted CBs of the **specific** PD in the corresponding maturity segment at the **previous auction** .

Maturity segments :

The following residual maturity segments are applicable for the auctions of TCs:

- short: from 0 to less than 5 months
- medium: from 5 to less than 9 months
- long: from 9 to 12 months.

1.2. Special NCSs

Eligibility criteria:

1. To be considered for the SNCSs a PD needs to be compliant in every month of the reference period for TCs. A PD is compliant on a monthly basis if his Monthly Compliance Ratio (MCR) is at least 85%.
2. In the group of compliant PDs a ranking will be established taking into account the quoting performance and volumes traded on the selected e-platforms during the reference period. The basis of this ranking is called: Global Result (GR).
The 5 PDs with the highest average GR during the reference period are entitled to the SNCS.

The calculation method of the GR can be found on the private PD & RD website .

Reference period:

If M = Month during which the TC auction takes place, the reference period covers the months M-2 and M-3.

Example: auction in January: the considered period covers the months of November and October.

Exercise time:

From 11:00 AM to 11:30 AM (CET) on the Monday following the auction. If that day is not a TARGET2 operating day, then the exercise of the SNCSs will be the following TARGET2 operating day. The value date of the SNCSs is the same as the exercise date;

Amount:

10% of the average of 2 amounts:

- the first being the amount of the accepted CBs of **all** PDs, in the relevant line at the **current auction**;
- the second being the amount of the accepted CBs of **all** PDs in the corresponding maturity segment at the **previous auction**.

The 10% will be distributed between the 5 best ranked PDs based on the GR, as follows:

- PD n° 1 receives 35% of the 10%
- PD n° 2 receives 25% of the 10%
- PD n° 3 receives 18% of the 10%
- PD n° 4 receives 13% of the 10%
- PD n° 5 receives 9% of the 10%.

1.3. TC lines auctioned in the same residual maturity segment

If the Treasury auctions more than one line in the same maturity segment, each line auctioned in that maturity segment generates NCSs.

For the calculation of the NCSs at the auction in question, the standard calculation procedure (point 1.1 and 1.2 of this appendix) applies, being understood that the accepted CB's in the corresponding maturity segment at the **previous auction** is divided by the number of lines auctioned in the same maturity segment at the **current auction**.

2. Fixed rate OLOs

2.1. Ordinary NCSs

Exercise time:

From 11:30 AM to 12:00 AM (CET) on the value date of the auction. The value date of the ONCSs is the same as the exercise date;

Amount:

20% of the average of 2 amounts:

- the first being the amount of the accepted CBs of the **specific** PD in the relevant line at the **current auction**;
- the second being the amount of the accepted CBs of the **specific** PD in the corresponding maturity segment at the **previous auction**.

Maturity segments :

The following residual maturity segments are applicable for the auctions of OLOs:

- medium: residual maturity below 8 years ;
- long: residual maturity from 8 years to less than 11 years ;
- very long: residual maturity of 11 years and beyond.

2.2. Special NCSs

Eligibility criteria :

1. To be considered for the SNCSs a PD needs to be compliant in every month of the reference period for OLOs. A PD is compliant on a monthly basis if his Monthly Compliance Ratio (MCR) is at least 85%.
2. In the group of compliant PDs a ranking will be established taking into account the quoting performance and volumes traded on the selected e-platforms for OLOs and BE-strips during the reference period. The basis of this ranking is called: Global Result (GR).
The 5 PDs with the highest average GR during the reference period are entitled to the SNCS.

The calculation method of the GR can be found on the private PD & RD website .

Reference period:

If M = Month during which the TC auction takes place, the reference period covers the months M-2 and M-3.

Example: auction in January: the considered period covers the months November and October.

Exercise time:

From 11:30 AM to 12:00 AM (CET) on the Monday following the auction. If that day is not a TARGET2 operating day, then the exercise of the SNCSs will be the following TARGET2 operating day. The value date of the SNCSs is the same as the exercise date;

Amount.

10 % of the average of 2 amounts:

- the first being the amount of the accepted CBs of **all** PDs, in the relevant line at the **current auction**;
- the second being the amount of the accepted CBs of **all** PDs in the corresponding maturity segment at the **previous auction**.

The 10% will be distributed between the 5 best ranked PDs based on the GR, as follows:

PD n° 1 receives 35% of the 10%

PD n° 2 receives 25% of the 10%

PD n° 3 receives 18% of the 10%

PD n° 4 receives 13% of the 10%

PD n° 5 receives 9% of the 10%.

2.3. OLO lines auctioned in the same residual maturity segment.

If the Treasury auctions more than one line in the same maturity segment, each line auctioned in the same maturity segment generates NCSs.

For the calculation of the NCSs at the auction in question, the standard calculation procedure (point 2.1 and 2.2 of this appendix) applies, being understood that the accepted CB's in the corresponding maturity segment at the **previous auction** is divided by the number of lines auctioned in the same maturity segment at the **current auction**.

**APPENDIX 3
TO THE CODE OF DUTIES OF THE PRIMARY DEALERS
IN BELGIAN GOVERNMENT SECURITIES**

THE NON-COMPETITIVE SUBSCRIPTIONS FOR NEW PRIMARY DEALERS

For the new PDs, the following regime applies:

1. Calculation of the ordinary NCSS

During the first auction following the appointment of a new PD, the authorised amount of ONCSs of the new PD is calculated following the same principles as for the other PDs (see Appendix 2).

However, the average of the accepted CBs is calculated as follows:

- * *first auction* : accepted CBs of the new PD at this auction divided by 1 ;
- * *from the second auction onwards* : same procedure as for the other PDs.

2. Eligibility to special NCSS

A new PD can become eligible for SNCSs as from the fourth month after his appointment (the status of PD is, in principle, granted as from January 1st). The reference period for the new PD is then as follows:

Auctions in	Reference period
January	Not applicable
February	Not applicable
March	Not applicable
April	Same procedure as for the other PDs, in this case: January and February

AGREEMENT

Each party has executed this agreement in two copies, one of which will be held by the Kingdom and the other by the PD.

THE UNDERLYING AGREEMENT IS SIGNED BETWEEN:

On the one hand, the Belgian State, represented by the Minister of Finance,
Treasury Department
Avenue des Arts, 30
B-1040 Brussels
Belgium

(signature)

The Minister of Finance,

and

on the other hand :

(Legal entity).....
(Address).....
(Postal code + City)
(Country).....

represented by :

(Signature).....
(Name).....
(Function).....

(Signature).....
(Name).....
(Function).....