

Kingdom of Belgium
Belgian Debt Agency
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**Procedure Manual regarding
the issuance of**

linear bonds (OLOs)

Free translation

PROCEDURE MANUAL REGARDING THE ISSUANCE OF LINEAR BONDS (OLOs)

The current procedure manual applies to linear bonds, the issuance of which is governed by the Royal Decree of October 16th, 1997 as amended, and by the Ministerial Decree of December 12th, 2000 as amended.

Terminology

BDA :	Belgian Debt Agency
KOB:	Kingdom of Belgium
NBB :	National Bank of Belgium
NBB SSS :	National Bank of Belgium Securities Settlement System
BAS :	Bloomberg electronic Auction System
TARGET :	Trans-european Automated Realtime Gross-settlement Express Transfer system
CET :	Central European Time
DCA :	Dedicated Cash account
SAC :	Securities account

Main features of linear bonds

- **Medium, long term and very long term** securities with a fixed or floating interest rate representing a State Loan and issued in successive tranches.
- OLOs of different tranches with the same characteristics (same coupon, ISIN code and maturity date) are fungible and form a same line.
- Denominated in **euro**.
- **Dematerialised securities** booked in the NBB SSS, which can be accessed by international settlement systems (Euroclear and Clearstream). They can also take the form of **registered entries** in the Ledger of the Public Debt. The amount to be recorded as book-entries or as registered entries in the Ledger of the Public Debt is the nominal amount (capital) to be paid by the State upon maturity.
- Reimbursable at par upon maturity.
- The transactions on the primary market are settled through the **NBB SSS**.
- **Who is entitled to hold OLOs ?**
Subject to certain selling restrictions, private and institutional investors may hold linear bonds as a book-entry in a securities account with an approved account keeper or as a registered entry in the Ledger of the Public Debt. The "X/N"-system (X=Exonerated / N=Non exonerated) of the NBB SSS can differentiate holders who are liable for withholding tax on interest and those who are not.
- **Who is entitled to submit competitive bids and non-competitive subscriptions?**
Primary and recognised dealers are entitled to submit competitive bids at the auctions. Only primary dealers can subscribe to the non-competitive part of the auctions.
The right to submit non-competitive subscriptions is also attributed to the following institutions in the framework of the management of their portfolio: the National Bank of Belgium for account of foreign central banks and assimilated institutions and for account of international financial organisations of which Belgium is a member, the "Fonds monétaire – Muntfonds" and the "Caisse des dépôts et consignations – Deposito- en consignatiekas". These institutions can subscribe OLOs at the weighted average price of the auctions. Their bids must be sent to the BDA before 11:30 AM (CET) the day of the auction.

ISSUANCE OF LINEAR BONDS

Main issuing methods

- OLOs are issued by **competitive auctions** based on the prices offered by the bidders and by **non-competitive subscriptions**.
- OLOs can also be issued by **syndication**, especially when opening a new line.

Calendar

In principle, auctions take place on the last but one Monday of every month with the exception of December when no auction takes place .

Before January 1st of each year, an indicative calendar of the auctions is published on the website of the BDA : <http://www.debtagency.be>

For each auction this calendar gives the following information:

- the date of the auction and the dates of the non-competitive subscriptions;
- the value dates for settlement and delivery of the allocated OLOs and for the OLOs issued through the non-competitive subscriptions.

Invitation to bid

In principle, the invitation to bid is announced on the Monday preceding the auction, after 5:00 PM (CET) via the pages of the BDA on Bloomberg (BEDA) and Thomson Reuters (BELG/OLO or BELG/FRN).

The invitation mentions :

- the date of the auction;
- the value date for settlement and delivery of the allocated OLOs
- the specifications of the OLOs to be issued;
- the ISIN codes of the OLO lines which will be issued;
- the current outstandings of the OLO lines which will be issued;
- the dates of the non-competitive subscriptions;
- the value date for settlement and delivery of the OLOs issued through the non-competitive subscriptions.

In addition, a personal announcement message is sent to each primary and recognized dealer via BAS.

On the Friday morning preceding the auction, the invitation to bid is completed by the range of the nominal amount to be auctioned, all lines together.

The ISIN code of linear bonds is structured according to the ISIN standards :
BE / 0 / 8 positions constituting the National numbering Agency code /
1 position for the control number.

Submission of the bids

Bids must be submitted through BAS – page AUPD BLT – on the auction day from 11:30 until 12 noon (CET) at the latest. The bidder selects the current auction, then chooses the “Ticket” tab and introduces for each line to which he wants to subscribe the following figures:

- the amount of each bid (nominal amount);

The amount of the bid is expressed in million and as a multiple of € 1,000,000 with a minimum of € 10,000,000.
- the proposed price for each bid.

Bids which do not match the above requirements are refused.

The primary dealers and recognized dealers are advised to open their BAS workstations at 11:30 AM (CET) so as to test the good functioning of the system. If a problem should occur at that moment the BAS-users should contact Bloomberg, Fixed Income help desk (Tel. +44 (0)20 7330 7030) and the BDA, Mr. Philippe Lepoutre (Tel. +32 (0)2 574 71 01).

In case of exceptional circumstances preventing the BDA from processing the auction in its premises, it can take place at the “Recovery Centre” of the BDA. All necessary information regarding timing and auction procedure will be timely communicated.

The auction

Linear bonds are issued by auctions based on prices. Bids are allocated at the prices proposed.

All bids submitted at prices higher than the lowest price accepted by the BDA (stop price) are allocated for their full amount. Bids submitted at the stop price determined by the Agency may be proportionally scaled down, in which case the amounts so reduced are rounded up to the nearest € 1,000,000 with a minimum of € 10,000,000 per bid.

Example

Two bids at the stop price of 99.50%:

- bidder A : nominal amount : € 250 million;
- bidder B : nominal amount : € 100 million.

Allocation percentage : 16.574 %

The allocated amounts will be:

- € 42 million for bidder A;
- € 17 million for bidder B.

Publication of the results

The results of the auction are normally published a few minutes after cut-off time of the auction :

- via BAS, individual and global results for each bidder;
- and thereafter, via the pages of the BDA on Bloomberg (BEDA) and Thomson Reuters (BELG/OLO or BELG/FRN) on which the following data are published :
 - the total amount of valid bids;
 - the proposed minimum and maximum prices;
 - the stop price;
 - the allocated percentage at stop price;

- the total amount allocated and the number of successful bidders;
- the weighted average price and the weighted average yield of the auction;
- the amount allocated to other institutions authorized to submit non-competitive subscriptions.

If the results of the auction are not released before 12:30 PM (CET) on the day of the auction, the BDA will inform the primary and recognized dealers of the reasons for the delay and of the possible consequences for the auction process. This communication will be done through Bloomberg message or personal e-mail, and if needed through the pages of the BDA on Bloomberg and Thomson Reuters.

If the results of the auction are not released before 2:00 PM (CET) on the day of the auction, it is assumed that the primary and recognized dealers have cancelled their bids unless a contrary notification is sent by fax before 2:00 PM by fax (n° +32 2 230 33 35 and +32(0)2 579 58 43). After consultation with the primary and recognized dealers the BDA can bring the moment of cancellation of the bids forward.

In case of severe problems the BDA may decide to resort to an alternative auction procedure. Primary and recognized dealers will then be advised through Bloomberg message or personal e-mail, and if needed through the pages of the BDA on Bloomberg and Thomson Reuters, about the steps to follow for introduction of new bids.

Possible procedures are :

- reopening of BAS;
- introduction of bids via fax ([see model](#));
- introduction of bids via telephone.

Non-competitive subscriptions

Primary dealers may participate twice in non-competitive subscriptions : once in the ordinary non-competitive subscriptions and a second time in the special non-competitive subscriptions. These subscriptions allow primary dealers to acquire linear bonds, under certain conditions, at the weighted average price of the competitive auction.

Ordinary non-competitive subscriptions take place between 11:30 AM and 12:00 noon (CET), on the 3rd TARGET operating day following the auction.

Special non-competitive subscriptions take place between 11:30 AM and 12:00 noon (CET), on the 5th TARGET operating day following the day of the auction.

Non-competitive subscriptions are submitted in the same way as competitive bids, the minimum amount however is € 1,000,000 ([see above](#)).

Settlement

- **Method**

The BDA sends the results of the issuing process to the NBB SSS under the form of "already matched Instructions".

Hence, the BDA's counterparties do not have to send corresponding settlement instructions.

On the settlement day, the amount payable for subscriptions both in the Participant's own name and on behalf of its clients are debited from the Participant's DCA. Simultaneously with the cash debit, the corresponding securities allocated to the Participant are credited to the Participant's SAC as follows:

- the Participant's SAC on which securities are held by the Participant on its own behalf shall be credited with the amount of the securities subscribed for by that Participant in its own name;

- the concerned client SAC shall be credited with the amount of securities subscribed by the Participant on behalf of the said client.

- **Amount due**

Fixed-rate OLOs

The amount paid by the bidder, on value date of the auction, corresponds to the price of the bids allocated plus accrued interest (I) or to the price of the subscriptions plus accrued interest (I). I is calculated as follows :

$$I = Y \times \frac{i}{100} \times \frac{n}{b}$$

where :

- I is the amount of accrued interest;
- Y is the nominal amount allocated;
- i is the annual nominal interest rate of the linear bond¹;
- n is the exact number of calendar days between the starting date of the current interest period – included – and the value date of the auction – not included;
- b is the exact number of calendar days between the starting date of the current interest period – included – and the next coupon payment date – not included.

Variable-rate OLOs (OLO FRN)²

The amount paid by the bidder , on value date of the auction, corresponds to the price of the bids allocated or to the price of the subscriptions plus accrued interests (I) which is calculated as follows :

$$I = Y \times \frac{i}{100} \times \frac{n}{360}$$

where :

- I is the amount of the accrued interest;
- Y is the nominal amount allocated;
- i is the annual nominal interest rate of the bond for the interest period within which the auction takes place;
- n is the exact number of calendar days between the starting date of the current interest period – included – and the value date of the auction – not included.

- **Value date :**

- For the competitive bids: on the 2nd TARGET operating day following the auction;
- for the ordinary non-competitive subscriptions : the day of the ordinary non-competitive subscriptions, being the 3rd TARGET operating day following the auction;
- For the special non-competitive subscriptions : the day of the special non-competitive subscriptions, being the 5th TARGET operating day following the auction.

- **Penalties :**

OLOs for which no payment has been received on value date can be cancelled ipso jure without formal notice.

¹ In the case of an atypical coupon with a period of more or less than 1 year, the interest amount, expressed as a % of the nominal value, will be calculated in accordance with article 2 § 3 and § 4 of the Ministerial decree of December 12th, 2000.

² **Fixing of the floating rate of the OLO FRN** : the rate of the OLO FRN is fixed at 11 AM on the second TARGET operating date that precedes the date of the relevant interest period of 3 month. This rate corresponds to the offered rate "EURIBOR FBE/ACI" in the 3 month applicable in the Interbankmarket less the spread at which the relevant OLO FRN has been priced in the primary market; The rate is expressed in % with 3 decimals and is published on the pages of the BDA on Bloomberg (BEDA) and Thomson Reuters (BELG/FRN).

In this case, the bidder or subscriber owes the BDA, ipso jure and without any prior formalities being required, a compensation corresponding to 7-days' interest calculated at the marginal lending facility rate of the European Central Bank applicable on the value date, increased by 1.5 %, on the amount which should have been paid.

Furthermore, the bidder or subscriber owes the BDA a compensation corresponding to the positive difference, if any, between the amount payable of the cancelled bid or non-competitive subscription and the value of the bonds issued, on the basis of the indicative prices published by the BDA on the value date on its page Thomson Reuters BDAINFO/HOME.

The settlement may be postponed if the bidder or subscriber provides a legitimate reason for the non-payment of the funds on value date. In this case a compensation for late payment will be calculated following market practices.

The BDA decides whether or not to accept the reasons put forward.

Payment of interest and reimbursement of the capital

On capital and interest maturity dates, the NBB SSS debits automatically the current account of the Treasury with the amount due and credits also automatically the current accounts of the institutions participating to the system, which have a credit balance in the relevant line. This transfer releases the Treasury from its obligations.

On the maturity date, participants will credit their clients' cash accounts with the amounts due (capital and/or interest). They will give them access to the funds with same day value. No reasons for delay will be accepted.

If the maturity date is a closing day of the TARGET system, interest and/or capital are paid on the first following TARGET operating day without late payment interest.

Contactpersons

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EMERGENCY FORM OLOs

AUCTIONS AND NON COMPETITIVE SUBSCRIPTIONS

Bidder
Name :

SECURITY	AMOUNT	PRICE
Line 1 ISIN CODE : <hr/>		
Line 2 ISIN CODE: <hr/>		
Line 3 ISIN CODE: <hr/>		

Authorized sender (person authorized in BAS)
Name :
Signature :