

**TURKEY PRIME MINISTRY
UNDERSECRETARIAT OF TREASURY**

**PRINCIPLES OF PARTICIPATION IN THE AUCTIONS OF
GOVERNMENT DOMESTIC BORROWING SECURITIES**

JANUARY 1st, 2013

PRINCIPLES OF PARTICIPATION

IN THE AUCTIONS OF GOVERNMENT DOMESTIC BORROWING SECURITIES

PART I

Purpose, Scope, Legal Basis and Definitions

Purpose and Scope

ARTICLE 1- (1) These participation principles comprise regulations related to the operations of Government Domestic Borrowing Securities (GDBS) issuance, switching and buy-back auctions performed by Republic of Turkey Prime Ministry Undersecretariat of Treasury (Undersecretariat) and obligations of participants constituting parties to those operations.

Legal Basis

ARTICLE 2- (1) These participation principles are prepared under the Law No. 4059 on the Structures and Duties of the Undersecretariat of Treasury and Law No. 4749 on Regulating Public Finance and Debt Management.

Definitions

ARTICLE 3- (1) Set out below are the meanings of the terms used in this document:

- a) **Primary Market:** The market where GDBSs are initially issued by the Undersecretariat.
- b) **Multiple Price Auctions:** Auctions in which investors buy the securities at their own bid prices.
- c) **Switching Auctions:** Auctions that are held to switch the existing GDBSs with the GDBSs that are going to be issued.
- d) **GDBS:** Government Domestic Borrowing Security issued by the Undersecretariat.
- e) **Government Bond:** GDBSs with a maturity of one year (364 days) or more as of the date of their issuance.
- f) **Buy-Back Auctions:** Auctions that are held to buy-back existing GDBSs.
- g) **Treasury Bill:** GDBSs with maturities of less than one year (up to 364 days) as of the date of their issuance.
- h) **Auction Participant:** Real or legal persons participating in the auctions.

- i) Auction Limit: The minimum and maximum net volume, including non-competitive bids, to be issued or bought back at an auction
- j) Option Bids (Post-auction bids): The bids given after the auctions to purchase the auctioned securities from the average price of the auction or the price determined at the auction.
- k) Auction Date: The date when the auction is held.
- l) AS: Auction System under Central Bank Payment Systems
- m) Maturity Date: The date when the GDBS matures and the payment is made.
- n) Coupon-GDBSs: GDBSs paying interest at the end of each coupon period.
- o) Zero Coupon (Discount)- GDBS: GDBSs whose principal and interest payments are made on the maturity date.
- p) Primary Dealer (PD): The bank that has signed the Primary Dealership Contract with the Undersecretariat and has certain rights and obligations in primary and secondary markets.
- q) Non-Competitive Bid (NCB): The bid submitted on auction day to purchase the auctioned security from the average price of the auction or the price determined at the auction.
- r) CBRT: Central Bank of the Republic of Turkey.
- s) Uniform Price Auction: Auctions in which the cut-off price is applied to all investors whose bids are accepted in the auction.
- t) TETS: Takasbank Electronic Transfer System.
- u) Value Date: The day when the interest rate calculation starts and when the winners of the auctions are obliged to make payments to the account of the Undersecretariat at the CBRT

PART II

General Issues about Auction

ARTICLE 4- (1) Auctions of GDBSs held by the Undersecretariat is open to all real and legal persons. However, the right to participate in buy-back and switching auctions as well as to submit post-auction bids is exclusive to the PDs. Non-competitive bids can only be submitted by public institutions and PDs.

(2) As the fiscal agent of the Undersecretariat, CBRT conducts all the operations related to auctions.

(3) One year is calculated on a 364 day basis at the issuance of GDBSs whereas on a 365 day basis at the secondary market transactions of GDBSs.

Announcement of Auction

ARTICLE 5- (1) The Undersecretariat announces the 3-month auction calendar on the last business day of each month and detailed information of GDBS which is to be issued at least one business day before the auction on the Undersecretariat web page (www.treasury.gov.tr).

Submission of Bids to Auction

ARTICLE 6- (1) Transmission of bids to CBRT is carried out via AS by AS members and via AS with the intermediation of Takasbank by TETS members. Public entities and institutions, financial institutions such as banks and brokers which are non-members of AS and/or TETS as well as participants who cannot transmit their bids via AS due to technical reasons may transmit their bids by faxing “GDBS Auction Bid Form” (Annex-1) to the CBRT fax number (Annex-2) before the bid closing time provided that they give information to CBRT by phone before bid closing time. These participants should send their original signed fax confirmation documents within 3 business days to CBRT. All the real and legal persons apart from the participants that are mentioned above can participate in the auctions directly through branches of CBRT or banks and brokers. The real persons that participate in auctions through branches of CBRT shall present their Turkish citizenship identity numbers while legal persons shall submit the tax identification number.

(2) NCBs are submitted in terms of net amount until 10:30 a.m. on the auction date. In the auctions with preannounced upper limits, NCB of any PD cannot exceed 30% of the upper limit predefined for the auction. Bids which are over this limit are out of assessment. There is no limit for non-competitive bids submitted by public institutions.

(3) All participants shall submit their bids indicating the nominal amount corresponding to the each offer price until 12:00 a.m on auction date. There is no restriction on the number of bids or the number of participants.

(4) The PDs have the right to submit option bids after auction results are announced until 14.00 p.m. on the value date.

(5) In the TRY denominated auctions, participants can bid minimum 1,000 TRY and maximum 500 million TRY in nominal terms and in multiples of 1 TRY. Also, total bid amounts of any participant with the same price cannot exceed 500 million TRY.

(6) In USD denominated auctions, participants can bid minimum 10,000 USD and maximum 100 million USD in multiples of 10,000 USD; whereas in EURO denominated auctions they can bid minimum 10,000 EURO and maximum 100 million EURO in multiples of 10,000 EURO. Total bid amounts of any participant with the same price cannot exceed 100 million USD or 100 million EURO.

(7) Investors should deposit collateral of 1 % of their total nominal bid amount to the account of CBRT until the due time for submission of the auction bids.

a) In TRY and FX denominated auctions, collaterals for the rejected bids are returned to the investors on the auction date; whereas for the accepted bids, investors need to pay the remaining amount that is needed to be paid on the value date.

b) In FX denominated auctions, participants who submit the bids via CBRT branches, the collateral is paid in effective amount of one percent of nominal bid amount in USD or EUR or in TRY that is calculated by the FX buying rates that are published at Official Gazette on the auction day by the CBRT. If the participants' bids are rejected, the effective collateral in USD, EUR or TRY is returned to the investor on the auction date. If the participants' bids are accepted and the collateral is paid in TRY, then the collateral is returned to the investor, after the required amount is fully paid by the investor on the value date. If the participants' bids are accepted and the collateral is paid in USD or EUR, then the investor pays the remaining amount on the value date.

c) Primary dealers as well as public entities and institutions are not obliged to pay collateral.

(8) At switching auctions the Undersecretariat determines the prices of GDBSs that are to be sold/ bought back in advance and announces these prices in the press release of the auction. In these auctions, participants submit their nominal bid amounts and price of GDBSs that are sold/ bought back via the switching auctions to the CBRT until the due time for submission of the auction bids.

(9) A document regarding their bids and a telephone number (especially for real persons) in order to learn whether they win or not the auction is given to the participants.

- (10) Participants are not obliged to pay stamp or seal duties regarding the GDBS that are auctioned.

Validity of Auction Bids

ARTICLE 7- (1) Reserving the provisions contained under paragraph 2 of this Article, without taking into consideration of submission process or whether they are repeated or not all bids submitted to CBRT are final bids of investors and there is no cancellation or change. However, when the bids are not submitted to CBRT because of any technical failure, they would be evaluated as repeated bids if an additional bid is sent to CBRT via fax with a statement of “Only Confirmation Purposes. Do not take into account this form if our bid was reached via AS” and if the bid on the fax message has the same price and amount of the bid sent via AS with the condition of informing CBRT before the due time of the auction bid process .

(2) In the event of an incorrectly submitted bid by any investor, the investor reports this incorrect bid to CBRT via telephone or fax (Annex-2) and requests cancellation of this bid before due time of submission of bids. Reporting these incorrect bids have to be done by the authorized people whose contact details and circular of signature were sent to CBRT previously. Request of cancellation of incorrect bids are submitted to the Undersecretariat with all the other bids and information regarding the auction by CBRT. Decision regarding the cancellation of bids belongs to the Undersecretariat. The original manuscript request of cancellation is submitted to the Undersecretariat and CBRT within 3 business days.

(3) If bids are submitted via fax, the Bid Form in the Annex-1 has to be filled completely and signed by authorized people whose contact details and circular of signature were sent to CBRT previously. Bid forms which do not comply with these conditions are assessed to be invalid.

(4) Bids that are submitted to CBRT after due time of submissions are invalid. Due time of submissions is based on the time schedule of payment system of CBRT. Due time of submission of bids for non-competitive bids is 10:30 a.m. and for competitive bids it is 12:00 pm at the auction day while for post-auction bids due time is 2:00 p.m. at the value date. These time limits are based on CBRT’s payment system AS time. CBRT and the Undersecretariat are not responsible for the time difference of investors own system and CBRT’s payment system AS.

(5) Bids submitted via AS have to be in the form of CBRT’s instructions and formats. If the information on the AS message is not correct or is written on wrong parts of the

document or if any other failure occurs, the system evaluates this message as invalid. Bidding institution is responsible for any negative consequence arising from such invalid messages.

(6) Bids whose collateral are not deposited or not fully deposited are invalid. In case of more than one bid of an investor, collateral is calculated over the total amount of nominal bids and has to be deposited to CBRT. If the deposited collateral is smaller than required amount, bids that are less attractive for the Undersecretariat are invalid. This process is continued until the deposited amount is enough for the bids. In this process, each bid of investor is evaluated as a whole.

(7) Bids of investors other than public institutions or primary dealers are invalid in non-competitive bids and bids of investors other than primary dealers are invalid in post-auction bids.

Evaluation of Auction

ARTICLE 8- (1) If there is no upper limit for the auction, the Undersecretariat sells any amount of GDBS that is considered to be appropriate through non-competitive bids. The amount sold through non-competitive bid process is allocated to the primary dealers in proportionate to their bids. The Undersecretariat sells any amount of GDBS that is considered to be appropriate to public institutions through their non-competitive bids. If the total bid amount of public institution is not supplied to them through non-competitive bids, the total amount sold through non-competitive bid process is allocated to them in proportionate to their bids.

(2) If there is an upper limit for the auction, the amount sold through non-competitive bids to primary dealers cannot exceed the 30% of the upper limit. If there are some investors whose bids have the same last accepted price in the auction and cumulative amount at this price exceeds the upper limit, the difference between the upper limit and the cumulative amount at the highest price after the last accepted price is allocated among investors in proportionate to their bids. If there is no upper limit for the auction, the Undersecretariat sells the amount that it considers appropriate

(3) The amount sold through post-auction bids is calculated in two ways according to the auction system in effect.

a) In a single price auction system, maximum 20 % of the net purchasing amount (excluding NCS) of each primary dealer would be sold to each primary dealer.

b) In a multiple price auction system, maximum 40 % of the net value of the auction bids (excluding NCS) of each primary dealer which are over the average auction price would be sold to each primary dealer at the average auction price.

Announcement of Auction Results

ARTICLE 9-(1) The amount of NCS is defined and declared to CBRT by the Undersecretariat.

At the auction date and following the declaration of the Undersecretariat to the CBRT, total net amount of NCS to be carried out is disseminated to public by CBT on CBTI window of Reuters and CBT9 window of Bloomberg until 11:00 a.m. Nominal value of the aforementioned sale is announced together with the auction results again by CBRT on CBTI window of Reuters and CBT9 window of Bloomberg when the auction process ends up and the average auction price is determined.

(2) Results of the auction is determined by the Undersecretariat and declared to CBRT. Soon after the auction result is declared to CBT, CBT announces auction results on CBTI and CBTH windows of Reuters and CBT8 and CBT9 windows of Bloomberg.

(3) Total post auction issuance to Primary Dealers is announced by CBRT through the CBTK window of Reuters and CBT11 window of Bloomberg soon after the term for the post auction bids end.

(4) The Undersecretariat announces the details of the auction results on the auction date and the statistics related to the auction at the value date on the Undersecretariat's web page (www.treasury.gov.tr)

Payment of Bid Amounts and the Transfer of GDBS

ARTICLE 10- (1) It is compulsory for all investors to pay their bid amounts accepted in the auction and finalize the transfer of GDBS at the value date before 17:30, the CBRT Payment System's closing time. Unless the payment obligations regarding the auctions are completed at the due time, necessary sanctions are imposed in the context of article 11.

(2) Payment obligations regarding the auction may be fulfilled utterly at once or partially.

(3) At the value date and after the CBRT Payment System is opened, SATS-ISTE messages produced by CBRT Ankara branch in return for difference fees are sent to CBRT Payment System participants as soon as possible. CBT Payment System participants make auction payments through EFT by sending ALIS-ISTE message to CBT. Nominal value of GDBS corresponding to the message sent is recorded as receivable in favor of the participant to the free depo account under EMKT if the participant is a member of EMKT and as a receivable to the existing free depo account under CBRT Istanbul branch otherwise.

(4) Nominal value of GDBS corresponding to the collateral amount paid is recorded as receivable in favor of the participant to the free depo account under EMKT if the participant is a member of EMKT and as a receivable to the existing free depo account under CBT Istanbul branch otherwise following that the participant completes all payment obligations.

(5) At buy-back auctions investors whose bids are accepted send SATS-ISTE message indicating the amount of GDBS to be sold-back to CBRT via the EMKT system. Soon after this message is received, Ankara branch of CBRT sends ALIS-ISTE message to the participant via EMKT. As a result of this, the process is completed automatically.

(6) At switching auctions investors whose bids are accepted send AKTR-ISTE message indicating the GDBS amount to be sold-back to CBRT via the EMKT system. After this message is received, Istanbul branch of CBRT collects the differential fees of the operations from the 35- Current Checking Account at CBRT Ankara branch itself. Unless there is sufficient amount in this account, this operation is kept on hold until the account balance reaches the necessary amount. After this amount is collected, Istanbul branch of CBRT sends AKTR-ISTE message indicating the amount of PDBI to participant via EMKT. As a result of this, the process is completed automatically.

(7) Public entities and institutions may pay their non-competitive bids regarding TL denominated auctions in US dollars or in Euro, if preferred. In this case, the amount of foreign exchange to be deposited is determined according to the buying exchange rate valid for the value date and published by the CBRT on the Official Gazette.

Sanctions

ARTICLE 11- (1) If investors do not pay the required amount after deducting the collateral, the collateral is recorded as revenue to the budget. These investors must attend at least 4 auctions with 20 % of collateral. If the investors attending the auctions with 20 % of collateral do not pay the required amount over the collateral, they must attend the subsequent

auctions with 100 % of collateral. After attending 4 auctions with the increased collaterals, investors may attend the auctions again with 1 % collateral with the Undersecretariat's approval.

(2) In case of a partial payment of the winning bid amount in the auction, taking into account the prices of the accepted bids of the investor, it is acknowledged that bid amounts which are in favor of the Undersecretariat are paid preemptively and nominal amount of GDBS which the investor is entitled to buy in return for the amount paid is recalculated. In case the nominal value of GDBS transferred to the investor at the value date is greater than this recalculated amount, the residual GDBS amount is returned to CBRT. After these operations, the collateral amount which is over the corresponding nominal GDBS amount is returned to the investor. If investors do not pay the required amount after deducting the collateral, the collateral is recorded as revenue to the budget.

Redemptions

ARTICLE 12 - (1) Capital and interest payments of GDBSs are made through branches of CBRT or branches of Ziraat Bankası.

(2) In case the payment date is a weekend day or official holiday, the payment is made on the following business day.

Final Clauses

ARTICLE 13 – (1) These participation principles are effective starting from January 1st, 2013.

Annex - 1 Bidding Form

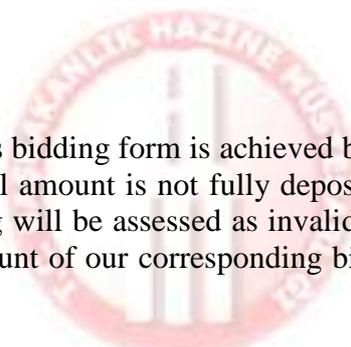
FAX FORM FOR PARTICIPATION IN GDBS AUCTIONS

AUCTION No:	
BIDDING DATE/...../.....
NAME OF INSTUTION/ BANK	
BIDDING TYPE (Mark the box on the left-hand-side of the appropriate bidding type)	
<input type="checkbox"/> AUCTION	<input type="checkbox"/> NCS <input type="checkbox"/> POST AUCTION SALE
BIDDING AMOUNT (NOMINAL)*	
BIDDING PRICE*	
BIDDING AMOUNT (NET)**	

* Not for NCS biddings.

** Not for Auction biddings.

We hereby agree that in case this bidding form is achieved by the CBRT after the due time of bidding or the required collateral amount is not fully deposited in the CBRT account by the due time of bidding; our bidding will be assessed as invalid bid and if we win at the auction but do not pay the required amount of our corresponding bid, our collateral will be recorded as revenue to the budget.



Name-Surname :
Title :
Telephone :
Signature :

Note: Fax approvals with signature circulars shall be submitted to CBRT Headquarter, General Directorate of Markets, Directorate of Treasury Operations within 3 business days.

CBRT Headquarter
General Directorate of Markets,
Directorate of Treasury Operations
İstiklal Cad. 10 Ulus 06100 ANKARA
Tel: +90 312 507 51 60-68
Fax: +90 312 507 51 99

Annex - 2 Contact Information

CBRT Headquarter
General Directorate of Markets,
Directorate of Treasury Operations
İstiklal Cad. 10 Ulus 06100 ANKARA
Tel: +90 312 507 51 60–68
Fax: +90 312 507 51 99
e-mail: hazineislemleri@tcmb.gov.tr

Turkey Prime Ministry
Undersecretariat of Treasury
General Directorate of Public Finance
Department of Domestic Debt Management
İnönü Bulvarı No:36 Emek 06510 ANKARA
Tel: +90 312 204 61 61
Fax: +90 312 204 71 45
e-mail: ihale@hazine.gov.tr

