

Bank of Israel
Monetary Department

Tel Aviv, January 19, 2003
H-03-4-02-11

Auctions for Sale of Treasury Bills¹

1. General

Treasury bills do not bear interest, are redeemed at face value only, and do not carry indexation differentials and interest.

The Bank of Israel sells Treasury bills in multiple-price auctions on effective yield to maturity in annual terms (hereinafter: the Yield) of Treasury bills that it purchases from the State of Israel (hereinafter: Auctions). The manner in which the Yield is calculated is shown in Formula 1 in Appendix A. Auctions are held on dates and under conditions that are advertised in circulars issued by the Bank of Israel shortly before the auction date (hereinafter: the Auction Circular). The Bank of Israel reserves the right to sell in any Auction, at its discretion, a quantity of Treasury bills at a price derived from the average auction yield (hereinafter: the Average Auction Yield).

Applications to participate in the Auction (hereinafter: Applications) are accepted from banking corporations and members of the Tel Aviv Stock Exchange (hereinafter: the Stock Exchange). Corporations that are neither members of the Stock Exchange nor banks (hereinafter: Other Corporations) and private investors may participate in an Auction provided that the totality of their applications be no smaller than NIS 1 million face value. Other Corporations and private investors should contact the Sales Desk at the Capital Market Unit of the Bank of Israel Monetary Department (hereinafter: the Sales Desk) at least three business days before their first participation in a Treasury-bill auction, as a precondition for their participation in Treasury-bill auctions.

You may contact us for further explanations, including how to access the Sheba, Ltd., communication system, by telephone or email: Ms. Smadar Mrovka, Tel. 9723-5640729, mrovka@boi.gov.il, or Ms. Yaffa Alon, Tel. 9723-5640745, azarzar@boi.gov.il

In any case of contradiction between the contents of this Circular and provisions of the Law and/or the Regulations, the provisions of the Law and/or the Regulations, as the case may be, shall prevail.

2. Characteristics of Treasury Bills

Treasury bills are issued as registered bonds at face value of 100 New Israel Sheqalim (NIS) or at a multiple of this value. Bonds may be issued and sold during the life of the series. Each series of

¹ Treasury bills are issued under the Treasury Bills Law, 5744-1984 (hereinafter: the Law) and the Treasury Bills (Miscellaneous Series) Regulations, 5752-1992 (hereinafter: the Regulations).

Treasury bills is redeemed at its face value on the redemption date that is set for it. From that day on, the Treasury bill series bears neither interest nor indexation differentials. The series is redeemed at the end of a period that is no shorter than fourteen days and no longer than three hundred sixty-five days from the date of issue, all of which according to the specific redemption date advertised in the Auction Circular.

3. Auction Terms

a. Auction Circular

The Bank of Israel publishes an auction circular for every auction. The circular includes the following details: type of auction, deadline (including hour) for receipt of applications to purchase Treasury bills; deadline for payment of security margin (in auctions for the forward sale of Treasury bills—see our Circular H-03-3-02-11); date of allocation of Treasury bill series to successful bidders (in the case of a forward sale of Treasury bills—see our Circular H-03-3-02-11); value day for crediting of account; maximum yield; series number; series number on the Stock Exchange; date of maturity of principal; days to maturity; quantity sold to the public, in NIS millions face value; quantity offered in multiple-price auction, in NIS millions face value (see Section 4a); and quantity offered at the Average Auction Yield, in NIS millions face value (if any). Before each auction, the Bank of Israel chooses the maximum yield rate for the auction and decides whether to advertise it. The auction circular states the maximum yield rate or notes that a maximum yield rate has been established but will not be advertised to the public.

b. Applications to Participate in the Auction

1. Receipt of Applications

Applications for the purchase of Treasury bills are submitted to the Bank of Israel by means of the auction system of Sheba, Ltd. (5 Droyanov St., Tel Aviv, Tel. 9734-5264646), in the phrasing shown in Appendix B (hereinafter: the Application Form).

If for some technical reason the applications cannot be submitted by means of the Sheba auction system, they may be submitted on the Application Form, for each series of Treasury bills separately, hand-delivered by a messenger or submitted by facsimile (see Circular H-02-20-02-11).

Only applications that reach the Sales Desk by the auction date established in the Auction Circular, and that comply with the aforementioned requirements, may take part in the auction. It is the applicants' duty to make sure that the Sales Desk has received their applications.

2. Structure of Applications

Applications are submitted on the Application Form. Each application is made up of "orders." An order includes the quantity desired at the appropriate yield that the applicant bids. Orders are submitted in multiples of NIS 100 face value. Orders not expressed in multiples of NIS 100 face value are voided. Orders are submitted in yield margins of five hundredths of a percentage point (0.05) and in rising order. No yield rate exceeding the maximum yield rate (if a maximum yield rate is advertised), as defined in the Auction

Circular, shall be offered. Orders are submitted in yields including no more than two digits after the decimal point. If orders are submitted in yields of more than two digits after the decimal point, the digits after the first two digits following the decimal point are disregarded. Other Corporations and private investors may participate in an auction under the terms set forth in Section 1 above.

3. *Extent of Applications*

Applications from Other Corporations and private investors, in which the totality of their orders is less than NIS 1 million face value, are totally voided and disregarded in the auction. The extent of applications at Average Auction Yield (if any) that may participate in the auction shall not exceed NIS 10 million face value.

4. How the Auction Is Performed

a. *Quantity Offered in Multiple-Price Auction*

If the quantity of Treasury bills sought in Average Auction Yield applications (if any) is smaller than the sum offered with this framework, the difference between the quantities shall be added to the total quantity for which the multiple-price auction shall be performed. The allocation of these quantities and the setting of yields in the multiple-price auction shall take place on the basis of the total quantity, including the quantities added from the quantity offered at Average Auction Yield.

b. *Allocation of Quantities Applied for in Multiple-Price Auction*

All orders that are submitted at yields exceeding the maximum yield set for the auction (even if the maximum yield is not advertised) shall not participate in the allocation of the auction quantities and in determining the yield and, therefore, shall be disregarded. The auction is of the multiple-price type. In a multiple-price auction, successful applicants are charged a price derived from the yield that they offer, commensurate with each quantity for which they submitted successful bids. Orders submitted in the auction are met at their yields, starting with the lowest-yield order and ending with the order at which the entire quantity offered in the auction is delivered or up to the order at which the delivery of all orders ends, whichever is smaller. The order at which the auction yield is set is the highest yield at which a transaction takes place (hereinafter: the Auction Yield). Orders at yields lower than the Auction Yield are met in full. Orders at yields equal to the auction yield are met in full provided that their extent is smaller than or equal to the difference between the total quantity offered in the auction and the quantity delivered at yields under the auction yield (hereinafter: the remaining supply at auction yield). The remaining supply at auction yield is apportioned among applicants in accordance with the quantity of each application at Auction Yield divided by the total quantity of all applications at Auction Yield.

The Average Auction Yield is computed by averaging the yields of the successful bids and weighting them by the face-value quantity of each successful bid. Successful applicants pay for their Treasury bills at prices derived from the yields that are set for their respective bids, using Formula 2 in Appendix A.

c. Allocation of Quantities at Average Auction Yield (If Offered)

Before each auction, the Bank of Israel decides whether to offer a quantity of Treasury bills at a price derived from the Average Auction Yield. If a decision to offer such a quantity is made, the allocation takes place in the following way: if the quantity sought at Average Auction Yield exceeds the total offered within this framework, the quantity is allotted to these purchasers commensurate with the sum of orders at Average Auction Yield. If the quantity sought is identical to or smaller than the quantity offered, the difference is added in the manner stipulated in Section 4a.

d. Notice about Successful Application

At the end of the auction, the Bank of Israel, by means of the Sheba, Ltd., auction system, sends each applicant whose bid was answered, separately, a breakdown of the face value and yield for each of bids that was answered.

Successful applicants also receive, by means of the Sheba, Ltd., auction system, yield-to-price conversion tables, produced on the basis of Formula 2 in Appendix A, in accordance with their success in the auction. If for some technical reason the results of the successful bids cannot be forwarded by means of the Sheba, Ltd., auction system, they shall be forwarded by facsimile.

e. Culmination of the Transaction

1. Stock Exchange Members

The transaction for the sale of Treasury bills by the Bank of Israel to successful applicants who are Stock Exchange members shall be culminated on the auction day, by means of the Stock Exchange clearinghouse, as an off-the-exchange transaction at the value of the banking business day after the auction. Participants in the auction need not sign the off the Stock Exchange transaction form ("Form 12" of the Stock Exchange Clearinghouse); their participation in the auction is tantamount to their consent to the off-the-exchange culmination of the transaction and their granting of power of attorney and authorization to the Bank of Israel to sign Form 12 on their behalf.

2. Banking Corporations that are Not Stock Exchange Members

By participating in the auction, banking corporations that are not members of the Stock Exchange signal their consent to the crediting of their accounts with the Bank of Israel for the sums that they owe on account of their successful bids in the auction.

3. Other Corporations and Private Investors

Where successful applicants are Other Corporations and private investors, crediting is done by means of the account with the Bank of Israel of a banking corporation that has given its consent to the crediting of its account with the Bank of Israel for its customers' auction proceeds. The Letter of Consent, Authorization, and Undertaking to Credit Account of Banking Corporation, attached herewith as Appendix C, is submitted to the Sales Desk for each auction separately, after the auction results are advertised.

The form may be hand-delivered by a courier or submitted by facsimile. (Submission by facsimile is subject to signing of the "Fax Arrangement," as phrased in Appendix D, and submitting it to the Sales Desk on a nonrecurrent basis before the first participation in an auction.)

f. *Transfer of Treasury Bills to Successful Applicants*

1. *Stock Exchange Members*

For successful applicants are members of the Stock Exchange, the Treasury bills are placed in a securities deposit with the Stock Exchange in their name, in an off-the-exchange sale transaction.

2. *Other Corporations and Private Investors*

For successful applicants that are Other Corporations and private investors, the auction proceeds are recorded in their names in the Register of Bonds that the Bank of Israel manages or are deposited with the Stock Exchange in the account of a member of the Stock Exchange (for a securities deposit account of successful applicants in the auction). Such participants present the Bank of Israel with a standing application in which they choose one of these possibilities. This application, using the form attached herewith as Appendix E, is submitted on a nonrecurrent basis, before first participation in Treasury bill auctions, to the Sales Desk by 10:00 a.m. on the auction day.

5. *Listing of Treasury Bills on the Stock Exchange*

The sum to be sold in the first auction of the Treasury bill series shall be listed for trading on the Stock Exchange on the Stock Exchange trading day that follows the auction day. Additional sums to be sold in other auctions shall be listed for trading on the Stock Exchange on the auction day, provided that this day is a trading day on the Stock Exchange, and if it is not such a day, then on the Stock Exchange trading day following the auction day.

6. *Income Tax*

Your attention is called to legislation related to the income-tax reform, including the relevant regulations. Treasury bill series to be redeemed during 2003 shall not be subject to withholding tax.

Respectfully,

Gabi Fishman
Deputy Department Director

Appendix A**Formula 1: Effective Annual Yield on Treasury Bills (Percent)**

$$I = \left\{ \left(\frac{100}{P} \right)^{\left(\frac{365}{N} \right)} - 1 \right\} * 100$$

Formula 2: Price Derived from Treasury Bill Yield

$$P = \frac{100}{\left(\frac{I}{100} + 1 \right)^{\frac{N}{365}}}$$

I = effective yield to maturity in annual terms (percent)

P = Treasury bill price

N = number of days to maturity of Treasury bill

Appendix B**Application for Participation in Auction for Sale of Treasury Bills**

Date: _____

Bank of Israel
 Monetary Department
 Sales Desk
 Tel Aviv

Re: Application for Purchase of Treasury Bills by Auction

Auction date: _____ Series no. _____ Series no. on Tel Aviv Stock Exchange _____

Name of applicant _____ Holding no. with Bank of Israel _____

Address: _____ Tel. _____ Fax _____

	Effective yield to maturity in annual terms (%) (in rising order)	Face value in NIS
1.		
2.		
3.		
4.		
5.		
6.		
7.		
8.	Orders at Average Auction Yield*	
Total		

* The Average Auction Yield is not included on the total yield line, whereas the total sum includes the sum ordered at Average Auction Yield.

Note: this form must be filled out clearly and properly. A line in which any detail is not filled in properly (effective annual yield, with two digits after the decimal point; face value in New Israel Sheqalim in multiples of NIS 100 face value) shall be disregarded for the purposes of this Auction.

Respectfully,

Name of Applicant _____

Signature and stamp of Applicant _____

Appendix C

**Letter of Consent, Authorization, and Undertaking to Credit Our Account
with the Bank of Israel for Successful Applicant in Treasury Bill Auction
Other Than a Stock-Exchange Member**

Date: _____

To: Bank of Israel
Monetary Department
Sales Desk
Tel Aviv

Re: Consent, Authorization, and Undertaking to Credit Our Account
with the Bank of Israel for Auction Held on _____ (date)

We hereby give our consent to the crediting of our account, no. _____, with yourselves, in the sums of which you notify us, that are to be credited on account of the undertaking of _____ (hereinafter: the Customer), in accordance with his successful bid in the auction of Treasury bills series _____, which took place on _____ (date) (hereinafter: the Auction).

We are aware that our undertaking herewith is a condition that you have stipulated for the transfer of the Treasury bills that were issued under the Treasury Bills Law, 5744-1984, to the Customer, in accordance with his successful bid in the Auction against the provision of this undertaking herewith (and in accordance with the crediting of our account).

We are aware that the Treasury bills to which the Customer is entitled shall be deposited with our deposit at the Tel Aviv Stock Exchange on behalf of the Customer, and we shall arrange to debit the Customer for the Treasury bills or the Customer shall be registered as the registered owner of the bills in the Register of Bonds with the Bank of Israel, all of which as the Customer chooses.

Without derogating from our undertaking herewith, please note in the credit notice, in addition to the Customer's name, his account number _____ and branch number _____.

Respectfully,

Name of banking corporation

Signatures and stamp of banking corporation

Appendix D**Letter of Consent, Authorization, and Undertaking to Credit Our Account
with the Bank of Israel—Submission by Facsimile**

Date: _____

Bank of Israel
Monetary Department
Sales Desk
Tel Aviv

Re: Letters of Consent, Authorization, and Undertaking to Charge Our Account with the Bank of Israel for Successful Applicant in Treasury Bill Auctions that is Not a Stock Exchange Member (hereinafter: Appendix D)—Submission by Facsimile

Whereas: _____ (hereinafter: our Customer) will apply for the purchase of Treasury bills within the framework of Treasury bill auctions, on the basis of Appendix C, attached herewith, as an integral part of this Appendix; and

Whereas: as a result of the acquisition of the Treasury bills by our Customer, our account with you shall be credited by the sum of the auction proceeds as set forth in Appendix C, we agree that the conditions listed below shall apply to all Appendices C that shall be forwarded to you in the future, periodically, by facsimile.

1. You may credit our account with your institution in the sums set forth in Appendices C, as you shall receive from time to time, on account of our Customer's proceeds in the aforementioned auctions, provided that you receive Appendix C, signed by ourselves, after the auction results are advertised. For the sake of clarity, we state that the foregoing applies to all Appendices C that shall be submitted to you from time to time until such time as we retract our undertakings as set forth in Appendix D, in accordance with the stipulations below. Notices about sums charged and their dates shall be sent to us by yourselves on the days of crediting.
2. Each Appendix C shall oblige us even if it transpires that the signatures of one or more of the signatories were forged or if the Appendix was not signed by one of the aforesaid signatories.
3. In any case in which you receive an Appendix C by facsimile and conclude that our Appendix C, submitted to you, is insufficiently clear or should not be implemented in the absence of further details from us, you are entitled not to implement it and to call this to our attention and to that of Customer promptly, so that we can clarify the unclear details and/or provide further details, thereby making it possible to implement Appendix C in the relevant auction. To eliminate doubt, we hereby state that the foregoing does not create an obligation on the

Bank of Israel's part to perform any examination and/or clarification whatsoever and/or an obligation to receive further details and/or clarifications from us.

- 4. We shall be enjoined from bringing any claim against you in direct or indirect relation to the fact that you possess only a facsimile copy of Appendix C.
- 5. All of your records in regard to the existence of Appendix C, its date, and the crediting with the Bank of Israel shall serve as evidence of its having been submitted and implemented.
- 6. We may cancel our undertaking in this Letter by serving written notice three days before the date of cancellation. Said notice shall be considered as having been received by yourselves only if the Sales Desk at the Bank of Israel Monetary Department in Tel Aviv confirms having received it. We absolve you of all responsibility for expenses, losses, and damage that we may incur as a result of crediting on the basis of Appendix C due to its having been submitted by facsimile.
- 7. You may rescind your consent to receive Appendix C by facsimile at any time.

Stamp of banking corporation and signatures of managers authorized to signed this Form:

_____	_____	_____	_____
Name	Signature	ID number	Stamp of banking corporation

I, Adv. _____, hereby certify that the foregoing signatories, _____, ID number _____, and _____, ID number, _____, signed in my presence after I identified them on the basis of the aforementioned ID cards, and that they are authorized to sign on behalf of and to oblige the aforementioned corporation, as stated in this Appendix.

_____	_____	_____
Name of attorney	Attorney's stamp and signature	Attorney's license number

Appendix E

**Deposit of Auction Proceeds of Corporations
Other Than Stock-Exchange Members and Private Investors**

Date: _____

Bank of Israel Monetary Department
Sales Desk
Tel Aviv

Re: Deposit of my proceeds from Bank of Israel auctions of Treasury bills**Mark the desired option:**

- Please deposit the proceeds in Treasury bills that I shall purchase at periodic Bank of Israel auctions in the account of Stock Exchange member _____ for Securities Deposit no. _____ at branch _____ that he manages on my behalf.
- Please register me as the registered owner of said Treasury bills in the Register of Bonds with the Bank of Israel.

Name	Address	ID number	Signature
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Certification of signature for private investors
(by attorney, CPA, or authorized signatory at Bank)

I, the undersigned, _____, certify herewith that _____ signed in my presence after I identified him/her on the basis of the ID card cited above.

Name of certifying officer

Stamp and signature

Certification of signature for corporations that are not Stock Exchange members

I, Adv. _____, hereby certify that the foregoing signatories, _____, ID number _____, and _____, ID number, _____, signed in my presence after I identified them on the basis of the aforementioned ID cards, and that they are authorized to sign on behalf of and to oblige the aforementioned corporation, as stated in this Appendix.

Name of attorney

Attorney's stamp and signature

Attorney's license number