

# **CABINET OF MINISTERS OF THE REPUBLIC OF LATVIA**

## **Regulations No. 387**

Riga, 31 May 2005 (minutes No.32 §.51)

### **Regulations on Issuing Government Securities**

*Issued pursuant to Part III of Article 35 of the  
Law on Budget and Financial Management*

#### **I. General Issues**

1. These Regulations shall govern the procedure for issuing government securities (short-term Treasury bills, medium-term and long-term Treasury bonds of the Latvian government) in the Republic of Latvia.
2. The issuer of the government securities shall be the Minister of Finance. The Minister of Finance shall issue government securities in the name of the Latvian government, undertake the commitments to settle the current payments and redeem the government securities at pre-set maturities. Operations relating to issuance, primary placement and redemption of government securities shall be carried out by the Treasury.
3. Government securities shall be issued in a dematerialized (book entry) form. Every issue of government securities shall be assigned an individual international securities identification (ISIN) code.
4. All government securities shall be registered with the Latvian Central Depository.
5. Government securities may be released on regulated markets in accordance with an agreement between the Treasury and the organizer of the relevant regulated market.
6. Government securities shall be issued based on a decree of the Treasury concerning the issue of government securities. The above decree is a notice of a government securities auction and contains the following information on the government securities issue offered:
  - 6.1. issue number;
  - 6.2. settlement and maturity date of issue;
  - 6.3. value per government security paid upon the maturity date of the government security (hereinafter – the nominal value);
  - 6.4. amount of issue;

6.5. fixed income disbursement dates (for medium-term and long-term bonds).

7. The Treasury shall have the rights to announce additional issues (reopening of the issues) of government securities as well as redemption of the issue in full or in part prior to maturity based on a separate decree (hereinafter – early redemption), in compliance with the provisions referred to in Paragraph 31 of these Regulations.

## **II. Types of Government Securities**

8. Securities issued in the Republic of Latvia shall be granted a unique sequence number of the government securities issue consisting of three digits (XXX) and a checking digit (K), calculated based on the system defined in the ISIN standard.

9. Short-term Latvian Treasury bills shall be short-term government securities (with a maturity of up to one year inclusive), issued at a value below the nominal value of the government security and redeemed at their nominal value upon maturity. The following short-term Latvian Treasury bills shall be issued:

9.1. with a maturity of up to one month (ISIN code – LV 00005 1XXX K);

9.2. with a maturity of up to three months (ISIN code – LV 00005 2XXX K);

9.3. with a maturity of up to six months (ISIN code – LV 00005 3XXX K);

9.4. with a maturity of up to 12 months (ISIN code – LV 00005 4XXX K).

10. Medium-term Latvian Treasury bonds shall be medium-term government securities (with a maturity of 1–5 years inclusive), issued at a fixed or a floating interest rate, attesting the holders rights to receive a fixed income within a pre-set timeframe and redeemed at their nominal value upon maturity. The following medium-term Latvian Treasury bonds shall be issued:

10.1. with a maturity of up to two years (ISIN code – LV 00005 5XXX K);

10.2. with a maturity of up to three years (ISIN code – LV 00005 6XXX K);

10.3. with a maturity of up to five years (ISIN code – LV 00005 7XXX K).

11. Long-term Latvian Treasury bonds shall be long-term government securities (with a maturity over 5 years), issued at a fixed or a floating interest rate, attesting the holders rights to receive a fixed income within a pre-set timeframe and redeemed at their nominal value upon maturity. The following long-term Latvian Treasury bonds shall be issued:

11.1. with a maturity of up to 10 years (ISIN code – LV 00005 8XXX K);

11.2. with a maturity of over 10 years (ISIN code – LV 00005 9XXX K).

## **III. Primary Placement of Government Securities**

12. The following methods shall be used for primary placement of government securities:

12.1. the method of a competitive multi-price auction;

12.2. the method of a fixed rate (non-competitive) auction;

12.3. tap (direct) selling method.

13. The Minister of Finance shall have the rights to change the method and terms and conditions of primary placement of the government securities prior to making an announcement of public offer of the government securities and depart from the standard public offer model.

14. Primary placement of government securities may be implemented with an intermediation of financial institutions approved by the Minister of Finance (hereinafter – financial agent). The criteria for selecting a financial agent shall be approved by the Minister of Finance. The functions and responsibilities of a financial agent shall be stipulated in an agreement between the Treasury and the financial agent.

15. Primary placement of government securities with an intermediation of a financial agent shall be governed by regulations on primary placement of government securities approved by the financial agent and agreed with the Treasury. If the services of a financial agent are not used, the regulations on primary placement of government securities shall be approved by the Minister of Finance.

16. Primary placement of government securities at a competitive multi-price auction shall proceed in compliance with the following provisions:

16.1. a person submitting a bid for a specific amount of government securities on own behalf or on behalf of another person (hereinafter – primary placement participant) shall indicate the amount of nominal values of the government securities and the proposed bid rate for the government security in the submitted bid. The submitted bid shall be binding to the primary placement participant;

16.2. in the event of the Treasury having set no fixed income rate on the government securities issue in the Treasury's decree concerning the issue of government securities, the fixed income rate shall be set as the weighted average yield from the government securities bids approved at the auction, rounded down to the closest 1/8 of one percent rate;

16.3. The Treasury shall set the maximum yield on each issue of government securities;

16.4. The increment at a competitive multi-price auction of government securities shall be 0,001 %.

17. Primary placement of government securities at a fixed rate (non-competitive) auction shall proceed in compliance with the following provisions:

17.1. yield rate on the government securities issue and the purchasing price of one government security shall be established in line with the average yield of the last competitive multi-price auction of the given issue and the purchasing price of one security based on this yield;

17.2. the fixed income rate on medium-term and long-term bond issues shall be established based on the fixed income rate of the respective government securities set in compliance with the provisions of sub-paragraph 16.2 of these Regulations.

18. In primary placement of government securities by means of tap selling, the yield rate and price of the government securities issue, and in primary placement of a new issue of government securities also the fixed income rate (for medium-term and long-term bonds) shall be established by the Treasury.

19. The results of the primary placement of the government securities and other information relating to the primary placement of government securities shall be published on the Treasury's website, the website of the financial agent and the newspaper "Latvijas Vēstnesis".

20. In primary placement, the allotment amounts of the government securities shall be established by means of separate Treasury decrees concerning the government securities issue.

21. In the event of the bids for the government securities issue in primary placement being lower than allotment amount, the residual of the government securities issue may be re-auctioned until fully sold out.

22. The Treasury shall have the rights to increase the amount of an outstanding government securities issue by means of an additional issue (by reopening the issue).

23. A participant of the primary placement of government securities may only be a legal person who is a participant of the Latvian Central Depository or has signed an agreement with a person acceptable to the Latvian Central Depository who is able to and undertakes to ensure securities settlements concerning the deals concluded by the participant, and has signed an agreement with a person acceptable to the Latvian Central Depository who is able to and undertakes to ensure cash settlements concerning the deals concluded by the participant.

24. In the event of the primary placement of the government securities proceeding via intermediation of the financial agent, only legal persons entitled to participate in primary placement in compliance with the regulations approved by the financial agent and agreed by the Treasury as well as the provisions of paragraph 23 of these Regulations may be participants thereof.

25. In addition to the provisions referred to in paragraphs 23 and 24 of these Regulations, upon agreement with the Treasury, the financial agent may incorporate and approve additional provisions for participation in the primary placement of government securities into the regulations governing the primary placement of government securities, providing for rights and responsibilities of the participants of the primary placement.

26. The Financial and Capital Market Commission may invest the assets of the Deposit Guarantee Fund and Protection Fund for the Insured in primary placement of government securities only based on an agreement signed between the Financial and Capital Market Commission and the Treasury and in compliance with the decree of the Treasury to increase the amount of the issue of the government securities tendered at the last competitive multi-price auction by means of an additional issue. The rate of the additional issue shall be set as the weighted average yield rate of the last auction of the given issue or, in cases when no weighted average yield rate is set for the issue of the government securities, as the maximum yield rate set for the particular government securities issue by the Treasury.

27. Primary placement calendar and settlement procedure for the government securities shall be as follows:

27.1. primary placement of government securities shall be effected on the dates set by the Treasury's decree;

27.2. settlement concerning securities allotted at the primary placement of government securities shall be effected on the settlement dates set by the Treasury's decree.

#### **IV. Secondary Circulation of Government Securities**

28. Secondary circulation of government securities may proceed on a regulated market and outside this market, in compliance with the Law on the Financial Instruments Market and the rules of the Bank of Latvia, regulated market organizer and Latvian Central Depository.

29. Secondary circulation calendar for government securities shall be as follows:

29.1. government securities shall be in circulation starting from the settlement date for the government securities to the date which is two days prior to maturity date of the particular government securities issue;

29.2. fixed income payments for medium-term and long-term Treasury bonds shall be made based on the position of the securities account at the beginning of the fixed income disbursement day.

30. The Treasury may repurchase a government securities issue in full or in part by organising auctions or by means of a direct offer to repurchase the government securities from the financial market participants at a securities price or rate pre-set in a Treasury's decree.

31. Prior to maturity, the Treasury may only redeem in full or in part those government securities which the Treasury has repurchased in compliance with the provisions referred to in paragraph 30 of these Regulations, provided that there is no lien whatsoever on these securities.

#### **V. Government Securities Settlement System**

32. Cash settlements for government securities shall be made at the Bank of Latvia.

33. Settlements for government securities shall be ensured by the Latvian Central Depository and the Bank of Latvia based on the principle "securities delivery versus payment" as well as in compliance with the regulations on settlements approved by the financial agent (in the event of the primary placement of government securities proceeding via intermediation of a financial agent).

34. In the event of a government securities maturity date or fixed income payment date falling on a day which is not a bank business day, payment or redemption is effected on the next bank business day. No fixed income is calculated on such days.

35. Commissions and transaction fees in government securities settlements shall be as follows:

35.1. in primary placement of government securities, upon agreement with the Treasury, the financial agent may set commissions to be paid by participants of the primary placement of government securities;

35.2. transaction fees in secondary circulation of government securities shall be covered by participants of the secondary circulation of government securities.

#### **VI. Calculation of Government Securities Prices, Accumulated Income, Fixed Income and Yield Rate**

36. In accordance with the standard of the International Securities Market Association (ISMA), the annual base for calculation of the price of short-term Treasury bills and their yield shall be *Act/360* (the calculation uses the actual number of days based on 360 days), whereas that for the price of

medium-term and long-term bonds, accumulated yield, fixed income and yield shall be  $Act/Act$  (the calculation uses the actual number of days based on actual number of days in a year). To bond issues released into circulation prior to these Regulations taking effect, but having additional issues after these Regulations taking effect, a base  $30E/360$  shall apply (in calculation, every calendar month is considered to be 1/12 of 360 days in a year or 30 days, and the period from a specific date of the month to the respective date of the following month is considered to be 30 days).

37. Methods for calculation of government securities prices, yield rate, accumulated yield and fixed income and the respective rules shall be governed by the regulations for primary placement of government securities.

## **VII. Final Provision**

38. These Regulations shall take effect as of 1 July 2005.

Prime Minister            A.Kalvītis

Minister of Finance      O.Spurdziņš