Syrian Arab Republic
The Ministry of Finance
Government Securities Management Unit

Decree No. (963/ Ministerial Decree)

The Minister of Finance, based on the provisions of Legislative Decree No. (60) dated 1 October 2007,

the provisions of the executive instructions for the Legislative Decree on government securities issued by the Prime Minister No. (1329) dated 30 March 2008,

the provisions of the decree No. (3880/Ministerial Decree) dated 1 December 2010,

the approval of the Government Securities Management Committee at its meeting held on 22 May 2011,

and the amendment made on the provisions of the decree No. (3880/Ministerial Decree) dated 1 December 2010,

decides the following:

Government Securities Procedural Guide

Primary Market Regulations:

1. Government Securities:

1.1. Treasury Bills:

Short-term government securities with maturity dates not exceeding one year, and are issued at a discount from their par value.

- In Syria, treasury bills are issued for specific durations, that is (273, 182, 91) days using the discount method.
- They can be issued on different dates between the issues specified in the calendar.
- Treasury bills are considered dematerialized securities until the ownership is proved by book entry in the in the accounts of the Syrian settlement system.
- Treasury bills are considered fungible. That means that all bills issued with the same security number (i.e., having the same maturity date) are identical regardless of their issue date.
- The discount rate on treasury bills is calculated on a 365-day year basis according to the following equation:

$$p = \frac{par}{1 + \left(r.\frac{t}{365}\right)}$$

  where:
  P = The amount due to be paid by the buyer to the seller.
  PAR = The par value of the treasury bills being traded.
  r = The interest rate.
  t = The number of days between the settlement day of the transaction (included) and the maturity date of the concerned treasury bills (excluded).
- If the payment day falls on an official holiday, the next business day is considered the payment day.
- Treasury bills are traded outside the Damascus Securities Exchange after obtaining prior approval from the Government Securities Management Committee.

The par value of a single treasury bill is (1 million Syrian pounds).

1.2. Treasury Bonds:

These are medium and long-term government securities and are issued at their par value carrying a fixed interest rate throughout the bond’s life.

- In Syria, bonds are issued for specific durations ranging from one year up to 30 years.
- They can be issued on different dates between the issues specified in the calendar.

- Treasury bonds are considered dematerialized securities until the ownership is proved by book entry in the in the accounts of the Syrian settlement system.
- Treasury bonds are considered fungible. That means that all bonds issued with the same security number (i.e., having the same maturity date) are identical regardless of their issue date.
- If the payment day (for coupons or par value) of the bond falls on an official holiday, the next business day is considered the payment day.
- Treasury bonds are traded in the Damascus Securities Exchange after obtaining prior approval from the Government Securities Management Committee.
- The par value of a single treasury bond is (2 million Syrian pounds).
- Interest on the bonds is paid semi-annually.

2. Government Securities Auctions:

1.1. Flat Rate Auctions:

Government securities (Treasury Bills) are issued through flat rate auctions, where auction participants (bidders) express the volume of government securities they wish to purchase and the proposed interest rate level. The issued government securities are allocated to the winning bidders who propose interest rates, that are equal or lower than the highest rate the Ministry of Finance is willing to pay (cut-off rate). Regardless of the proposed interest rate level, all winning bidders receive the government securities at the cut-off price.

1.2. Multiple Price Auctions:

Government securities (Treasury Bonds) are issued through multiple price auctions, where auction participants (bidders) express the volume of bonds they wish to purchase and the proposed interest rate level. The auction proceeds as follows:

a. The weighted average yield is calculated as follows:
   - Bids are arranged in ascending order based on the proposed interest rate by banks until the target bond volume is covered.
   - The product for each bid is calculated (the par value of the bonds requested from each bank multiplied by the requested price).
   - The cumulative product of the above is calculated.
   - The cumulative par value of the requested bonds is calculated.

- The weighted yield for each bid is calculated by dividing the cumulative product by the cumulative value, and the auction's weighted yield is the weighted rate at the last accepted bid, which becomes the coupon rate.

b. Price Calculation:
- Each winning bidder who offered an interest rate equal to the weighted yield pays an amount equal to the par value of their allocated bonds.
- Each winning bidder who offered an interest rate lower than the weighted yield pays an amount calculated by adding a premium to the par value of their allocated bonds.
- Each winning bidder who offered an interest rate higher than the weighted yield pays an amount calculated by discounting the par value of their allocated bonds.
- The amount due to be paid by banks for the bonds is calculated through the bond pricing equation:

$$P = \sum_{K=1}^{N} [\frac{C}{(1+r)^K}] + [\frac{PAR}{(1+r)^N}]$$

where:
C: Coupon value (coupon rate multiplied by the bond's par value)
r: Yield rate required by the bidder.
PAR: Par value of the bond.
K: Coupon number.
N: Number of remaining coupons until the maturity date.

3. Qualified Bidders:

The following entities are qualified to submit bids in auctions:

a. Banks operating in Syria:

Which comply with the provisions of Article (8) of the executive instructions issued by the decree of the Prime Minister No. /1329/ dated 30 March 2008, and which will sign a bilateral agreement with the Central Bank of Syria.

- Qualified banks must submit their bids in the auction process as a principal bidder (i.e., in their own name).

- Qualified banks may submit bids in an auction on behalf of their clients who have authorized them to submit bids on their behalf, after the committee approves allowing natural and legal persons, besides qualified banks, to hold government securities in their own government securities accounts, as follows:
    - Natural and legal persons, both resident and non-resident (such as social security funds, individuals, and others), can participate through the same bids of bidding banks.
    - Each bank strictly separates its government securities account from the accounts of each client who has authorized it to subscribe in government securities auctions.
    - For the registration process, the government securities allocated to the banks' accounts are registered in the Central Bank's registers against the entry of the sale value of the government securities in the current account that those banks have at the Central Bank.
    - In its government securities registers, the Central Bank opens two accounts for each bank, one for the bank itself and one for the clients participating through it.
    - Banks provide their clients, who own government securities, with official notices proving their ownership of the government securities, including the par value of the government securities, the issue number, its date, the maturity date, the interest rate it carries, the interest payment dates and any other information the banks deem necessary.
    - Banks open current accounts for clients who own government securities, where the collected interest values and the values of the government securities at maturity are recorded. The Central Bank will pay the interests and the values of the government securities on their maturity dates to the banks' accounts. Then, the banks will pay these amounts to their clients' accounts at the latest by the next business day.

b. Insurance Companies:

Insurance companies operating in Syria can participate in government securities auctions directly through the Central Bank, where they submit and process their bids in the same manner as banks.

c. **The Central Bank of Syria:**
The Central Bank of Syria can participate in an auction on a non-competitive basis for monetary policy purposes. “Non-competitive basis” means that the Central Bank of Syria submits its bid in an auction without specifying a proposed interest rate, and government securities are allocated to it at the cut-off price for the bills and the weighted average yield for the bonds.

4. Auction Calendar (see Annex No. 2):

Each year, before the beginning of January, the Ministry of Finance prepares an indicative calendar for government securities auctions and publishes it on the websites of both the Ministry of Finance and the Central Bank of Syria. The government securities auction (Treasury Bills and Bonds) is held on a monthly basis, on any Monday of the month as predetermined in the indicative calendar. If a Monday falls on an official government holiday, the next business day will be the auction day.

Exceptionally, special auctions may be held between the dates of two scheduled auctions if the Ministry of Finance considers that necessary in the context of short-term government liquidity management.

5. Auction Announcements (see Annex No. 3):

Auctions are announced through the websites of both the Ministry of Finance and the Central Bank of Syria five business days before the auction date, no later than 12:00 noon.

An announcement includes the following information:

- Auction date.
- Date of settlement and delivery of government securities.
- The indicative range (maximum and minimum) for the volume of government securities (Treasury Bills and Bonds), including and disclosing the volume of the Central Bank of Syria’s non-competitive participation.
- Maturity date of the government securities.
- Identification number of the government security.
- The existing volumes of government securities identified by the same security number in case of reopening an already existing line.
- The volume of government securities maturing on the settlement date, if any.
- The number of bids allowed per participant.
- Indicative interest rates, if any.

6. Invitation to Participate:

The issuance announcement serves as an invitation to participate in the auction.

7. Procedures for Submitting Bids for An Auction:

7.1. Timing of Bid Submission:

Bids are submitted to the Central Bank of Syria between 10:00 AM and 12:00 noon on the auction date. All bids received by the Central Bank of Syria after 12:00 noon will be rejected.

7.2. Method of Submitting Bids:

Bids are submitted using the Auction Bid Form (Annex No. 4) and sent to the Central Bank of Syria's headquarters in Damascus, through one of the following options:

a. In a sealed, addressed envelope as follows:
   Address: …………………………………………………………
   Mr.: …………………………………………………………………..
b. By fax to the following number:
   Fax number: …………………………………………………
   Mr.: ………………………………………………………………….

In case of any problems in delivering the forms, a bidder must contact the Central Bank of Syria (the entity responsible for managing the auction, telephone number: …….). In cases of extreme necessity, a bidder may send their bid by registered phone or SWIFT at their own direct responsibility, and the Central Bank of Syria is not responsible for any errors in this case.

7.3. Time Stamp:

The sealed files and faxes sent by bidders are immediately time-stamped by the Central Bank of Syria. The stamped time serves as proof that the bid was received before the deadline for accepting bids.

7.4. Verification of the Validity of Bids:

Upon receipt of the bids, the Central Bank of Syria verifies the fulfillment of the remaining conditions and rejects bids that do not meet the specified conditions in the procedures guide. The concerned bidders are notified as soon as possible by the Central Bank of Syria to submit other bids within the specified time limit.

7.5. Contents of the Bids:

A bidder specifies the volume of government securities (Treasury Bills and Bonds) they propose to purchase and the interest rate level they suggest. They may offer to purchase different volumes at different interest rate levels.

- **Volumes of the Bids:**
  - Equal to the par value of the government securities a bidder proposes to purchase.
  - For each proposed interest rate level, a par value for the volume of the bid submitted for the government securities must be no less than one hundred million Syrian pounds and its multiples.
  - A bid is valued in millions of Syrian pounds in the bid form sent to the Central Bank of Syria (see Annex No. 4).
- **Proposed Interest Rate Levels:**
  - Expressed as:
    - Units, for example, 1%, 2%, etc.
    - Two decimal places, for example, 0.65%, 1.05%, 2.11%, etc.
  - The Government Securities Management Committee may set a target range, maximum and minimum limits for the interest rates at which bids are submitted, and this indicative range is mentioned in the auction announcement.

7.6. Determining the Maximum Amount for Submitted Bids:

- The total amount of bids submitted by a single participant in an auction must not exceed 30% of the midpoint of the indicative range announced by the Ministry of Finance for the nominal volume of securities to be auctioned.
- If the total amount of bids submitted by a single participant exceeds the allowed maximum, the excess amount will be deducted by the auction manager from the bids submitted by the concerned participant, starting with their bid proposing the highest interest rate level.
- Non-competitive bids from the Central Bank of Syria are subject to the same restriction mentioned above.

7.7. Confidentiality of Bidders' Identities:

The Central Bank of Syria is committed to maintaining the confidentiality of the bidders' identities until the Ministry of Finance decides on the interest rate it is willing to pay.

8. Determining the Winning Bidders and Allocating Government Securities:

- **After An auction closes:**
  - The Central Bank sends the bid ladder to the Ministry of Finance anonymously (Annex No. 5).
  - The Ministry of Finance determines the volume of Treasury Bills to be issued and the acceptable interest rate (cut-off rate) in flat rate auctions.
  - The Ministry of Finance determines the volume of Treasury Bonds to be issued and the weighted average yield in multiple price auctions.
  - The Central Bank of Syria determines the volume of government securities to be allocated to each winning bidder.

- **The allocation of government securities to the winners shall be done as follows:**

  a. **Treasury Bills:**
     - ***Full allocation:*** Bids that offered acceptable rates entirely below the cut-off rate receive full allocation if the proposed volume is less than the volume the Ministry of Finance wishes to issue (the accepted volume).
     - ***Proportional allocation:*** Bidders who submitted acceptable bids at a proposed rate equal to the cut-off rate are subject to proportional allocation if the actual total of accepted bids exceeds the accepted volume.

  b. **Treasury Bonds:**

     After arranging the bids in ascending order according to the proposed interest rate (by the bidders), the bids receive ***full allocation*** if the cumulative volume of submitted bids does not exceed the accepted volume.

     If there are bids at the same interest rate and the offered volume exceeds the accepted limit, these bids are subject to ***proportional allocation***.

The volume of bids allocated proportionally is adjusted upwards, so that the volume of a single bid is rounded to the nearest million Syrian pounds for Bills and to the nearest two million for Bonds.

9. Disclosure of Auction Results:

The Central Bank of Syria shall, before 12:00 noon on the next business day following the auction, do the following:

9.1. Notify each winning bidder of the volume allocated for them:

The Central Bank of Syria shall notify each winning bidder of the volume of government securities to be added to their account and the amount to be deducted from their current account on the auction settlement date. The above information is sent by fax as specified in the auction participant identification form by the Central Bank of Syria to the designated entity according to the bidder allocation form (Annex No. 6).

9.2. Both the Central Bank of Syria and the Ministry of Finance shall publish the auction results on their respective websites.

9.3. The auction results shall include the following data (see Annex No. 7):

- The total volume of valid bids.
- The cut-off price in case of flat rate auctions.
- The weighted average yield in case of multiple price auctions.
- The total allocated volume.
- The number of winning bidders.
- The accepted ratio of bids at the accepted price.
- The volume allocated to the Central Bank of Syria.
- The coverage ratio of bids.

10. Settlement of Government Securities Auctions:

On the third business day after the auction, the Central Bank of Syria shall do the following:

a. If there is a sufficient cash balance in a winning bidder's current account to pay for the government securities (i.e., delivery versus payment):
    - The par value of the allocated government securities is added to the government securities account of each winning bidder.
    - The paid value corresponding to the allocated government securities is deducted from the current account of each winning bidder.

b. If there is no sufficient cash balance in a winning bidder's current account to pay for the government securities, the following procedures are taken:

- Settlement is postponed, and a delay penalty is imposed at a rate of [LIBOR (interbank) +5%] of the allocation volume, calculated for the period from the auction settlement date until the payment date, provided it does not exceed five days.
- If the bank fails to comply with the previous paragraph within five days from the auction settlement date, the Central Bank shall cancel the allocation and impose a financial penalty of [0.5%] of the allocation volume.

c. The above penalties are transferred to the state's General Treasury.

11. Cancellation of Government Securities Auction:

Under exceptional circumstances, the Ministry of Finance may cancel a government securities auction, including those announced in the indicative calendar. That can happen in any of the following cases:

a. If there is sufficient liquidity in the state's General Treasury.
b. If the money market experiences some sudden imbalances.
c. If the interest rates proposed by the bidders are significantly out of line with what is expected under normal market conditions.
d. For other reasons agreed upon by the Government Securities Management Committee.

Damascus

24 May 2011

Minister of Finance
Dr. Muhammed Julailaty