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# CHANGES TO THE FINAL TERMS AND CONDITIONS OF EXCHANGE

The National Treasury has announced that the switch auction programme will be conducted on a price basis and not on yield basis. While the National Treasury believed that using the price basis would ensure that the auction runs smoother and results are generated quicker, it has become apparent that the market participants prefer a yield based method. In line with this, the National Treasury would like to announce that a yield based method be used.

## 1. Initially Proposed Exchange Procedure (using the price based method) <u>(the affected areas due to the proposed change are underlined)</u>

1.1 Methodology: A cash-neutral switch method will be used based on **<u>dirty prices pricing method.</u>**

1.2 **Proposals**

1.2.1 Participation: Exchanges are effected on a voluntary basis. Only primary dealers are eligible to submit bids.
1.2.2 The National Treasury reserves the right to buy back nothing or less than the announced amount if warranted by market conditions.
1.2.3 The National Treasury may hold a number of switch auctions of a particular bond over a period of time, if necessary.
1.2.4 The National Treasury will not fix the minimum size for source bonds after the switches.
1.2.5 Only bonds with a minimum nominal outstanding debt of R1 billion will be considered as a source bond. Bonds with outstanding debt of less than R1 billion will only be considered for buy-backs (payment in the form of cash).
1.2.6 The National Treasury will not issue a new bond through the process of a switch auction.
1.2.7 No bond will be a source bond in a switch auction within 12 months of its last auction date as a destination bond, except for bonds with only 24 months to redemption.
1.2.8 Switches between bonds will not be restricted to pairs within the same maturity bracket.
1.2.9 There will be no limitation on the number of offers for each security.
1.2.10 Switch auctions will be conducted on a **<u>multiple-price basis,</u>** where successful bidders will switch at the **<u>price</u>** they bid. There will not be a non-competitive bidding facility.

1.2.11 The bidding format would be that the market participants, following the publication by the National Treasury of an **indicative clean price** of the existing source bond (at 10.30am), will bid a quantity of the source bond, in minimum units of R10 million nominal and multiples of 5 thereafter, and a **clean price** for the new destination bond (3 Decimal places), which will be assessed against the undisclosed fair market value that would have been determined in advance by the National Treasury. **Whilst all bidding and the 10.30 am indicative price would be in terms of clean prices, the switch ratio will be based in terms of dirty (i.e. settlement) prices.**

1.2.12 The National Treasury will retain the option not to allot bonds to bids at a switch auction if they are not regarded by the National Treasury as fair market value.

1.2.13 Settlement will be t+3

1.2.14 Timetable for the Conduct of a Switch Auction

- Switch auctions will be pre-announced in the quarterly auction calendar. The National treasury will schedule switch auctions for the forthcoming quarter on the last working day of the preceding quarter.

- 30 days before auction: The National Treasury will preannounce the auction and settlement date(s) of switch auction(s) including the bonds involved.

- A week before the auction (7 days), a press notice will be issued confirming the details of the switch auction, settlement details and the maximum size.

- On the day of the auction:
- At 10.30am, the National Treasury will publish an **indicative clean price** for the source bond involved in the switch auction.
- Between 10.30am and 11.00am, the market participants will be allowed to offer their bids to switch a nominal quantity of the source bond into the destination bond at the **clean price** of the destination bond (given the indicated 10.30am **clean price** of the source bond).
- By 11.30am the Reserve Bank will aim to publish the results of the switch auction. These would include the highest, lowest and average **clean prices** of the destination bond which were successful, **and their dirty price ratio equivalents; the percentage allotted of the bids at the lowest accepted price;** the nominal amount of the source bond that will be switched; and the nominal amount of the destination bond that will be created as a result.

## 2. New Exchange Procedures (using yield based method in place of price based method)

2.1 Methodology: A cash-neutral switch method will be used based on a **dirty pricing method. However, bids will be submitted in terms of yield.**

### 2.2 Proposals

2.2.1 Participation: Exchanges are effected on a voluntary basis. Only primary dealers are eligible to submit offers.

2.2.2 The National Treasury reserves the right to buy back nothing or less than the announced amount if warranted by market conditions.

2.2.3 The National Treasury may hold a number of switch auctions of a particular bond over a period of time, if necessary.

2.2.4 The National Treasury will not fix the minimum size for source bonds after the switches.

2.2.5 Only bonds with a minimum nominal outstanding debt of R1 billion will be considered as a source bond. Bonds with outstanding debt of less than R1 billion will only be considered for buy-backs (payment in the form of cash).

2.2.6 The National Treasury will not issue a new bond through the process of a switch auction.

2.2.7 No bond will be a source bond in a switch auction within 12 months of its last auction date as a destination bond, except for bonds with only 24 months to redemption.

2.2.8 Switches between bonds will not be restricted to pairs within the same maturity bracket.

2.2.9 There will be no limitation on the number of offers for each security.

2.2.10 Switch auctions will be conducted on a **multiple-yield basis,** where successful bidders will switch at the **yield** they bid. There will not be a non-competitive bidding facility.

2.2.11 The bidding format would be that the market participants, following the publication by the National Treasury of an **indicative yield** of the existing source bond (at 10.30am), will bid a quantity of the source bond, in minimum units of R10 million nominal and multiples of 5 thereafter, and a **yield** for the new destination bond (3 Decimal places), which will be assessed against the undisclosed fair market value that would have been determined in advance by the National Treasury.

2.2.12 The National Treasury will retain the option not to allot bonds to bids at a switch auction if they are not regarded by the National Treasury as fair market value.

2.2.13 Settlement will be t+3

2.2.14 Timetable for the Conduct of a Switch Auction

- Switch auctions will be pre-announced in the quarterly auction calendar. The National treasury will schedule switch auctions for the forthcoming quarter on the last working day of the preceding quarter.

- 30 days before auction: The National Treasury will preannounce the auction and settlement date(s) of switch auction(s) including the bonds involved.

- A week before the auction (7 days), a press notice will be issued confirming the details of the switch auction, settlement details and the maximum size.

- On the day of the auction:
- At 10.30am, the National Treasury will publish an **indicative yield** for the source bond involved in the switch auction.
- Between 10.30am and 11.00am, the market participants will be allowed to offer their bids to switch a nominal quantity of the source bond into the destination bond at a **yield** of the destination bond (given the indicated 10.30am **yield** of the source bond).
- By 11.30am the Reserve Bank will aim to publish the results of the switch auction. These would include the highest, lowest and average **yields** of the destination bond which were successful; the nominal amount of the source bond that will be switched; and the nominal amount of the destination bond that will be created as a result.

3. **Special Programme of dealing in odd amounts during the Switch Auction**
The conversion of the source bond to the destination bond will usually have the implication of the nominal of the destination bond being an odd amount.
The National Treasury is prepared to round off any odd amounts to the nearest

R1 000,00 ( one thousand rand). It has been decided that the auction process on the day of the tender should not be interrupted or delayed due to the rounding off of the nominal amount in respect to the destination bond. An option is now available to tenders to sell any odd amounts up to R1 000,00 to the National Treasury. These odd amounts that have been allocated during the auction process will be bought back at the same price that they have been tendered for. This option will only be available up to 11h00 the next working day following the auction.


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