



January 24, 2006
Circular 11-02-10-02 H

Re: Rules for Correction of Errors in Treasury-Bill Issues of the Bank of Israel

A. Purpose

The purpose of this circular is to systematize the handling of cases in which winning bidders in Treasury bill issues of the Bank of Israel make errors in the submission of their orders at auction yields.¹

B. Conditions for Contacting the Bank of Israel

1. *Material Conditions for Inquiries with the Bank of Israel*

The Bank of Israel will handle inquiries from winning bidders in Treasury bill auctions, pertaining to the correction of alleged errors originating in the submission of erroneous orders at the auction yields (hereinafter: the erroneous order) only if all of the following conditions are present:

- a. There is a minimum difference between the yield in the erroneous order and the “auction yield.”² This difference has been set at 0.04 percentage point below the “auction yield.”
- b. The damage to the inquirer—relative to the auction yield—is greater than NIS 100,000. This sum is indexed to the Consumer Price Index (CPI), with the December 2001 CPI, published on January 15, 2002, as the base index, and the index published on the last January 15 before the auction date as the new index.

2. *Material Conditions related to the Manner of Contacting the Bank of Israel*

- a. Handling of the error shall begin only after the winning bidder contacts the Bank of Israel in writing and alleges that s/he submitted erroneous orders at the auction yields. The inquiry may also relate to one order among the totality of orders submitted in the auction.
- b. The inquiry with the Bank of Israel shall be submitted within three hours of the time at which the auction results are made public. (Inquiries submitted after this deadline will not be accepted.)
- c. The inquiry shall be from the Chief Executive Officer of the company or, in h/her absence, from h/her pro tem, to the director of the Monetary Department or h/her deputy, the official in charge of activity in the capital market.

¹ An order includes the quantity that the bidder wishes to acquire at the appropriate yield.

² The order in which the “auction yield” is determined is the one with the highest yield, at which the transaction is performed.

- d. The inquiry with the Bank of Israel shall include an irrevocable request to correct the erroneous order by means of re-sale, as stated in Section C1 below, using the form shown in the attached Appendix, marked as Appendix A, signed by the Chief Executive Officer of the company or, in h/her absence, by h/her pro tem, for each auction separately.

3. Additional Conditions

The inquiry may be forwarded to the Bank of Israel by hand, by courier, or by facsimile transmission.

C. Correction of Error

1. In cases where the inquiry presented to the Bank of Israel relates to several orders, the Bank of Israel shall examine the allegation of error for each of order separately.
2. In cases where the Bank of Israel confirms that the request for the correction of an error meets the criteria set forth in Section B above, the inquirer shall sell back to the Bank of Israel the Treasury bills in regard to which the order has been defined as erroneous, at the winning yield less the compensation. The sale shall take place on the business day after the date of consent to correct the error and at the value of the aforementioned business day. The compensation is meant to cover the expenses related to handling the error and the damage caused by the error, and shall be set at NIS 60,000, indexed to the Consumer Price Index (CPI), with the index of December 2001, published on January 15, 2002, as the base index, and the index published on the last January 15 before the auction date as the new index.
3. Any correction made under the terms of this Circular shall be final and all communications on the subject shall be addressed to the Bank of Israel.

D. Arrangements for the Prevention of Errors in the Future

1. The applicant company shall be suspended from participation in all Treasury bill auctions of the Bank of Israel until the Chief Executive Officer of the company submits a detailed written account of the measures that s/he has taken to prevent such errors in the future.
2. If an error recurs within twelve months, the applicant company shall be suspended from participation in all Treasury bill auctions of the Bank of Israel until the chair of the Board of Directors of the company submits a detailed written account of the measures that s/he has taken to prevent such errors in the future.

Respectfully,

Gabi Fishman
Deputy Department Director

Appendix A

Irrevocable Request for Correction of Erroneous Orders

1. You are hereby asked to agree to the correction of the errors that occurred in our orders of _____ (date) for participation in the auction of _____ (length of term) Treasury bills, Series _____.
 - a. Order at _____ (yield) and _____ quantity (par value)
 - b. Order at _____ (yield) and _____ quantity (par value)
2. We request the correction because we placed the aforementioned orders erroneously. The reasons for the errors in the erroneous orders follow:

3. We are aware that you may respond to this request of ours in respect of all orders in regard to which we have requested a correction, or in some of them (hereinafter—the erroneous orders), or not to respond to this request at all.
4. We agree that said correction of errors shall be performed by the sale to you of the Treasury bills that were listed in the erroneous orders, on the business day following the date of your consent to our request, if and insofar as you give such consent, at the value of said business day. Said sale of Treasury bills to you shall be carried out at the yield at which the bills were erroneously acquired by ourselves. The sum of NIS 60,000 shall be subtracted from this sum and shall be forwarded to you as an agreed and predetermined compensation, with no need to prove damage (hereinafter: the compensation sum).

The compensation sum shall be indexed to the Consumer Price Index (CPI), with the December 2001 CPI, published on January 15, 2002, as the base index, and the CPI published on the last January 15 before the auction date as the new index. The sum at which you shall repurchase the Treasury bills from us, less the compensation sum, shall hereinafter be termed the refunded sum.

We agree that you shall subtract the compensation sum by crediting our account with yourselves, account no. _____, for the compensation sum, or(*) by crediting an account at _____ (name of bank) with yourselves for the compensation sum. Attached herewith is notice of consent by the aforementioned bank to the crediting of its account with yourselves for the compensation sum.

(*) Delete where inapplicable.
5. You shall deal with the correction of the error on the basis of the error-correction criteria set forth in Section B of your circular in this matter, as periodically updated.
6. Our request and consent, as aforementioned, are irrevocable.
7. The refunded sum constitutes final and total settlement of all allegations and/or claims that we may have on account of the Treasury bills cited in the erroneous orders, and in regard to which you agreed to correct the error as aforesaid, and/or in regard to your handling of said Treasury bills (hereinafter: the refunded Treasury bills). We hereby waive any allegation and/or claim vis-a-vis the Bank of Israel in respect of the refunded Treasury bills, including any error made by

ourselves in the aforementioned orders, and including your handling of our error in accordance with the circular that you have issued in the matter.

8. We are aware that the sums that we are owed for the re-sale of the Treasury bills to you, as part of the error-correction process, will be remitted to us only if ownership of the refunded Treasury bills is fully transferred to yourselves.
9. We undertake to adjust our systems promptly in order to prevent the recurrence of these errors.
10. We agree that we shall be enjoined from participating in Treasury bill auctions of the Bank of Israel until you receive a letter from our Chief Executive Officer spelling out the measures the measures that we have taken to prevent errors of the type at issue.
11. Without prejudicing and/or derogating from the provision in Section 10 *supra*, we agree that if we make another error in Treasury bill auctions of the Bank of Israel, we shall be enjoined from participating in Treasury bill auctions of the Bank of Israel until you receive, in addition to the aforementioned letter from our Chief Executive Officer (Section 10), a letter from the chair of our Board of Directors spelling out the measures that s/he has taken to prevent errors of the type at issue.

Chief Executive Officer of the Company

Name of Applicant Company