

RECOGNIZED DEALER AGREEMENT FOR CZECH GOVERNMENT SECURITIES

THIS AGREEMENT is made on 7.1.2020 2019, effective from 1 January 2020, for the purpose of fulfilling the function of the Recognized Dealer (herein subsequently referred to as the “**Agreement**“)

BY AND BETWEEN

- (1) **THE CZECH REPUBLIC acting through the Ministry of Finance**,
with its seat at Letenská 525/15, 118 10 Praha 1, Identification Number: 00006947, Tax Identification
Number: CZ00006947,

represented by **Ms Alena Schillerova, Ph.D., Minister of Finance**

(hereinafter referred to as the “**Ministry of Finance**“)

and

- (2) **GOLDMAN SACHS INTERNATIONAL**,
with registered office at Plumtree Court, 25 Shoe Lane, London, United Kingdom, EC4A 4AU,
registered in the United Kingdom with company registration number: 02263951 and VAT Number:
GB 447 2649 28,

represented by



(hereinafter referred to as the “**Recognized Dealer**“)

WHEREAS**(A)**

- 1) Based on the statutory regulations valid in the Czech Republic, the Czech Republic acting through the Ministry of Finance issues Czech Government Securities.
- 2) It is in the best interest of the Czech Republic that the primary market placing of the Czech Government Securities is diversely and adequately dispersed among end-investors, that its bonds are traded on secondary markets characterised by high liquidity and transparency and that the status of the Czech sovereign debt is maintained at the highest level of quality in the primary and secondary market.
- 3) With a view to support issuance, purchase, trading and promotion of Czech Government Securities and of its debt and cash management it is desirable that the Ministry of Finance has appointed certain institutions to become Recognized Dealers in Czech Government Securities.

(B)

- 1) The institution mentioned above as the party to this Agreement has been assigned the status of the Recognized Dealer in Czech Government Securities with a view to enhancing the placing of Czech Government Securities, to ensuring their liquidity on the secondary market, and to promoting the Czech sovereign debt on the international market and across investor community.

1. THE SCOPE OF THE AGREEMENT AND DEFINITIONS

The scope of the Agreement is to regulate the relationship between the Ministry of Finance and the Recognized Dealer regarding trading and promotion of Czech Government Securities and Ministry of Finance's debt and cash management process.

The Agreement determines the principles governing the activities of the Recognized Dealer and the Ministry of Finance and it sets in particular:

- 1) Privileges and obligations of the Recognized Dealers,
- 2) Privileges and obligations of the Ministry of Finance,
- 3) Selection criteria for the Recognized Dealers,

The following terms in this Agreement shall mean:

“Auction”: A public offering of Czech Government Securities executed in compliance with the Auction Rules.

“Auction Rules”: *Rules for the Primary Sale of Government Securities Organized by the Czech National Bank*, which came into effect on 7 January 2019 and may be amended or replaced from time to time by the Ministry of Finance.

“Buy-Back”: Transaction in which the Ministry of Finance repurchases a particular Czech Government Bond in the secondary market for cash by way of a buyback auction or a fixed-price repurchase tender offer.

“Competitive Part”: The Auction part in which Primary Dealers and Recognized Dealers may submit bids at competitive prices in compliance with the Auction Rules.

“**Czech Government Bonds**”: Securities issued by the Czech Republic acting through the Ministry of Finance on domestic or foreign market with the maturity longer than 1 year.

“**Czech Government Securities**”: All of the outstanding Czech Government Bonds and all of the short term government securities with the maturity shorter than 1 year, i.e. Treasury Bills, issued by the Czech Republic acting through the Ministry of Finance.

“**Designated Electronic Trading System**“ or “**DETS**“, as the case may be: The electronic trading platform or the electronic trading platforms designated by the Ministry of Finance for trading of Czech Government Bonds.

“**Exchanges**“: Transaction in which the Ministry of Finance offers to exchange one or multiple different Czech Government Bonds (bonds repurchased) for another one or multiple different Czech Government Bonds (bonds issued) by way of a switch auction.

“**Government Asset Funds**“: Portfolio assets actively managed and invested by the Debt and Financial Assets Management Department of the Ministry of Finance.

“**Lending Facility**“: Transaction in which the Ministry of Finance provides lending of Czech Government Bonds and the borrower provides the Ministry of Finance with collateral in the form of cash or securities.

“**Primary Dealer Group**” or “**Primary Dealers**“, as the case may be: A group of institutions that have entered into a Primary Dealer Agreement for Czech Government Securities with the Czech Republic.

“**Recognized Dealer Group**” or “**Recognized Dealers**“, as the case may be: A group of institutions that have entered into a Recognized Dealer Agreement for Czech Government Securities with the Czech Republic.

“**Secondary Market Trading**“: Any intra-dealer or customer trading of Czech Government Bonds by the Primary Dealers and/or Recognized Dealers, except for the intra-dealer trading on the DETS.

“**Tap Issuance**“: Transaction in which the Ministry of Finance sells a particular Czech Government Bond in the secondary market for cash by way of an auction or a fixed-price repurchase tender offer.

“**Trading Day**“: A day on which contracts can be executed on the DETSs as defined by relevant DETS.

2. THE OBLIGATIONS OF RECOGNIZED DEALER

- 2.1 The Recognized Dealer is obliged to be system participant and act as an active market participant at least on one of the chosen DETS, act in accordance with its market rules, and to contribute on best effort basis to the liquidity of the Secondary Market Trading of the Czech Government Bonds.
- 2.2 The Recognized Dealer is obliged to actively assist the Ministry of Finance in the Buy-Backs or Exchanges in line with the request of the Ministry of Finance sent to the Recognized Dealer, especially by providing price guidance and information on the offered terms of the Buy-Backs or Exchanges to the bond holders.
- 2.3 The Recognized Dealer is obliged to display a good code of conduct in the clearing and settlement of the trades with Czech Government Securities, with a view to minimising failed transactions.

- 2.4 The Recognized Dealer is obliged to observe and follow all of the applicable laws, statutes and regulations imposing any and all of the selling restrictions for sale of the Czech Government Securities in any country where they are placed or sold by the Recognized Dealer.
- 2.5 The Recognized Dealer is not allowed to negatively comment on activities of the Ministry of Finance based on unsubstantiated information or speculation. The Recognized Dealer is also obliged to actively promote the Czech Government Securities market and market transactions of the Ministry of Finance by adequate analysis, research and publications.
- 2.6 It should be understood by all Recognized Dealers recognised by the Ministry of Finance, that they act and participate in the market at their own risk and that the Ministry of Finance shall not be responsible in any manner for the decisions of any participant in the market and in particular for any losses, direct or indirect, arising in relation to any transaction entered into by such participants.
- 2.7 The Recognized Dealer shall treat all nonpublic information received from the Ministry of Finance and in particular information relating to transactions and outstanding positions confidentially. The Recognized Dealer shall not share this confidential information with any third party unless required to do so by applicable law, a court order or by this code.

3. THE PRIVILEGES OF RECOGNIZED DEALER

- 3.1 The Recognized Dealer has the exclusive right to carry and use the title of “*Recognized Dealer in Czech Government Securities*”.
- 3.2 The Recognized Dealer together with Primary Dealers has the right to participate in the Competitive Part of Auctions of Czech Government Bonds organized by the Czech National Bank on behalf of the Ministry of Finance and submit bids of investors.
- 3.3 The Recognized Dealer or an applicant to become a new member of the Recognized Dealer Group has the right to participate in Tap Issuance, Buy-Backs or Exchanges as stipulated in the “*Terms for Ministry of Finance Tap Issuance, Buy-Backs and Exchanges*” as defined in the Annex I of the Agreement.
- 3.4 The Recognized Dealer with whom the Ministry of Finance may enter into a Global Master Repurchase Agreement¹, Global Master Securities Lending Agreement² or Master Agreement for Financial Transactions concluded only in Czech language as *Rámcová smlouva o obchodování na finančním trhu*³ has the right to participate in Lending Facilities, repurchase transactions, Buy-Backs, Tap Issuance or Exchanges and be counterparty in transactions with the Government Asset Funds.
- 3.5 The Recognized Dealer with whom the Ministry of Finance may enter into an ISDA Master Agreement⁴ or Master Agreement for Financial Transactions concluded only in Czech language as *Rámcová smlouva o obchodování na finančním trhu* has the right to be asked for price indication in transactions with financial derivatives including FX transactions in the event that the Ministry of Finance would conduct derivative transactions. All derivative transactions will be documented under an ISDA Master Agreement or Master Agreement for

¹ According to Interantional Capital Market Association and The Bond Market Association standard.

² According to International Securities Lending Association.

³ According to Czech Banking Assicitation standard.

⁴ According to International Swaps and Derivatives Association, Inc. standard.

Financial Transactions concluded only in Czech language as *Rámcová smlouva o obchodování na finančním trhu* with the Ministry of Finance.

- 3.6 The Recognized Dealer has the right to use the Lending Facilities set up by the Ministry of Finance as stipulated in the „*Terms for Ministry of Finance Lending Facilities*” as defined in the Annex II of the Agreement with a purpose to improve market efficiency.
- 3.7 The Recognized Dealer is the preferred party along with Primary Dealers for concluding other financial transactions defined by the Ministry of Finance.
- 3.8 The Recognized Dealer has the right to advise and discuss with Debt and Financial Assets Management Department of the Ministry of Finance estimates of the Czech Republic borrowing needs and issuance planning, introduction of new financial instruments, selection of issuing and Buy-Backs or Exchanges methods, operating rules, choice of markets for primary market transactions and developments in government debt markets and issuance activities.

4. SELECTION OF THE RECOGNIZED DEALER GROUP

- 4.1 An applicant to become a member of the Recognized Dealer Group shall submit a written application.
- 4.2 The Ministry of Finance selects members of Recognized Dealer Group for annual periods, starting 1 January and ending 31 December. All periods shall be annual periods. The selection is notified to Recognized Dealers on 30 November each year at the latest. The Ministry of Finance reserves the right to define the number of members of the Recognized Dealer Group as well as the proportion between resident and non-resident members of Recognized Dealer Group.
- 4.3 Only the following entities may become members of the Recognized Dealer Group:
 - a) a bank with a banking licence granted pursuant to Article 4 of Act No. 21/1992 Coll., Banking Act, as amended (hereinafter referred to as the “Banking Act ”), which on the basis of this licence is authorised to provide investment services pursuant to Article 4 (2) a) to c) and e) of Act No. 256/2004 Coll., Capital Market Act (hereinafter referred to as the “Capital Market Act”),
 - b) a branch of foreign bank with a banking licence granted pursuant to Article 5 of the Banking Act, which on the basis of this licence is authorised to provide investment services pursuant to Article 4 (2) a) to c) and e) of the Capital Market Act,
 - c) a foreign entity having its registered office in another member state of the European Union, which on the basis of the single licence pursuant to Article 5c et seq. of the Banking Act is authorised to perform activities pursuant to Article 5d d) and g) of item 4 of the Banking Act on the territory of the Czech Republic,
 - d) a securities dealer pursuant to Article 5 of the Capital Market Act which is authorised to provide investment services pursuant to Article 4 (2) a) to c) and e) of the Capital Market Act,
 - e) a foreign entity providing in accordance with Article 28 of the Capital Market Act investment services pursuant to Article 4 (2) a) to c) and e) of the Capital Market Act through its branch,
 - f) a foreign entity having its registered office in another member state of the European Union, which is authorised on the basis of the single licence pursuant to Articles 24 and 25 of the Capital Market Act to provide investment services pursuant to Article 4 (2) a) to c) and e) of the Capital Market Act on the territory of the Czech Republic,
 - g) a foreign entity having its registered office in another member state of the European Union, which is a bank, bank’s branch, securities dealer or securities dealer’s branch, and

- which is authorised to provide investment services pursuant to Article 4 (2) a) to c) and e) of the Capital Market Act on the territory of a member state of the European Union,
- h) an entity authorised by the United Kingdom Prudential Regulation Authority and regulated by the United Kingdom Financial Conduct Authority and the Prudential Regulation Authority (or any successor bodies) to perform regulated activities including at least: (i) dealing in investments as principal; (ii) dealing in investments as agent; (iii) arranging (bringing about) deals in investments; and (iv) advising on investments.
- 4.4 An applicant to become a member of the Recognized Dealer Group is required to fulfil the following criteria at the time of submitting the application:
- a) To be a member of a group where entities act as primary or recognized dealer (or to have a similar function) for at least three other European Union member states at the same time (applicable to non-resident institutions),
 - b) to have high level of management and depth and experience, dealing capability as well as proven geographic and institutional distribution capacity,
 - c) to prove a record of support of the Czech Government Securities market and promotion of the Czech Government Securities by adequate analysis, research and publications,
 - d) in the opinion of the Ministry of Finance, shall maintain sufficient resources in terms of human resources, financial situation and such organization of its syndicate desk, trading and sales forces to support efficient primary and secondary market of Czech Government Securities,
 - e) in the opinion of the Ministry of Finance, shall maintain the highest standards in financial business practice, consistent with the Ministry of Finance's objective of achieving orderly, efficient and liquid Czech Government Securities market.
- 4.5 The Recognized Dealers are selected by the Ministry of Finance from the present Recognized Dealer Group and from other institutions the Ministry of Finance might decide to consider. The selection will be based the criteria stipulated in this section and other criteria the Ministry of Finance might consider relevant.
- 4.6 The Ministry of Finance is also entitled to replace any of the existing Recognized Dealers who might resign in accordance with Section 7 herein during the time of validity of the Agreement by a new member of the Recognized Dealer Group selected based on criteria set in this section.

5. NOTICES

Each communication to be made hereunder shall, unless stated otherwise, be made in writing by letter, telefax or e-mail to the addresses and telefax number (s) as defined bellow.

Recognized Dealer:

Goldman Sachs International, Plumtree Court, 25 Shoe Lane,

London EC4A 4AU

United Kingdom



The Czech Republic – the Ministry of Finance
Debt and Financial Assets Management Department
Letenská 525/15, 118 10 Praha 1



6. GOVERNING LAW AND JURISDICTION

- 6.1 The Agreement shall be governed by and construed in accordance with the Czech law. This rule applies to all and every dispute that may arise out of the Agreement and of the relation established by the Agreement.
- 6.2 If any dispute may arise between the parties hereto in connection with the Agreement, the parties will seek an agreement to resolve it between themselves first. In a case that the agreement to resolve such dispute cannot be reached, the parties hereby submit to the jurisdiction of the courts of the Czech Republic. The parties agree that the competent court to have exclusive jurisdiction to settle any such dispute shall be The Municipal Court in Prague.

7. ENTRY INTO FORCE AND TERMINATION OF THE AGREEMENT

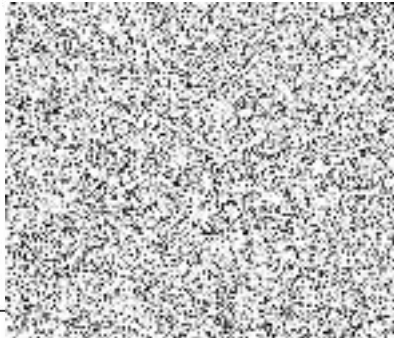
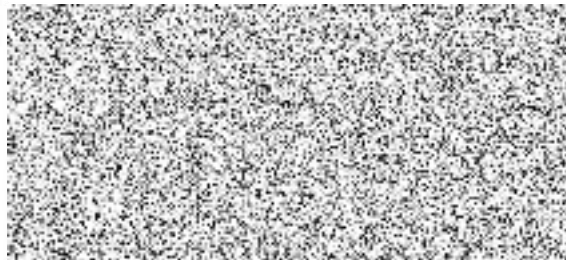
- 7.1 The Agreement enters into force on the date of its execution and expires on 31 December 2020.
- 7.2 The validity of the Agreement may be unilaterally and repeatedly extended by the Ministry of Finance for periods of one year, until 31 December of the following calendar year, based on the written notice from the Ministry of Finance sent to the Recognized Dealer by no later than 30 November of respective year.
- 7.3 The Recognized Dealer may terminate the Agreement by giving not less than 30-day written notice sent by registered letter to the Ministry of Finance. The 30-day notice period begins on the first day of the calendar month following the day of delivery of the notice.
- 7.4 The Ministry of Finance may terminate the Agreement at any time by giving a not less than 30 days written notice of termination to the Recognized Dealer. The 30-day notice period begins on the calendar day following the day of the delivery of the notice.
- 7.5 The Agreement has been executed in four counterparts, two in Czech and two in English language. Each of the counterparties of the Agreement shall receive two counterparts, one in Czech and one in English language. Each of the executed counterparts shall be deemed an original. In case of any discrepancy or inconsistency between the Czech and English language version, the English version shall prevail.
- 7.6 The Annexes attached hereto form an unseparable part of the Agreement.
- 7.7 Changes and amendments to the Annexes I-II to this Agreement are subject to agreement between the Ministry of Finance and the Recognized Dealer and do not require that this Agreement is amended by written amendment. Changes and amendments to Annex III to the Agreement are made by written notice to the other counterparty.

8. ASSIGNMENT

- 8.1 The parties hereto have agreed that the Recognized Dealer may, in connection with regulatory changes that affect or in the future are likely to affect its ability to act as a recognized dealer, assign this Agreement and all its rights and obligations under this Agreement (within the meaning of Sections 1895-1900 of Act No. 89/2012 Coll., the civil code (hereinafter referred to as the “Civil Code”)) to Goldman Sachs Bank Europe SE, with its registered office in Frankfurt am Main, registered in the commercial register of the local court in (Amtsgericht) of Frankfurt am Main under No. HRB 114190 (hereinafter referred to as “GSBE”). The assignment will be effective vis-à-vis the Ministry of Finance as of the moment of notification of such assignment by the Recognized Dealer or as of the moment when GSBE gives evidence of the assignment to the Ministry of Finance. As a result of the assignment, GSBE will acquire the same rights and obligations towards the Ministry of Finance under this Agreement as the Recognized Dealer has hereunder.
- 8.2 The Ministry of Finance consents to the assignment by the Recognized Dealer referred to in article 8.1 above and agrees, if requested by the Recognized Dealer or GSBE, to confirm its consent to the assignment in writing.
- 8.3 The Recognized Dealer is liberated from its obligations under the Agreement to the extent of the assignment as of the moment of the assignment.
- 8.4 The parties hereto exclude application of Sections 1899 of the Civil Code and stipulate that the Ministry of Finance shall not prevent the consequences mentioned in article 8.3 above by announcing the Recognized Dealer that it refuses the liberation of the Recognized Dealer.

IN WITNESS whereof this Agreement has been concluded on the date stated at beginning.

SIGNATURES

Czech Republic – Ministry of Finance	Goldman Sachs International
	

Annex I: Terms for Ministry of Finance Tap Issuance, Buy-Backs and Exchanges

1. The Ministry of Finance may consider Tap Issuance, Buy-Backs and Exchanges via direct participation on the secondary market via Thomson Reuters Dealing or DETS as long as technical solution of DETS allows for such transactions. Execution of these transactions via DETS is a preferred solution. These transactions are executed both to manage the refinancing risk and to support liquidity and efficiency of secondary market. As an example, in cases where a bond is extraordinarily squeezed a special reopening is an extremely powerful tool that can be utilized to restore normal trading conditions.
2. The Ministry of Finance may execute Tap Issuance or Exchanges any Trading Day 10:00 a.m. – 12:00 p.m. and 2:00 p.m. – 4:00 p.m. CET on Trading Days when there is no Auction executed. The Ministry of Finance may execute Buy-Backs on any Trading Day 10:00 a.m. – 12:00 p.m. and 2:00 p.m. – 4:00 p.m. CET. If the Ministry of Finance decides to execute these transactions on other Trading Days or during different hours, it is obliged to inform Recognized Dealers about its intention to execute such transactions no later than at 4:00 p.m. CET on Trading Day one day before such transactions are intended to be executed.
3. The Ministry of Finance may execute transactions of a particular Czech Government Bond pursuant to article 2 of the Annex I only during a week when Auction of the respective Czech Government Bonds is not executed.
4. The Ministry of Finance may consider Tap Issuance and Exchanges transactions only with respect to Czech Government Bonds that it holds in its own portfolio. Furthermore, the Ministry of Finance is obliged to make holdings of its portfolio public on its web site.
5. The Ministry of Finance reserves the right to cancel the Buy-Backs, Tap Issuance or Exchanges within 15 minutes after the execution of transaction on DETS in the event of evident mistake, transaction is not matched with declared intention of the Ministry of Finance or is considered as inadequate.
6. Recognized Dealers are not allowed to submit bids or offers in relation to Tap Issuance, Buy-Backs or Exchanges directly to the Ministry of Finance unless they are asked to do so by the Ministry of Finance.
7. The Ministry of Finance is not obliged to ask Recognized Dealers to submit any bids or offers in relation to Tap Issuance, Buy-Backs or Exchanges. The decision to ask Recognized Dealers to submit any bids or offers in relation to Tap Issuance, Buy-Backs or Exchanges is solely upon the Ministry of Finance.
8. Maximum volume of Tap Issuance transactions is CZK 2,000 million per each Trading Day for all these transactions executed on that Trading Day. With regard to Tap Issuance of Czech Government Bond with residual maturity longer than 15 years, a higher amount based on discretion of the Ministry of Finance may be applied.
9. Maximum volume of Buy-Backs transactions is CZK 2,000 million per each Czech Government Bond and CZK 6,000 million per each Trading Day for all these transactions executed on that Trading Day.
10. Maximum volume of Exchanges transactions is CZK 2,000 million per each Trading Day for issued bond via Exchanges executed on that Trading Day.
11. Recognized dealers may submit maximally three bids or offers per issuance that is included in the Tap Issuance, Buy-Backs or Exchanges.

Annex II: Terms for Ministry of Finance Lending Facilities

1. The Ministry of Finance may execute Lending Facilities via Thomson Reuters Dealing or DETS as long as technical solution of DETS allows for such transactions.
2. The Lending Facility applies to the Czech Government Bonds.
3. The Lending Facility is available to Recognized Dealers in Czech Government Securities, who comply with the obligation referred to in article 3.4.
4. In normal market conditions the maximum face amount lending in Czech Government Bond per transaction is CZK 1.5 billion. However, this limit may be raised in the event of abnormal price formation on the Czech Government Bond market, or if persists significant difference between supply and demand of the particular Czech Government Bond.
5. The Lending Facility is available as repo transactions and as loans of securities. Recognized Dealers borrow the Czech Government Bonds and the Ministry of Finance borrows CZK liquidity, Czech Government Bonds, Treasury Bills or Czech National Bank Bills in exchange. The Ministry of Finance has reserved the right to not apply collateral in loans of securities in the event of overall shortage of the Czech Government Bonds on the market. The rate at which the Ministry of Finance borrows liquidity and lends Czech Government bonds shall be subject to agreement between a particular Recognized Dealer and the Ministry of Finance and shall be lower than rate of reverse repo transactions in the same maturity and amount executed by the Ministry of Finance with the same or another Recognized Dealer at the same moment. The fee at which the Ministry of Finance lends Czech Government Bonds shall be subject to agreement between a particular Recognized Dealer and the Ministry of Finance.
6. The Czech Government Bonds may be borrowed for a period up to 90 days.
7. Transactions may be made on Prague Trading days between 8:00 a.m. and 4:00 p.m. (CET).
8. The Ministry of Finance has reserved the right to make discretionary allocations if deemed appropriate.
9. No haircut is applied to the Ministry of Finance Lending Facilities.
10. Settlement takes place as agreed between the particular member of the Recognized Dealer Group and the transactions are settled through the Central Securities Depository Prague, Clearstream/Euroclear or another central depository of which the Ministry of Finance is member.
11. In case the Ministry of Finance does not possess Czech Government Bonds required by Recognized Dealer to borrow, the Lending Facility will not be used for that particular security.
12. The Ministry of Finance reserves the right not to enter into any such transaction if it finds it not suitable.

Annex III : Contact list

Recognized Dealer for Czech government securities provides list of contact persons, their email address and telephone numbers of persons who will be acting on behalf of the institution in accordance with privileges and obligations defined by the Agreement. In case of any change and amendment to the list of contact persons, Recognized Dealer shall communicate the change or amendment to the Ministry of Finance in accordance with article 7.7 of the Agreement.

Front Office

Thomson Reuters Dealing code

[REDACTED]

Primary auction

[REDACTED]

Secondary market – DETS

[REDACTED]

Lending Facility and reverse repo transactions

[REDACTED]

Derivatives

[REDACTED]

Back Office

Primary auction

[REDACTED]

Secondary market – DETS

[REDACTED]

Lending Facility and reverse repo transactions

[REDACTED]

Derivatives

[REDACTED]

The Ministry of Finance – Debt and Financial Assets Management Department

Front Office

Thomson Reuters Dealing code: 



Back Office

