



Ministry of Finance

Debt and Financial Assets
Management Department

Performance Evaluation of Primary Dealers in Czech Government Securities

March 2014



30 April 2014

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Introduction

The Ministry of Finance (hereinafter the Ministry) hereby presents its regular Performance Evaluation of Primary Dealers in Czech Government Securities (hereinafter the Performance Evaluation). As of 1 October 2011, the evaluation methodology has changed significantly. This change is related to the implementation of the MTS Czech Republic electronic platform for trading on the domestic secondary bond market from 1 July 2011 and to the signature of the Primary Dealer Agreement for Czech Government Securities (hereinafter the Agreement) by the Ministry and the Primary Dealers in Czech Government Securities (hereinafter the Primary Dealers) on 1 October 2011. Conclusion of the Agreement established a new and more efficient trading structure, as is common in other advanced countries of the European Union, which brought standardisation and professionalism to the cooperation in financing and managing the state debt as well as its complete transparency. The modernisation of this framework was rounded off by publication of the new Rules for the Primary Sale of Government Securities organized by the Czech National Bank, which came into effect on 1 January 2012. Under this newly formalised framework, and on the basis of the consensually agreed rules, the Ministry became active on the secondary market, in particular by directly buying back government bonds before their maturities and by tap sales of government bonds from the Ministry's own portfolio, which contribute to the effective liquidity and refinancing risk management and to the liquidity of domestic bond market.

A new version of the Agreement which entered into force on 1 January 2014 does not differ substantially from the Agreement, which entered into force on 1 January 2013 and therefore does neither bring about any change into Primary Dealers status nor does it alter any of their rights and obligations. The new version of the Agreement preserves the weight ratio between the criterion of primary and secondary market, further reflecting the importance of the functional and liquid secondary market, which enables the evaluation of active market-makers in relation to their performance at primary auctions of government bonds. The new version of the Agreement preserves the criterion of the primary

market unchanged and modifies the sub-criterion evaluating the Ministry's operations on secondary market in terms of the weight system depending on the type of individual operations performed. In qualitative sub-criterion evaluating marketing and advisory, the credibility of the Primary Dealer is newly taken into account. The assessment of the analytical outputs and economic analyses, which Primary Dealers may send to e-mail address specially set up by the Ministry, is a part of this sub-criterion.

In Q4 2013, the number of the Primary Dealers decreased to 12, when The Royal Bank of Scotland plc terminated its activities as a Primary Dealer as of 1 November 2013. Since 2014, the new Primary Dealer has become Morgan Stanley & Co International PLC.

According to the previous and the new version of the Agreement, the Primary Dealers are evaluated for the period from Q2 2013 to Q1 2014. Due to the modifications of some sub-criteria, the evaluation of the Primary Dealers for the period from Q2 2013 to the end of Q4 2013 is carried out in the first part of the Performance Evaluation according to the former methodology specified in the Agreement. In the second part, the Primary Dealers are evaluated for the period of Q1 2014 according to the new methodology, which is a part of the new version of the Agreement. Finally, the complete evaluation of the Primary Dealers for the period from Q2 2013 to Q1 2014 is carried out using the aggregation of evaluation for the period from Q2 2013 to the end of Q4 2013 and the evaluation for the period of Q1 2014.

Starting with the Performance Evaluation for 2011, the Ministry has been publishing the point scores obtained by individual Primary Dealers in the published evaluation groups. The Ministry expects to achieve greater transparency by this step. In accordance with the Amendment Agreement signed on 30 June 2012 also the first seven Primary Dealers are published (only five Primary Dealers were published in accordance with the old Agreement). Other Primary Dealers receive a notification with the outcome of their performance evaluation.

Evaluation for Q2 2013 to Q4 2013

The performance evaluation of Primary Dealers for Q2 2013 to the end of Q4 2013 was performed according to the evaluation methodology **valid** **until 31 December 2013**. 13 Primary Dealers were evaluated.

Overall evaluation for Q2 2013 to Q4 2013

Ranking	Primary Dealer	Points*
1 st	Citibank Europe plc	80.7
2 nd	PPF banka a.s.	70.6
3 rd	Erste Group Bank AG / Česká spořitelna, a.s.	67.2
4 th	KBC Bank NV / Československá obchodní banka, a.s.	63.1
5 th	Société Générale / Komerční banka, a.s.	59.0
6 th	UniCredit Bank Czech Republic and Slovakia, a.s.	37.7
7 th	Goldman Sachs International	36.8

* max 100 points
Source: Ministry of Finance

Primary market for Q2 2013 to Q4 2013

Ranking	Primary Dealer	Points*
1 st	PPF banka a.s.	33.7
2 nd	Erste Group Bank AG / Česká spořitelna, a.s.	33.3
3 rd	Citibank Europe plc	31.6
4 th	Société Générale / Komerční banka, a.s.	27.9
5 th	KBC Bank NV / Československá obchodní banka, a.s.	21.5
6 th	UniCredit Bank Czech Republic and Slovakia, a.s.	17.8
7 th	Goldman Sachs International	10.5

* max 45 points
Source: Ministry of Finance

Secondary market for Q2 2013 to Q4 2013

Ranking	Primary Dealer	Points*
1 st	Citibank Europe plc	36.5
2 nd	PPF banka a.s.	29.9
3 rd	KBC Bank NV / Československá obchodní banka, a.s.	28.6
4 th	Société Générale / Komerční banka, a.s.	21.8
5 th	Erste Group Bank AG / Česká spořitelna, a.s.	19.1
6 th	Goldman Sachs International	12.3
7 th	UniCredit Bank Czech Republic and Slovakia, a.s.	12.1

* max 40 points
Source: Ministry of Finance

Evaluation for Q1 2014

The performance evaluation of Primary Dealers for Q1 2014 was performed according to the evaluation methodology **valid from 1 January 2014**. The methodology is part of the new version of the Agreement. 13 Primary Dealers were evaluated.

In order to attain an overall and objective evaluation of Primary Dealers' activities, the performance evaluation is based on three criteria: criterion for

the evaluation of Primary Dealers' activities on the primary market (Criterion A), criterion for the evaluation of Primary Dealers' activities on the secondary market (Criterion B), and criterion for the evaluation of the effectiveness of derivative operations, sovereign advisory, marketing and credibility of a Primary Dealer (Criterion C). (Criterion C).

Criteria for evaluation of Primary Dealers valid as of 1 January 2014

A. Primary market	45.0	B. Secondary market	40.0	C. Qualitative criterion	15.0
A.1. Primary auction share - Government bonds	25.0	B.1. Quoting obligations performance on DETS	9.0	C.1. Derivative pricing	8.0
A.2. Dependability	5.0	B.2. Qualitative performance on DETS	9.0	C.2. Marketing, sovereign advisory & credibility	7.0
A.3. Auction pricing strategy	5.0	B.3. Traded volume on DETS	9.0		
A.4. Auction participation	2.5	B.4. Ministry of Finance Market Transactions	9.0		
A.5. Primary auctions share - Treasury bills	7.5	B.5. Tap sales, buy-backs and exchanges pricing strategy	4.0		

Source: Ministry of Finance

The performance evaluation of each Primary Dealer can reach a maximum of 100 points, and this score is calculated on a relative basis. Primary Dealers' activities are thus evaluated quarterly on the basis of the APEI (Aggregate Performance Evaluation Index defined in Annex I of the new version of the Agreement), and always for four consecutive evaluated periods. According to Article I of the new version of the Agreement, each calendar quarter is an evaluated period, starting from 1 October 2011.

Within evaluated activities on the primary market, a given Primary Dealer's primary auctions share (i.e. the share of total nominal value of bids submitted by the Primary Dealer on total nominal value of government bonds sold in all government bond auctions during the evaluated period) is monitored under the sub-criterion A.1. Using the ratio of accepted bids of the Primary Dealer to the total nominal value of bids submitted by the Primary Dealer (sub-criterion A.2.) the Ministry monitors investors' willingness to hold Czech government bonds. Another important aspect of evaluation of participation in the primary market is the auction pricing strategy under the sub-criterion A.3., through which the Ministry evaluates Primary Dealers' willingness to offer higher price. Under the sub-criterion A.4., the Primary Dealer is rated better if it is a regular auction participant. The maximum number of points under the sub-criterion

A.5. is given to the Primary Dealer that subscribes the largest share of government treasury bills sold by the Ministry in the given period.

The quantitative criterion B is based particularly on statistical and monitoring instruments available on the MTS Czech Republic platform and focuses on quotation activities, their quality, traded nominal values of benchmark issues and trades with the Ministry. The most important indicator is the sub-criterion B.1., the Compliance Ratio, which evaluates the quotation activities of the Primary Dealer based on the quotation duration of bonds subjected to quoting obligations, where maximum allowed spread between bid and offer price condition and minimum nominal value of quotation condition (both defined in MTS Czech Republic Market Rules) must be fulfilled. If a Primary Dealer does not fulfil this sub-criterion by at least 90.0% (i.e. the value unanimously approved at the first MTS Czech Republic Committee meeting on 20 September 2011) on a monthly basis, it obtains 0.0 points for the given month. Sub-criterion B.2. evaluates the quality of the quotation activities of the Primary Dealer regarding bonds both subjected and not subjected to quoting obligations on DETS based on bonds' duration, bid/offer spread, nominal value of quotation and duration of quotation. Under the sub-criterion B.3., the Primary Dealer is evaluated based on bonds' total nominal value traded on MTS

Czech Republic platform taking bonds' duration and number of executed transactions into account, where transactions on the side of provider of quotation have greater weight. Under the sub-criterion B.4., the Primary Dealer is evaluated based on its weighted share on total nominal value of secondary market operations executed by the Ministry during the evaluated period according to particular types of operation (repo operation, buy/sell back operations, depo operation, lending facility with medium-term and long-term government bonds, tap sales of government bonds on the secondary market and buy-backs and exchanges of government bonds). Sub-criterion B.5. evaluates pricing strategy of the Primary Dealers in form of willingness to pay the highest nominal amount and duration weighted price under tap sales of government bonds on the secondary market or get

the lowest nominal amount and duration weighted price under buy-backs of government bonds on the secondary market.

The qualitative criterion C focuses on derivative operations, marketing, sovereign advisory and credibility of the Primary Dealers. Primary Dealers are evaluated in ascending order according to the prices of various derivative instruments they provided. The Ministry also evaluates the quality of advisory services, ability to cooperate and share information, technical and human resources in relation to risk management, and optimization of the debt portfolio. The evaluation of the analytical outputs or economic analyses sent by the Primary Dealers to the new e-mail address of the Ministry is newly part of the sub-criterion C.2.

Overall evaluation for Q1 2014

Ranking	Primary Dealer	Points*
1 st	Citibank Europe plc	78.2
2 nd	Erste Group Bank AG / Česká spořitelna, a.s.	65.4
3 rd	KBC Bank NV / Československá obchodní banka, a.s.	50.3
4 th	J. P. Morgan Securities plc	47.9
5 th	PPF banka a.s.	47.8
6 th	Société Générale / Komerční banka, a.s.	44.7
7 th	ING Bank N.V.	32.2

* max 100 points
Source: Ministry of Finance

Primary market for Q1 2014

Ranking	Primary Dealer	Points*
1 st	Erste Group Bank AG / Česká spořitelna, a.s.	36.4
2 nd	Citibank Europe plc	33.6
3 rd	J. P. Morgan Securities plc	26.8
4 th	Société Générale / Komerční banka, a.s.	19.2
5 th	PPF banka a.s.	18.3
6 th	KBC Bank NV / Československá obchodní banka, a.s.	14.8
7 th	UniCredit Bank Czech Republic and Slovakia, a.s.	13.8

* max 45 points
Source: Ministry of Finance

Secondary market for Q1 2014

Ranking	Primary Dealer	Points*
1 st	Citibank Europe plc	31.6
2 nd	KBC Bank NV / Československá obchodní banka, a.s.	25.5
3 rd	PPF banka a.s.	23.5
4 th	Société Générale / Komerční banka, a.s.	16.9
5 th	Erste Group Bank AG / Česká spořitelna, a.s.	16.3
6 th	J. P. Morgan Securities plc	14.1
7 th	ING Bank N.V.	13.7

* max 40 points
Source: Ministry of Finance

Evaluation for Q2 2013 to Q1 2014

Finally, the complete evaluation for the period from Q2 2013 to Q1 2014 is carried out using the aggregation of evaluation for the period from Q2 2013 to the end of Q4 2013 and the evaluation for the period of Q1 2014. With regards to the identical methodology of the primary market (Criterion A) in the former and the new version of the Agreement, the resulting Primary Dealers' activities on the primary market are evaluated for the whole period according to the methodology specified in the new version of the Agreement. The complete evaluation

of the Primary Dealers' activities on the secondary market (Criterion B) is carried out based on the weighted arithmetic mean, when nominal values of the trades carried out by the Primary Dealers on the MTS Czech Republic in the given period are used as weights. The termination of the Primary dealer's activity by The Royal Bank of Scotland plc on 1 November 2013 and the Morgan Stanley & Co International PLC's new Primary Dealer status as of 1 January 2014 have been taken into account.

Overall evaluation for Q2 2013 to Q1 2014

Ranking	Primary Dealer	Points*
1 st	Citibank Europe plc	86.0
2 nd	Erste Group Bank AG / Česká spořitelna, a.s.	71.6
3 rd	PPF banka a.s.	66.4
4 th	KBC Bank NV / Československá obchodní banka, a.s.	60.4
5 th	Société Générale / Komerční banka, a.s.	58.4
6 th	J. P. Morgan Securities plc	39.3
7 th	UniCredit Bank Czech Republic and Slovakia, a.s.	37.8

* max 100 points
Source: Ministry of Finance

Primary market for Q2 2013 to Q1 2014

Ranking	Primary Dealer	Points*
1 st	Erste Group Bank AG / Česká spořitelna, a.s.	38.8
2 nd	Citibank Europe plc	37.4
3 rd	PPF banka a.s.	30.8
4 th	Société Générale / Komerční banka, a.s.	28.1
5 th	KBC Bank NV / Československá obchodní banka, a.s.	20.1
6 th	J. P. Morgan Securities plc	18.8
7 th	UniCredit Bank Czech Republic and Slovakia, a.s.	18.5

* max 45 points
Source: Ministry of Finance

Secondary market for Q2 2013 to Q1 2014

Ranking	Primary Dealer	Points*
1 st	Citibank Europe plc	35.8
2 nd	PPF banka a.s.	28.9
3 rd	KBC Bank NV / Československá obchodní banka, a.s.	28.2
4 th	Société Générale / Komerční banka, a.s.	21.0
5 th	Erste Group Bank AG / Česká spořitelna, a.s.	18.7
6 th	Goldman Sachs International	12.3
7 th	UniCredit Bank Czech Republic and Slovakia, a.s.	12.2

* max 40 points
Source: Ministry of Finance

This publication is available on the internet at:

www.mfcr.cz/statedebt

The next Performance Evaluation of Primary Dealers in Czech Government Securities
will be published on 31 July 2014 at 14:00.

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