



**Da Afghanistan Bank**  
**Market Operation Directorate General**

## **Capital Note Issuance and Auction Regulation**

**YEAR**

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## Table of Contents

<b>Chapter One: General Provisions</b> .....	1
<b>Article 1: Basis</b> .....	1
<b>Article 2: Objectives</b> .....	1
<b>Article 3: Scope of Application</b> .....	1
<b>Article 4: Definitions</b> .....	1
<b>Chapter Two: Capital Note Issuance and Auction</b> .....	3
<b>Article 5: Sale and Issue Authority</b> .....	3
<b>Article 6: Securities Book Entry and System</b> .....	3
<b>Article 7: Function of Da Afghanistan Bank</b> .....	3
<b>Article 8: Offering Announcement</b> .....	3
<b>Article 9: Submission of Bids</b> .....	4
<b>Article 10: Certification</b> .....	4
<b>Article 11: Responsibility for Payment and Payment for Awarded Capital Notes</b> .....	4
<b>Article 12: Determination of Auction Awards</b> .....	5
<b>Article 13: Proration of Awards to Submitters</b> .....	5
<b>Article 14: Changes in Capital Note Rate</b> .....	5
<b>Article 15: Announcing Auction Results</b> .....	6
<b>Article 16: Notice of Awards and Confirmations</b> .....	6
<b>Chapter Three: Payment Interests, Reservation Rights, and Remedies</b> .....	6
<b>Article 17: Payment of Principal and Interest on Capital Notes</b> .....	6
<b>Article 18: Reservation of Rights</b> .....	6
<b>Article 19: Remedies</b> .....	7
<b>Article 20: Liquidated Damages</b> .....	7
<b>Article 21: Afghanistan Interbank Offering Rate</b> .....	7
<b>Article 22: Reservations as to Terms of Offerings</b> .....	7
<b>Article 23: Enforcement</b> .....	7

## Chapter One: General Provisions

### Article 1: Basis

This Regulation is pursuant to the provisions set forth in Da Afghanistan Bank Law to regulate Capital Note affairs.

### Article 2: Objectives

(1) This Regulation has the following objectives:

1. Establish a basic framework for secondary market transactions in Capital Notes issued by DAB.
2. To better manage the secondary market transactions involving Capital Note;
3. To regulate affairs related to the Capital Note in an attempt to enhance and develop monetary policy.

### Article 3: Scope of Application

Unless otherwise specified in an offering announcement, the provisions which follow govern the sale and issuance of Capital Notes issued by Da Afghanistan Bank to Licensed Commercial Banks and Licensed Foreign Exchange Dealers and any other obligations issued by Da Afghanistan Bank, that, by terms of the offering announcement are made subject to these Regulations.

### Article 4: Definitions

(1) Terms used in this Regulation shall have the following meanings:

1. **Announcement:** Means notice of an auction as prescribed by Da Afghanistan Bank.
2. **Auction:** Means a bidding process by which Da Afghanistan Bank sells Capital Notes to Commercial Banks and Foreign Exchange Dealers licensed to conduct financial activities in Afghanistan
3. **Bid or Tender:** Means a communicated offer to purchase a stated par amount of Capital Notes in an auction. A bid must be presented as prescribed herein.
4. **Bid Amount:** Means the total amount of Capital Notes desired by a bidder.
5. **Bid Rate:** Means the rate of interest offered to purchase the Capital Notes.

6. **Bidder:** Means a bank or dealer as defined herein holding a valid license from Da Afghanistan Bank.
7. **Book Entry:** Means the recording, transferring and processing of Capital Notes by electronic means. The ownership of Capital Notes is recorded in a computer file and the purchaser of Capital Notes does not receive certificates evidencing ownership.
8. **Business Day:** Means any day other than Friday or such other day on which Da Afghanistan Bank is not open for business.
9. **Capital Notes:** Means liabilities denominated in Afghani, of Da Afghanistan Bank and issued solely to Licensed Commercial Banks and licensed Foreign Exchange Dealers. Capital notes are issued in maturities evenly divisible by seven calendar days' maturities. Capital notes are freely transferable only between licensed commercial Banks, Licensed Foreign Exchange Dealers and Da Afghanistan Bank.
10. **Commercial Bank:** Means a person engaging in the business of receiving money deposits or other repayable funds from the public for the purpose of making credits or investments for its own account within the Islamic Republic of Afghanistan.
11. **Competitive Bid:** Means a bid to purchase a stated par amount of Capital Notes at a specified rate.
12. **Discount:** Means the method of market quotation for the capital notes, expressing the return on the Capital Notes as a proportion of the face value of the Capital Notes received at maturity.
13. **Interest Rate:** Means the annual percentage rate of interest paid on the paramount of principal.
14. **License:** Means an official document or permit issued pursuant to the laws of the Islamic State of Afghanistan and Da Afghanistan Bank authorizing a person to conduct business.
15. **Maturity Date:** Means the date specified in the offering announcement on which the Capital Notes become due and payable and ceases to earn interest.
16. **Multiple Price Auction:** Means an auction in which each successful competitive bidder pays the price equivalent to the rate that it bid.
17. **Par:** Means a price of one hundred.
18. **Person:** Means any natural or legal person, any state and any political subdivision, agency or instrumentality of a state.
19. **Principal:** Means the purchase amount of the Capital Notes

20. **Settlement:** Means full payment of the total amount due to Da Afghanistan Bank from a successful bidder in the purchase of Capital Notes through an auction.
21. **Settlement Amount:** Means the par value of Capital Notes Awarded.
22. **Successful Bidders:** Mean bidders that are awarded winning bids.
23. **Yield also referred to as Yield to Maturity:** Means the annualized rate of return to maturity on fixed principal Capital Notes expressed as a percentage.

## **Chapter Two: Capital Note Issuance and Auction**

### **Article 5: Sale and Issue Authority**

The Supreme Council of Da Afghanistan Bank is authorized under Article 9, clause (8) of Da Afghanistan Bank Law to decide on the issue of Debt Securities by Da Afghanistan Bank and the terms and conditions of such securities. Further, Article 98, clause (1), instructs that Da Afghanistan Bank shall establish, maintain, and promote sound and efficient securities transfer systems.

### **Article 6: Securities Book Entry and System**

- (1) Capital Notes issued pursuant to these regulations are offered exclusively in Book entry form and are direct obligations of Da Afghanistan Bank.
- (2) Capital Notes will be maintained in securities accounts established for the Commercial Banks at Da Afghanistan Bank and will be freely transferable between the Banks upon notification.
- (3) Transfer will only be affected between Licensed Banks and licensed Money Changers and within the various securities accounts maintained at Da Afghanistan Bank.

### **Article 7: Function of Da Afghanistan Bank**

Da Afghanistan Bank is authorized to perform all activities necessary to carry out the activities promulgated by this regulation, any offering announcements and any further necessary regulations.

### **Article 8: Offering Announcement**

- (1) Da Afghanistan Bank shall provide notice of the sale of Capital Notes to the Commercial Banks by issuing an offering announcement through electronic communication or any other mean as deems appropriate. Offering announcements shall be made one day prior to the Auction.

- (2) The offering announcement shall list the specifics of each offering, e.g., offering amount, identification number and Maturity Date. The offering announcement and this regulation specify the terms and conditions of sale.
- (3) To the extent that the provisions of the offering announcement are inconsistent with the terms of these regulations, the provisions of the offering announcement will control.

#### **Article 9: Submission of Bids**

- (1) Bids may be submitted directly to Da Afghanistan Bank through electronic communication or any other mean determined by DAB.
- (2) Tenders must be submitted in an approved format and on the basis of amounts requested and per annum yield expressed as a percentage to three decimal points. Bids are to be received prior to the closing time specified in the offering announcement.
- (3) Bids not received timely will not be recognized in the auction. In order for a bid to be accepted, the Commercial Bank and/or Money changer must have on file with Da Afghanistan Bank a certificate listing those persons who are authorized to submit tenders on its behalf. A tender will not be recognized if the person submitting the tender is not listed on the certificate.
- (4) All bids will remain confidential.
- (5) Participating Licensed Commercial Banks may submit a maximum of two bids per each maturity. While licensed Money Changers are limited to one bid.
- (6) Licensed Banks may also submit multiple bids on behalf of its customers to a maximum of one per customer per maturity. For this purpose, the submitting bank must maintain its own registry of customer holdings

#### **Article 10: Certification**

By submitting its tender for Capital Notes, the Commercial Bank and/or the licensed Money Dealers is deemed to have certified that it is in compliance with this regulation and the offering notice governing the sale and the issue of Da Afghanistan Capital Notes. Further, the participant is deemed to have certified that the information provided on the tender with regards to its bid is accurate and complete.

#### **Article 11: Responsibility for Payment and Payment for Awarded Capital Notes**

- (1) A Bidder agrees to pay the settlement amount for any Capital Notes awarded to it in the auction.
- (2) Payment should be made on the day following the issue as prescribed by the offering announcement, either through payment by an authorized electronic means providing

for immediately available funds or an authorization to charge to the Commercial Banks current account maintained with Da Afghanistan Bank.

- (3) In the case a Commercial Bank wishes its current account charged by an authorization form, authorizing such charges must be on file with Da Afghanistan bank at the time the tender is submitted.
- (4) In addition, maturing Capital Notes held in the Commercial Banks security account may be used as payment for the new Capital Notes that are being offered, provided that such a request is received at the time of receiving the Commercial Banks Bid.

#### **Article 12: Determination of Auction Awards**

- (1) Determination of awards in auctions is made at Da Afghanistan Bank after the closing time for receipt of Bids.
- (2) Awards will be made on the basis of a Multi Price Auction where, Bids are accepted at the lowest Yield up to the amount of the offering.
- (3) Awards will be made at the Rate submitted by the Bidder. When the total amount of Bids at the highest accepted Rate exceeds the amount of Capital Notes offered, a percentage of the Bids received at the highest Rate will be awarded.
- (4) This proration is performed for the purpose of awarding a Par Amount of securities to the offering amount. The percentage is derived by dividing the remaining Par Amount needed to fill the offering by the Par Amounts recognized at the highest Rate accepted. These amounts are then discounted at the rate awarded and purchase price determined.

#### **Article 13: Proration of Awards to Submitters**

In Auctions where Bids at the highest accepted rate are prorated under article 12 above, Da Afghanistan Bank is responsible for prorating awards to the Bidders at the percentage announced by the Da Afghanistan Bank. For example, if 80% is the announced percentage at the highest rate, then each Bid at that rate shall be awarded 80% of that Bid amount.

#### **Article 14: Changes in Capital Note Rate**

- (1) The Auction Committee has the authority to propose any changes in the capital note rate to the Governor for approval.
- (2) The Governor shall have the authority to approve the proposed changes or determine the rate as deems appropriate.

### **Article 15: Announcing Auction Results**

- (1) After the conclusion of the Auction, Da Afghanistan Bank will make an official announcement by means of electronic communication or any other means, of the Auction results. At the discretion of the Governor of Da Afghanistan Bank, the results may also be made public through publishing in newspapers.
- (2) The announcement will include such information as:
  1. The amounts of Bids received and accepted
  2. The range of Rates received and the range of Rates accepted
  3. The pro ration percentage
  4. The weighted average Rate of accepted Bids
  5. Other information that Da Afghanistan Bank may decide to include.

### **Article 16: Notice of Awards and Confirmations**

Notice of Awards shall be made to successful Bidders at the completion of the Auction. Confirmation shall be made through electronic communication means.

## **Chapter Three: Payment Interests, Reservation Rights, and Remedies**

### **Article 17: Payment of Principal and Interest on Capital Notes**

Par Value on Capital Notes will be paid on the maturity date as specified in the offering announcement. As the Capital notes are sold on a discount basis, interest shall be the amount between purchase cost and Par Value received at maturity.

### **Article 18: Reservation of Rights**

- (1) Da Afghanistan Bank reserves the right to accept or reject or refuse to recognize any or all Bids submitted under these regulations.
- (2) Da Afghanistan Bank also reserves the right to award more or less Capital Notes than the amount of Capital Notes specified in the offering announcement.
- (3) Da Afghanistan Bank further reserves the right to waive any provision or provisions of these regulations for any or all Bidders. The decision of Da Afghanistan Bank shall be final.



### **Article 19: Remedies**

- (1) When a person or entity fails to comply with the requirements of these regulations, the Governor of Da Afghanistan Bank will consider the facts and circumstances of such failure and determine an appropriate remedy.
- (2) Such remedy might include prohibiting the person or entity from participating in future auctions.
- (3) The Governor of Da Afghanistan Bank may refer such occurrences to the appropriate regulatory agency for enforcement action.

### **Article 20: Liquidated Damages**

- (1) A Bidder shall agree to pay liquidated damages of 1% of the par value of Capital Notes awarded the Bidder in an auction if the Bidder fails to pay for the awarded Notes in a timely manner.
- (2) The Governor of Da Afghanistan Bank may waive, in whole or in part the payment of liquidated damages. This liquidated damage provision shall not preclude the use of any other available option.

### **Article 21: Afghanistan Interbank Offering Rate**

- (1) Banks in Afghanistan may have interbank lending.
- (2) Afghanistan Interbank Offering Rate (AFIBOR) mechanism shall be described in a separate procedure.

### **Article 22: Reservations as to Terms of Offerings**

- (1) Da Afghanistan Bank reserves the right to supplement or amend these regulations. Da Afghanistan Bank further reserves the right to modify the terms and conditions of new Capital Notes and depart from the customary pattern of Capital Note offerings at any time.
- (2) Notice of any such changes will be provided through electronic communication means.

### **Article 23: Enforcement**

This Regulation shall be enforced upon its approval by the Supreme Council.