Decree-Law No. 280/98
of 17 September

The present financial reality, featuring a growing freedom of capital movements, an increasing sophistication of financial instruments, and a globalisation of markets, is marked by the prospect of a near future dictated by the Economic and Monetary Union (EMU).

This environment as well as the participation of Portugal in the Third Stage of EMU requires a more flexible management of government debt, with power to adjust and tailor debt instruments so as to profit from the best conditions prevailing on financial markets.

This decree-law falls within the pursuit of the above aim as well as within the reform of public finance. As regards government debt, this reform started with the creation of the Instituto de Gestão do Crédito Público (Portuguese Government Debt Agency) and continued recently with parliamentary approval of the public debt legal framework. It thus corresponds to a logical and consistent step required by such reform, in fulfilment of the provisions of Article 21 of Law No.7/98 of 3 February, that approved the aforesaid legal framework.

Retaining the progress achieved by the former system, such as the paperless nature of Treasury bonds (OT) and the possibility of their transfer on the stock exchange, this decree-law admits their issuance in euros, cancels the importance of the face value on their transfer, and introduces a larger flexibility in their features, namely stripping and transfer as separate book assets.

Despite OT greater flexibility, warranted by the need to make the represented debt more competitive, this ordinance aims at becoming the major guarantee of investors' rights on a debt market extended to countries that participate in the Third Stage of EMU.

Therefore, under Article 198 (1) (a) of the Constitution, the Government decrees the following:

Article 1
Purpose

This decree-law lays down the regulations governing Treasury bonds.

Article 2
Concept

Treasury bonds are book assets representing medium- and long-term loans of the Republic of Portugal, denominated in currency which is legal tender in Portugal.

Article 3
Face value

Unless otherwise provided, the unit value of Treasury bonds corresponds to the smallest subunit of the currency which is legal tender in Portugal.

Article 4
Issue and placement

1 - Treasury bonds may be issued singly or in lines.

2 - Treasury bonds may be placed, directly or indirectly, by auction or subscription offer limited to a single or to several financial institutions, or to a consortium thereof.

Article 5
Interest rate

Treasury bonds may bear a periodic coupon, with a fixed or floating interest rate, be comprised of stripping or be issued at a discount (zero coupon).

Article 6
Repayment and repurchase

1 - The repayment and interest payments of Treasury bonds take place on maturity dates, unless the specific terms of the loan admit their early repayment, in full or in part.

2 - The Instituto de Gestão do Crédito Público may, by agreement with the holders, repurchase Treasury bonds on the secondary market.

Article 7

Fungibility

1 - Treasury bonds with similar coupons and maturity dates are fungible and pertain to the same category.

2 - The Instituto de Gestão do Crédito Público may admit as fungible with Treasury bond categories other types of loans, provided the requirements of the foregoing number are fulfilled and the nature and clauses of the loan agreement thus permit.

Article 8

Maturity

Treasury bonds are issued with a maturity equal to or above one year.

Article 9

Registration and settlement

1 - The registration and settlement of Treasury bonds are effected with a depository central office.

2 - The Instituto de Gestão do Crédito Público, in the exercise of its powers of direct government debt management, recognises the settlement central offices that are allowed to perform the functions referred to in the foregoing number.

Article 10

Stripping

1 - Treasury bonds may be subject to stripping.

2 - Stripping means the separation of the right to principal and of the rights to interest payments and should be authorised by the specific clauses of the loan agreement.

3 - Each right referred to in the foregoing number constitutes, for all purposes, after the separation, an autonomous book asset.

4 - Treasury bonds that have been subject to stripping according to (2) above may be reconstructed, recovering their former features.

5 - The procedure for stripping and transfer of the stripped assets as well as the reconstruction of Treasury bonds shall be governed by instructions issued by the Instituto de Gestão do Crédito Público.

Article 11
Instructions

1 - The Instituto de Gestão do Crédito Público shall govern the issue and placement of Treasury bonds, namely by laying down the conditions of access to the primary market and by releasing the list of bodies that fulfil such conditions.

2 - The transfer of Treasury bonds as well as any charges thereon are subject to the regulations governing transferable securities, unless otherwise specifically provided for by the Instituto de Gestão do Crédito Público.

3 - The powers envisaged in the foregoing numbers are exercised by means of instructions to be published in the *Diário da República* (Official Gazette) Series II.

Article 12
Transitional system

Until Portugal enters the Third Stage of Economic and Monetary Union, Treasury bonds may be issued and denominated in ecu or in currencies of other European Union countries.

Article 13
Repeal

1 - As of the date of entry into force of this decree-law, the following shall be repealed: Decree-Law No.364/87 of 27 November as reworded by Decree-Laws Nos. 11/92 of 4 February and 5-A/94 of 11 January, Decree-Law No.163/90 of 23 May and Executive Order No.32-A/94 of 11 January as well as all the rules and ordinances on the subject-matters regulated therein.

2 - This decree-law does not apply to Cabinet Resolutions that approve the contracting of loans during the current budgetary year nor does it prejudice the conditions of loans already contracted or to be contracted during the same period, the system established by the legislation referred to in the foregoing number remaining in force.

Article 14

Entry into force

This decree-law enters into force on the next day to its publication.

Examined and approved by the Cabinet on 30 July 1998. - *Jaime José Matos da Gama - António Luciano Pacheco de Sousa Franco.*

Promulgated on 7 September 1998.
Let it be published.
The President of the Republic, Jorge Sampaio.

Countersigned on 8 September 1998.
The Prime Minister, *António Manuel de Oliveira Guterres.*