

Investment in Bangladesh Government Treasury bill and bond

Government borrows from the banking sector by issuing Treasury Bills and Bonds through Bangladesh Bank based on their fiscal requirement. Bangladesh Government Treasury Bills and Bonds (BGTB) are issued by People's Republic of Bangladesh where Bangladesh Bank acts as issue manager, clearing agent and custodian for these bills and bonds. Treasury-Bills and Bonds are issued through auctions and can be traded in the secondary market.

Bangladesh Government **Treasury Bills are for shorter tenor**, up to one year, and are available for below tenors from primary auction:

- a. 91 days Treasury Bill
- b. 182 days Treasury Bill
- c. 364 days Treasury Bill

Bangladesh Government **Treasury Bonds are for longer tenor**, from 2 years to 20 years, and are available for below tenors from primary auction:

- a. 2 Years Treasury Bond
- b. 5 Years Treasury Bond
- c. 10 Years Treasury Bond
- d. 15 Years Treasury Bond
- e. 20 Years Treasury Bond

Bangladesh Bank has its own depository system, Market Infrastructure (MI) Module, for the transaction and settlement of Government Treasury securities. In 2011 Bangladesh Bank introduced this automated system, MI Module, to expedite the primary auction and secondary market.

1. Basic features of Bangladesh Government Treasury Bills and Bonds

Issuer: Government of People's Republic of Bangladesh

Issuing and paying agent: Bangladesh Bank

Mode of Issuing: Multiple price and yield bid auction

Auction frequency: Every Sunday for Treasury bill and Tuesday for Treasury bond in a month.

Minimum Amount can be invested: BDT 0.1 Million

Coupon Interest Rate: Will be paid at the rate of Cut-off yield fixed by the auction committee on each auction.

Frequency of Coupon Payment: Semi annually

Day count convention: Actual/365

Eligibility: Resident individuals and institutions like: bank, financial institutions, insurance companies, corporate, pension fund etc. as well as non-resident individuals and institutional investors having a Non Resident Foreign Currency Account.

Transferability: Investors are allowed to freely purchase, sale & transfer security.

Tax: A 5% tax at source is deducted at source while crediting the coupon income or return of investments in investor' account

Right to Accept Applications: Bangladesh Bank reserves the right to allot the applications in part or reject in total at its discretion.

Fixation of Cut-Off Yield: Cut-off yield will be fixed among the submitted bids by the auction committee of Bangladesh Bank.

Yield and Coupon of New Issue: Coupon for fresh or new Issue bond will be same as the cut-off yield and the bond will be issued to all the awarded bidders at this coupon rate. The bidders who bid for a lower yield will get the same coupon rate and hence, they have to pay premium which will adjust the yield with the higher coupon.

Yield and Coupon of Re-Issue Coupon for re-issue bond will remain same as original issuance. If cut off yield in auction is fixed higher than the coupon rate, then the bond will be reissued at discount. Again, if cut off yield is fixed lower than the coupon rate then the reissued bond will be at premium.

Non Competitive Bids: Other than Banks and non-bank financial institutions, any entity can participate through non-competitive bid. For noncompetitive bid, bidders will not have any option to bid any yield, rather the cut off yield is the arithmetic mean of the yields of all submitted competitive bids. But to calculate the arithmetic mean, the outlier bids (highest and lowest) will be excluded. Those bids will be considered as outlier bids which differ by 10 basis points from the previous cut off yield of the same bond.

2. Payment and Settlement Procedures

Interested Investors have to decide on the amount and tenor they want to invest and accordingly should inform their custodian bank to bid on behalf of them. Expected amount of investment need to be paid to the custodian bank by the Bid date. All successful bids will be settled on T+1 basis.

Bangladesh Bank, through the MI system, will debit custodian bank's account maintained with Bangladesh Bank on T+1 and make the respective Treasury security available in the respective (Business Participant) BP account .If settlement or coupon payment or redemption date falls on a public holiday, value date shall be the next available business day.

3. BP ID Opening with BRAC Bank Limited

To invest in Treasury bill and bond, investor needs to maintain a BP ID with Bangladesh Bank under BRAC Bank (BBL) custody. BBL will apply to Bangladesh Bank to open a BP ID for the investor. Following documents are required as per Debt Management Department of BB for opening the BP ID:

Required Documents

For Individuals:

1. Duly filled and signed application form
2. NID/Passport
3. Photo of applicant
4. E-Tin Certificate
5. Photo of Nominee(s)
6. NID/passport/birth certificate of nominee(s)
7. Duly signed approach letter and standing instruction(SI)

For Bank/FIs/Limited Company

1. Application Form
2. Bank Account Details/DAB Account Details (for Banks/FIs)
3. Certificate of Incorporation
4. Certificate of Commencement (if applicable)
5. License From the Respective Authority (if applicable)
6. Memorandum/Articles of Association
7. Board Resolution
8. E-Tin Certificate
9. Registered Address
10. Contact Details of Relevant Personnel
11. Photo and NID of the authorized signatory (s)

For Pension/Provident/Gratuity/Mutual Fund

1. Application Form
2. Bank Account Details
3. Registration/Approval Certificate
4. Deed of Trust (if applicable)
5. Resolution/Meeting Minutes of Board of Trustees
6. NBR's certificate (if applicable)
7. Contact Details of Authorized Signatory
8. Photo and NID of the authorized Signatory (s)

For Sole Proprietorship/ Partnership Business

1. Application Form
2. Bank Account Details
3. Trade License
4. Partnership Deed (for Partnership Business)
5. E-Tin Certificate
6. NID of proprietors/partners
7. Contact details of proprietors/partners
8. Photo and Information of the Nominee (s) (for SP)
9. NID/Passport of the Nominee (s) (for SP)

4. Process to bid in Primary Auction

If investor wants to invest in Treasury bill/bond through primary auction then following steps needs to be followed:

- a. Investor needs to send a written instruction signed by authorized signatories to BRAC bank for participating in primary auction mentioning amount and tenor.
- b. BRAC Bank will bid on behalf of the investor.
- c. Instruction needs to be sent to BBL one day before the auction day.
- d. Required bid amount need to make available with BBL before the auction cut off time, currently before 12:00 pm.
- e. If investor provides clearing cheque then that Cheque has to be handed over one day before auction date.
- f. If the fund is transferred through Bangladesh Bank Cheque, then BB cheque need to be delivered to BBL before auction cut off time. Or if fund is sent through RTGS, then fund should flow in before the auction cut off time. Or if investor has account with BBL, then investor can incorporate account debit instruction in the instruction letter.
- g. Bid result will be published by central bank by day end of the auction date. If the allotted amount is less (for partial allotment) than transferred amount, surplus fund will be transferred to investors account on next working day. If the allotted amount is more than transferred amount (for Premium bond) additional fund will be called from investor and the excess amount has to be made available with BBL by 12:00 pm on next working day through BB cheque or RTGS only.
- h. BBL will provide an allotment confirmation to investor on the basis of Bangladesh bank's advice receipts.

5. Process for Secondary Trading

Investor can purchase or sell government securities from BRAC Bank rather than bidding Treasury bill/bond in primary auction as described above. Trading in secondary market enables investor to get competitive return based on market scenario.

For trading in secondary market following steps needs to be followed:

- a. When Investor shows interest to invest in specific type of instrument, BBL will search for best suitable instrument and informs the price to them.
- b. BBL and investor will mutually agree on the price, tenor and amount of the investable Treasury bill/bond.

- c. Once all specifics are agreed, BBL will send a deal confirmation to investor mentioning all necessary details.
- d. Necessary fund for investment needs to make available with BBL on or before the settlement date.
- e. After having fund confirmation, BBL will transfer securities to investor's account.

6. Settlement of Proceeds

Customer can give a standing instruction to BBL with specific account number maintained with BBL or other bank in which coupon proceeds (every six month interval) and principal (after redemption) to be credited. If investor does not have any account with BBL, proceeds will be sent to investor's account through EFT, RTGS, Bangladesh Bank cheque, Pay Order based on investor's preference, where standard charge will be applicable.

It is to be noted that for individual customers bidding through BRAC bank, maintaining an account with BRAC bank is mandatory whereas it is optional for business entities.

7. Liquidity/Exit Option

BBL will provide liquidity to any holding of government treasury bill/bond of the investor. Whenever investor want to liquidate/sell their holdings, BBL will provide price for those based on existing market condition. If all terms are agreed between seller and BBL, transaction will take place.

8. Tax Rebate

Investors can get tax rebates for up to BDT 5 lakh investment in government securities (Treasury bills, bonds, Sanchaypatra) within a fiscal year.

For example, if someone invests BDT 2 lakh in Sanchaypatra, they can get a tax rebate for another BDT (5-2) 3 lakhs investment in treasury bills or bonds.

Glossary

BB- Bangladesh Bank

BBL- BRAC Bank Limited

BGTB – Bangladesh Government Treasury Bill and Bond

BP – Business Participant