

# **GUIDELINES FOR THE ISSUANCE AND TRANSFER OF SIERRA LEONE GOVERNMENT TREASURY BILLS**

## **1. GENERAL**

### **a) Issuer and description**

Government of Sierra Leone Treasury Bills (T/Bills) are issued by the Bank of Sierra Leone ("the Bank") pursuant to the Treasury Bills Act 1964.

The Bank will issue Treasury Bills through competitive weekly auctions but reserves the right to issue at short notice and in any manner as it deems fit.

Pursuant to subsection 7 of the Treasury Bills Act 1964 Treasury Bills may be issued with a maximum maturity of (24) twenty-four months. Treasury Bills will usually be issued at maturity tenures of 91-days, 182-days and 364-days.

Treasury Bills are denominated in Leones and are sold at a discount and carry no coupon.

### **Other**

The Bank may at anytime purchase Treasury Bills from any holder of Treasury Bills. Any Treasury Bill so purchased may be retained, sold or cancelled at the discretion of the Bank.

## **2. PRIMARY ISSUANCE**

### **a) General**

Bids must be placed in accordance with procedures outlined in the rules and the auction announcement. Bids not meeting the conditions laid out in these documents will be rejected.

In particular all bids must be:

- In the Bank of Sierra Leone standard format (see sample form below).
- Signed by authorized personnel of the bidding institution.
- Submitted at the place and by the time stipulated in the auction announcement.

### **b) Auction Format and Allotment**

The auction is multiple prices, meaning that each successful bidder is allocated Treasury Bills at the price at which they bided.

Allotment of securities of successful bids accepted in the auction by the Bank will be made in descending order from the highest to the lowest discount price that clears the amount put on offer.

- c) **Eligible participants**  
Commercial banks, discount houses, insurance companies and other approved wholesale participants that hold accounts with the Bank of Sierra Leone are eligible to participate in the primary auction.
- Other institutions and the general public wishing to acquire Treasury Bills in the Primary market must do so by placing their bids through a commercial bank or discount house.
- d) **Auction Announcement**  
The Bank will make auction announcement from time to time which will be published in the local news media for the information of the money market and the general public.
- e) **Bid minimum and Increments**  
Each bid submitted to the auction must be for a minimum of Le50, 000 (Fifty thousand leones) and thereafter in increments/multiples of Le50,000.
- f) **Bid Format**  
Bids shall state the price per Le100 face value, subject to a minimum and increments of Le50,000 as stated in subsection (e).
- The price must be specified to one place of decimal in multiples of 10 basis points (e.g. 94.5, 94.3 etc).
- g) **Acceptance /rejection of bids**  
The Bank reserves the right to reject all or any bid.
- h) **Over Subscription**  
The Bank will only supply/issue the offer amount stated in the auction announcement.
- i) **Under Issuance**  
On occasions where the Bank has issued to the market, less than the full amount offered in the auction announcement, the un-issued amount will be redeemed by Government.
- j) **Results**  
Auction results will be delivered to all bidders and announced in the local newspapers.
- The auction results will contain;
  - Total volume of bids submitted;
  - Total number of bids submitted;

- Volume of successful bids;
- Total amount supplied at the auction;
- Highest Discount Price;
- Lowest Discount Price;
- Lowest successful Discount Price;
- Weighted average annual yield;
- Date of next issue and maturity
- Amount offered at next auction.

**k) Auction postponements**

The Bank reserves the right to extend the bidding cut-off time or postpone an auction at any time, should any circumstance impair the integrity of the auction process.

**3. SETTLEMENT AND REGISTRATION**

**a) Settlement price**

The settlement price for Treasury Bills is calculated as follows;

Settlement Price =  $(\text{Price}/100) * \text{Face Value}$

Example if bid price is 98.5 and face value bid is 1,000,000

Then settlement Price =  $(98.5/100) * 1,000,000 = 985,000$

**b) Settlement**

Settlement of all Treasury bills transactions will be done on the basis of Delivery Versus Payment (DVP). Successful bidders' current accounts at the Bank of Sierra Leone will be debited with the aggregate settlement price for all successfully bids at the auction.

Successful bidders must ensure that their current accounts are sufficiently funded to meet the settlement obligations arising for all successful bids.

The Bank reserves the right to cancel any Treasury Bills that are not fully paid for by a successful bidder. The un-issued amount will be redeemed by Government.

Where a bidder fails to pay fully for Treasury Bills, the Bank may exclude that bidder from participating in subsequent auctions.

**c) Delivery of bid letters/forms**

Each auction bid should be enclosed in a sealed envelope addressed to the Director of Financial Markets department and marked on the outside "Treasury Bills Auction Bids". Each bid will be registered by the Principal Administrative Assistant to the Director of Financial Markets Department and deposited in the Auction box provided. All bids should be delivered to the Bank not later than 16.00hr GMT, the day before the auction date.

### **3. SECONDARY MARKET OPERATIONS**

#### **a) Transfer of Treasury Bills**

The Bank will facilitate transfer of securities between holders. Request for transfer must be;

- Correctly and legibly written given details of the nature of the transaction underlying the transfer and specifying the security type.
- Signed by authorized signatories.
- Delivered to the Bank of Sierra Leone.

#### **b) Rediscount of Treasury Bills**

The Bank stands ready to purchase treasury bills disinvested by the non-bank public only (Excludes all institutional investors).

#### **c) Delivery and format of disinvestment/rediscount letters**

Request for disinvestments of treasury bills purchased by customers must be:

- Correctly and legibly written, giving the following details:
  - the nature of the transaction
  - issue and maturity dates
  - amount to be disinvested
  - purchase price
- Signed by authorized signatories.
- Forwarded to the Bank of Sierra Leone

#### **d) Rediscount Rate**

The Re-Discount Rate for Treasury Bills is the Monetary Policy Rate (MPR) determined by the Monetary Policy Committee (MPC) plus a margin.

#### **e) Interbank Repos/Reverse Repos**

Commercial banks/discount houses that have signed the Master Repo Agreement (MRA) can borrow/lend funds when they are short/long at the interbank market, using treasury bills as the underlying collateral.

Only Treasury Bills with a remaining term to maturity exceeding the term of the repo/reverse repo contract should be used.

Interbank market players can undertake 1-14 days repos or reverse repos operations for their daily liquidity management.

Lenders of funds should confirm from BSL, whether treasury bills pledged as collateral by counterparties are encumbered.

To protect itself from market risk, lenders should apply a 10% margin to the securities delivered as collateral. E.g. A face value of Le1,100,000,000 treasury bills for a loan amount of Le1,000,000,000.

All repo/reverse repo transactions done in the interbank market shall be reported to BSL on the transaction date, not later than 17.00hr to update the Book Entry System. The letter should comprise of the following details:

- The nature of the transaction
- Name of counterparty
- Face value of treasury bills
- Issue and maturity dates of treasury bills
- Interest rate on loan
- Tenure of the Repo transaction
- Signed by authorised signatories of both counterparties (i.e. the lender and the borrower of funds)

BSL transfers treasury bills to initial holders (borrowers) at maturity of the REPO contract.

**f) Settlement Rules**

Settlement in the interbank market will be done on a bilateral basis between counterparties.

**g) BSL Reverse Repo Operations (Reverse Repo Auctions/ Standing Facility Window/Lombard Facility Window)**

Commercial Banks and Discount Houses that have signed the Master Repurchase Agreement (MRA) can borrow funds from BSL, using their treasury bills as the underlying collateral.

Only Treasury Bills with a remaining term to maturity exceeding the term of the repo/reverse repo contract is accepted as collateral.

Reverse Repo auctions will be conducted at the instance of BSL, based on liquidity condition in the market, at a fixed rate and tenure.

As lender of last resort the Bank will provide liquidity via the Standing Facility window for a period of 1-7 days at the instance of counterparties (commercial banks and discount houses) at a rate determined by the Bank. The rate is the MPR plus a fixed spread as determined by the MPC.

Commercial banks and discount houses should submit their request to access the standing facility of the Bank not later than 17.00hr. The request should comprise of the following details:

- The nature of the transaction
- Face value of treasury bills
- Issue and maturity dates of treasury bills
- Tenure of the Reverse Repo transaction
- Signed by authorised signatories

#### **h) BSL Repo Operations (Repo Auctions/Bi-lateral Repos)**

BSL may conduct weekly repo auctions, two working days after the primary market treasury bills auction to support the Bank's monetary operation. It is a fixed rate auction whereby BSL will determine the rate and counterparties will determine the quantity.

Commercial Banks and Discount Houses who have signed the MRA are eligible to participate in the auction.

Only treasury bills with a remaining term to maturity exceeding the term of the repo are eligible as collateral for the underlying bids to the repo auction.

The Repo rate is the MPR as determined by the MPC.

#### **i) General Rules for Repo/Reverse Repo Auctions**

- ii) Type of auction: Fixed-price Yield auction.
- iii) Manner of submitting bids: on letter heads delivered to the BSL
- iv) Deadline for submitting bids: 5.00pm on auction day
- v) Minimum bid: Le 100 million
- vi) Only one bid per bidder
- vii) Any bid can be rejected at the BSL's discretion
- viii) Eligible bidders can bid only for their own account. Third party bids are not allowed.
- ix) The Bank reserves the right to extend the bidding cut-off time or postpone an auction at any time, should any circumstance impair the integrity of the auction process.

#### **i) Delivery and Payment**

- x) Settlement is on the basis of Delivery versus payment
- xi) Debit or credit directly to counterparty account at BSL
- xii) Security transfers on books of the BSL
- xiii) Announcement of result will be same day via trading phone

#### **j) Resale or Repurchase on Maturity**

**For Reverse Repos:** at maturity the BSL will sell the security back to the bank/discount house at the resale price agreed upon at the initiation of the reverse repo transaction.

**For Repos:** at maturity the BSL will repurchase the tendered security at the repurchase price agreed upon at the initiation of the repo transaction.

**(See below for pricing details).**

## **Calculation of settlement prices for BSL Repo/Reverse Repo operations**

Treasury bills will be bought by the BSL in the case of repos or sold to the BSL in the case of reverse repos according to the following formula:

$$P = 100 \times (1 - (I \times d/364))$$

Where:  $P$  = the price per 100 Le

$I$  = the average yield for the 91 day bill at the last auction expressed as a decimal (e.g. 9.51% = .0951)

$d$  = the number of days left to maturity for the bill tendered

For example; if a bill with 58 days remaining to maturity is tendered and the rate at the last auction was 9.50 percent the purchase price ( $P$ ) would be:

$$P = 100 \times (1 - (.095 \times 58/364)) = 98.486264$$

Treasury bills will be resold back to the bank or discount house by the BSL in the case of repos or repurchased from the bank/discount house by the BSL in the case of reverse repos according to the following formula:

$$\text{Resale or Repurchase Price per 100 Le} = P + (r \times P \times t/364)$$

Where:  $P$  = price calculated above

$r$  = the repo or reverse repo rate for this winning bid determined at the auction

$t$  = the term of the repo

For example; if a bank is successful bidding 8.06% at a seven day repo auction and tenders a bill with 58 days remaining to maturity the BSL will pay the bank 98.490411 Le per 100 Le face value. On day 7, at the maturity of the repo, the bank will pay the BSL:

$$\text{Resale price per 100 Le} = 98.486264 + (.0806 \times 98.486264 \times 7 / 364) = 98.638918$$

- xiv) Note that the difference between the price the BSL bought the security on day 1 and the price the bank paid to repurchase the security on day 7 represents interest earnings to the BSL and an interest expense to the counterparty.

Repurchase price (98.638918) – Purchase price (98.486264) = interest earnings for the BSL (.152653 Le per 100)

Note that  $:(.152653/98.486264) \times 364/7 = .080599 = 8.06\%$

**Bank of Sierra Leone**