



GUIDELINES FOR THE PRIMARY MARKET ISSUANCE

OF

GOVERNMENT OF SIERRA LEONE TREASURY BILLS

OCTOBER 2019

1. INTRODUCTION

a) Issuer and Description

The Bank of Sierra Leone ("the Bank") in its role as banker and fiscal agent of the Government of Sierra Leone (Government) issues Government of Sierra Leone Treasury Bills (T-Bills) in electronic format through the Scripless Securities Settlement system (SSS) system/Central Securities Depository (CSD).

Treasury Bills are short-term debt instruments, backed by the national government with a maturity of not more than one year. Treasury Bills are issued by government in exchange for money borrowed from the public, primarily to finance its revenue-expenditure gap. Other objectives for the issuance of Treasury bills include: to encourage the development of the domestic money market; to serve as a monetary policy tool for the Central Bank; and to provide a liquid form of investment with no risk of default for institutions as well as individual investors.

Pursuant to the Treasury Bills Act 1964, T-Bills may be issued in various maturities but not exceeding one year. Treasury bills are issued in three maturities namely: 91-days, 182-days and 364-days.

Treasury Bills are issued on a weekly basis by the Bank through a competitive tender system in the Primary market and stored in the CSD. The Bank, however, reserves the right to issue T-bills at short notice and in any manner as it deems fit. Subsequently, Treasury Bills are sold and purchased on a continuous basis in the Secondary market, either at the request of the Bank or the commercial banks.

Treasury Bills are denominated in Leones and issued at a discount (sold at a price less than their face (par) value). At maturity, the Government will pay the holder the full face value of the bill. Therefore, the interest earned on Treasury Bills held to maturity is the difference between the purchase price of the security and its face (par) value.

b) Primary Dealers

All Commercial Banks and Discount Houses are Primary Dealers (PDs) and shall perform the following functions:

- provide liquidity to the market by quoting effective one-way rate for Treasury Bills for outright purchases and sales;
- purchase the undersubscribed portions in auctions;
- participate actively in the Treasury Bills issuance programme;
- actively contribute to the development of the Treasury Bills market;
- Adhere to their obligations as stipulated in the Primary Dealership Agreement.

c) The Central Securities Depository System/Scripless Securities Settlement System (SSSS)

The CSD is a key component of the Bank of Sierra Leone's National Payments System, which manages the life cycle of Government of Sierra Leone (GoSL) treasury securities and is linked to the Real time Gross Settlement System (RTGS). This facilitates real time settlement and clearance of all Government securities transactions on a Delivery Versus Payment (DvP) principle, where both the securities and the funds are simultaneously settled with finality.

2. THE AUCTION COMMITTEE

The Auction Committee shall be chaired by the Bank and shall comprise officials from the Bank and the Ministry of Finance. The Committee discusses auction outcomes, takes final decision on the auction and also confirms all auction results.

The Committee reserves the right to increase or decrease the offer amount by not more than 10 percent, and also to accept or reject bids without assigning any reason. However, the percentage may be varied based on government's funds' position.

3. PRIMARY MARKET PROCESS

a) Auction Calendar

An Auction Calendar prepared by the Ministry of Finance (MoF) shall be published at the start of each quarter. Pre-announcing the issuance of Treasury Bills reflects the Bank's desire for greater transparency and accountability. It also enables market players to effectively plan their investment in Government securities.

Auctions for Treasury Bills shall be conducted every Thursday at the Bank of Sierra Leone, except otherwise announced.

b) Announcement

For the information of the general public, a press release calling for bids will be published in the Bank's website and the local news media at least six days prior to each auction.

An announcement is also published electronically through the CSD system at least three days prior to each auction session for the information of commercial banks.

c) Submission of Bids

Commercial Banks may submit their bids on behalf of themselves and their customers electronically through the CSD Platform held at the Bank of Sierra Leone, not later than 16:00hrs GMT on the day preceding the auction.

Discount houses, insurance companies and other financial institutions should submit their auction bids signed by the authorised signatories in a sealed envelope, addressed to the Director of Financial Markets Department and marked on the outside "Treasury Bills Auction Bid(s)".

All bids shall be delivered to the Bank not later than 16:00hrs GMT on the day prior to the auction date.

d) Bid Format

Each bid submitted must be a minimum face value of Le500,000 (Five Hundred Thousand Leones) and thereafter in increments/multiples of Le50,000.

Bids must be quoted in prices per Le100 face value in not more than two decimal places (e.g. 81.0, 92.6 and 98.45).

e) Auction Allocation

The auction is conducted using the multiple price auction format. This implies that each successful bidder is allocated Treasury Bills at the price at which they bid. In addition, more than one bid per participant is allowed but at different prices.

Bids will be allotted in descending order from the highest to the lowest discount price that clears the amount put on offer.

f) Eligible Participants

Primary Dealers, 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 Primary Dealer.

Treasury Bills shall only be sold to applicants that have been registered and hold Securities account with the CSD.

g) Registration of Participants

All Primary Dealers and Other Financial Institutions (OFIs) shall be registered in the CSD by the Bank, to obtain a unique identification number and a securities account number. First time participants of treasury bills in the non-bank public category, shall be registered in the CSD by a Primary Dealer and given a unique identifier code.

h) Competitive Bids

Applicants that submit a competitive bid shall be allotted with Treasury Bills only at the price quoted on the application. If bids at the cut off price exceed the face value of the remaining amount on offer, the remaining amount shall be prorated and allocated accordingly to bids at the cut off price until the amount offered for sale is exhausted.

i) Non-Competitive Bids

Submitting a non-competitive bid implies that the applicant will be allotted Treasury Bills at the weighted average discount price derived from the successful competitive bids. Therefore, non-competitive applicants should only indicate the bid amount.

Allotment of non-competitive bids is capped at an overall limit of five percent (5%) of each auction, with prorated allocation within this cap if necessary. However, the Auction Committee reserves the right to change the allotment mechanism as and when it deems necessary.

j) Responsibility for Payment

The responsibility to pay the cost for Treasury Bills awarded in an auction rests solely on the bidder. Participants should therefore ensure that their accounts are adequately funded on the auction date.

k) Auction Results

Primary Dealers will be able to view their own and clients' successful bids on the CSD System upon completion of the auction. Results of other participants who are Non-Primary Dealers will be delivered to the respective institutions not later than the day following the auction.

The results of auctions will also be announced for the information of the general public on the local media and on the Bank's web site (www.bsl.gov.sl).

The auction results will include:

- Total amount supplied/issued at the auction;
- Highest Discount Price;
- Lowest Discount Price;
- Lowest successful Discount Price;
- Average Discount Price;
- Weighted average annual yield;
- Date of next issue and maturity;
- Offer Amount at next auction.

l) 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.

If an auction falls on a public holiday, the auction will be conducted on the next Business Day but the issue will remain the same. An auction could also be postponed in the event of technical failure or natural disaster.

m) Redemption of Security

On maturity, investors shall be paid the face value (cost and interest) of treasury bills purchased at auction. The Bank shall credit the accounts of all

PDs and OFIs, while accounts of the non-bank public shall be credited by their respective PDs through the SSS System on real time basis.

n) Withholding Tax

With the exception of commercial banks and pension funds, income earned from investment in treasury bills shall be subjected to withholding tax at maturity, as per Government regulations.

o) Oversubscription

If an auction is oversubscribed, the decision to supply the total amount demanded is dependent upon the provisions of Section 2.

p) Undersubscription

On occasions where the market demands less than the full amount offered in the auction announcement, the undersubscribed amount may be redeemed by Government or issued to the Primary Dealers on a pro-rata basis.

q) Commission

A commission of 0.33 percent on successful bids at the auction shall be paid to the PDs on behalf of their clients.

4. SETTLEMENT

a) Settlement Price

The settlement price for Treasury Bills is calculated as follows;

Settlement Price = (Price/100) * 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 shall 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. Settlement is done through RTGS and Temenous 24 (T-24).

The Auction Committee reserves the right to cancel Treasury Bills that are not fully paid for by a successful bidder.

Where a bidder fails to pay fully for Treasury Bills on settlement day, the Bank may take punitive action against the bidder.

**Money Market Division
Financial Markets Department
Bank of Sierra Leone**