

NATIONAL BANK OF RWANDA
P.O.Box. 531 KIGALI.

**INSTRUCTION N° 05/98 OF 24TH SEPTEMBER 1998 ON THE MODALITIES OF
ISSUE AND NEGOTIATION OF TREASURY BILLS**

Given the law n° 11/97 of 26th July 1997 bearing the Statutes of the National Bank of Rwanda, especially in its articles 48, 55, 56 and 58 ;

Given the Finance law n° 01/98 of 31st December 1997 for the fiscal year 1998, especially its article 10;

Given the Agreement n° 01/8/98 regarding the issue of Treasury Bills on the money market;

Given the Agreements n° 01/98, n° 02/98, n° 03/98, n° 04/98 and n° 05/98 of 28 December 1997 regarding the re-conversion of Treasury Bills and Development Bonds subscribed to by banks ;

Considering the need to finance the budget deficit on the domestic market at more competitive conditions and to promote a better management of public revenue and public debt;

Considering the necessity of an adequate policy instrument enabling the National Bank of Rwanda to conduct a more flexible and active monetary policy, centred on the indirect control of the money supply ;

Considering the necessity to mobilise savings on the money market and ensure its liquidity;

The National Bank of Rwanda, hereinafter designated the “Bank”, lays down the following dispositions regarding the modalities for the issuing and negotiation of Treasury Bills on the money market.

CHAPTER I

GENERAL PROVISIONS

Article 1: Definition.

Treasury Bills are negotiable securities representing claims on Government. They are issued by the Bank, within the framework of its mission as State’s financial agent, to finance the budget deficit and ensure better management of public debt, or for monetary policy purpose.

Article 2: Form.

Treasury Bills can either be materialised in printed securities or be dematerialised, and in the latter case, are recorded into the Public Debt Ledger under the name of their holders.

Article 3: Duration and maturity

The duration of Treasury Bills can be of less than a year or more. In the first case, the duration can be either 4, 13, 26 or 52 weeks. The maturity of Treasury Bills is brought to the knowledge of the public during every invitation to tender.

Article 4: Unit nominal value.

The unit nominal value of Treasury Bills is fixed at RwF 100,000. Treasury Bills of different unit nominal value could also be issued.

Article 5: Settlement and repayment

Treasury Bills of less than one-year maturity are settled for their net value after deduction of interests from the nominal value. At the maturity date, they are reimbursed for their nominal value.

Treasury bills with duration exceeding a year are settled for their present nominal value taking into account annual interests to pay. They are reimbursed at once on maturity for their nominal value and entail annual payments of interests calculated against the nominal rate (coupon).

Article 6 : Calculation of interests and amounts to be paid

The methods for the calculation of interests and amounts to be paid are indicated in Appendix I of the present instruction.

CHAPTER II

MODALITIES FOR THE ISSUE OF TREASURY BILLS ON THE MONEY MARKET

Article 7 : Participating Parties

Banks and financial institutions holding an ordinary current account with the Central Bank are admitted to participate in the primary market. However, other investors, individuals or legal entities approved by the Bank may be allowed to tender through their banks.

Article 8 : Issuing schedule

Before the beginning of every quarter, the Bank publishes on behalf of the Treasury, a schedule indicating notably the planned issues, the approximate amounts, the dates, the categories of bills and their maturities. For the purpose of monetary policy, the Bank can decide on other treasury bills issues.

Article 9 : Invitations to tender

At latest seven days before the tender date, the Bank informs the public about the characteristics of the issues, notably the tender date, the categories of bills and their maturities, the amounts of issue, by indicating the part reserved for non-competitive tenders, as well as the deadlines of the date and hour for tenders submission. The nominal interest rate (coupon) for bills of more than one year must be indicated. The Bank can determine the minimum amount of bids.

The general public should be informed in case the settlement of bills to be issued is to be made in conversion bills with regard to Agreements n° 01/98, n° 02/98, n° 03/98, n° 04/98, n° 05/98 of 28th December 1997, as well as other similar agreements that could be signed subsequently.

Article 10 : Bidding

The bidders submit to the Bank, in sealed envelope, their tender documents whose different models are presented in Appendix II. Tender forms are made in three copies, the first two being sent to the Bank in sealed envelopes, while the third is kept by the bidder.

Operators without any account with the Central Bank submit the tenders through their banks, which must provide an irrevocable order to debit their current account in the Bank's books for the amount tendered.

Banks participate in competitive tenders and must indicate in their offers, for each category of bills, the corresponding nominal amount as well as the rate of return rounded up to 1/16th of the closest percentage. Tenders must be classified following the increasing order of rates. Other bidders submit their non-competitive offers by indicating, for each category of bill, the number of bills and the corresponding total nominal amount.

Article 11: Opening of Tenders and Allocation of Issue

The opening of competitive offers and the communication of tender results done by the Money Market Committee following the Dutch method. Thus, the offers retained are only those whose rate offered by bidders is lower than or equal to the marginal rate. *The marginal rate is the rate whose tenders' aggregated amounts, after tender filing, is equivalent to the issuing volume fixed by the Bank, starting with the lowest rate.* Each selected offer is paid at the corresponding rate.

If the total amount of the selected bids is higher than that of the issuing, only the offers done on a rate lower than the marginal rate will be entirely paid. Those that are offered at the marginal rate share proportionately the portion of the issue remaining to be attributed.

The part of the issue reserved to non-competitive tenders is proportionately distributed between bidders of that category who are paid at the weighted average rate resulting from competitive offers.

The Bank notifies each selected bidder about the outcomes of his/her tender, by indicating notably:

- The number of bills per category, their serial number, their maturities and their total nominal amounts ;
- The rate of return corresponding to each selected bid ;
- The net amount to be paid.

CHAPTER III : THE FUNCTIONING OF THE SECONDARY MARKET

Article 12 : Negotiation of Treasury Bills and Obligations of Banks

Treasury Bills are negotiated and transmitted under conditions freely agreed upon between parties.

The secondary market is opened to banks, enterprises and individuals.

The secondary market liquidity is ensured by banks. To this end, banks are required to daily publish the rates at which they are ready to purchase or sell Treasury Bills, as well as the corresponding quantities.

Article 13: Intervention of the Bank on the secondary market

The Bank can operate on the secondary market to sell or purchase Treasury Bills.

CHAPTER IV

SETTLEMENTS ACCOUNTING AND TREASURY BILLS REPAYMENTS.

Article 14 : Settlement on the primary market.

The day following the bidding, selected bidders settle the amount for the bills attributed to them. To this effect, the Bank debits their respective current accounts kept in its books.

For bidders with no current accounts at the Bank, the payment is effected by the debit of the current accounts of the banks through which their tenders have been done.

When the payment of bills to be issued must be done through re-conversion (buying back) bills, as stipulated by the Agreement n° 01/98, n° 02/98, n° 03/98, n° 04/98, n° 05/98 of 28th December 1997 and other similar agreements that may be subsequently signed, the likely difference between the net amount to be settled and the present value of the re-conversion bills should be debited to the current account of the bidder or of the bank through which the tender was made. The methods for calculating the present value of re-conversion bills are given in Appendix I.

As the counterpart of the operations specified in the above paragraphs, allocated Treasury bills are credited for the nominal amount to the "Treasury Bills" account kept in the public debt's ledger under the name of each selected bidder. For bidders with no "Treasury Bills" account at the Bank, their bills are credited to the "Customer Treasury Bills" account of the bank through which their tenders were made.

Article 15 : Settlement on the secondary market.

For the purpose of accounting, participants who hold an ordinary current account and a “Treasury Bills” account in the Central Bank’s books must inform the Bank about all transactions effected between them

For other account holders, the accounting is carried out through “Treasury Bills” and “Customer’s Treasury Bills” accounts opened by their respective banks. To that effect, every transaction made between banks and their customers should be promptly notified to the Bank, by indicating notably the bills’ category, their numbers, the global amount and mostly the operation value-date. A copy of the purchase or sell order, signed by the customer, should also be transmitted to the Bank.

In both cases, the settlement should be made not later than the following day of the transaction.

Article 16: Reimbursement.

The day following the maturity, the Bank credits the banks and other participating parties’ current accounts held in its books with the total nominal amount of accruing bills, by debiting their “Treasury Bills” accounts or “Customer’s Treasury Bills” sub-accounts. Should the case arise, the banks repay the part belonging to their respective customers’ holders of the matured bills.

CHAPTER V : DISCLOSURE OF INFORMATION

Article 17 : Information relating to operations on the primary market.

At the end of every tender, the Bank informs the general public about the overall outcomes of each tender, notably :

- The total amount of bids;
- The total nominal amount submitted by competitive offers;
- The total nominal amount submitted by non-competitive offers;
- The minimum and maximum rates;
- The marginal rate;
- The weighted average rate of the tender;
- The weighted average price of the tender;
- The net total amount of the borrowing.

Article 18 : Information about the operations on secondary market

At the beginning of every working day the banks communicate to the Central Bank their conditions of Treasury bills’ purchasing and selling, as well as any change in those conditions during the day.

At the last working day of the week, banks communicate to the Bank, for very tender, the total volume of purchasing and selling operations carried out during the week, as well as the corresponding weighted average rates.

At the last working day of every month, banks communicate to the Bank the outstanding Treasury bills held by category of investors. The Bank summarises all that information which is then diffused to the public.

CHAPTER VI : OTHER PROVISIONS

Article 19 :

Whenever the date of tender, settlement or maturity coincides with a holiday, it is postponed to the following working day.

Article 20 :

The present instruction comes into effect on the day of its signature.

Done at Kigali, 24th September 1998.

François MUTEMBEREZI
Governor

APPENDIX I

CALCULATION OF INTERESTS AND AMOUNTS TO BE PAID FOR TREASURY BILLS

I. TREASURY BILLS OF LESS THAN A YEAR

a- Interests

- For bills of less than a year, the interests are *withheld* and calculated as follows:

$$I = C * Tr * N / (36000 + Tr N)$$

where :

I = *withheld* (pre-counted) interests;

C = Treasury bill nominal value (capital);

Tr = rate of return in percentage;

N = number of days between the date of issue and the date of settlement, only the first date being inclusive. These calculations are done on a basis of 360 days a year.

- b- The amount to be paid is equal to the nominal value minus the interests.**

$$C_e = C - I$$

II. TREASURY BILLS OF MORE THAN ONE YEAR

a- Interests

Interests are post-counted and calculated on the basis of a nominal rate of 365 days a year.

$$I = \frac{C * T_n * N}{36500}$$

where :

I = interests to be paid or coupons;

C = nominal value of the Treasury bill;

T_n = nominal rate;

N = exact number of days

- b- Amount to be paid at the issuing**

It is equal to the value discounted by the yield (rate) to maturity from the nominal value and annual accruing interests. To simplify the calculations, the nominal value (**Vn**) of the bill is brought to 100.

$$Pe = \frac{Tn}{1 + Tra} + \frac{Tn}{(1 + Tra)^2} + \dots + \frac{Tn}{(1 + Tra)^n} + \frac{100}{(1 + Tra)^n}$$

where

- Pe** = price of the bill at the issuing, in percentage;
- Tn** = the nominal rate of the borrowing, in percentage;
- Tra** = the yield rate at maturity, in decimals;
- n** = the number of remaining years until maturity.

Whenever the settlement occurs after the date of possession, the price is marked up with accrued interests from the date of possession up to maturity.

$$Ic = \frac{Vn.Tn.Nc}{36500}$$

where:

- Ic** = accrued interests;
- Vn** = nominal value of the Treasury bill;
- Tn** = nominal value of the issue ;
- Nc** = number of days from the date of possession up to maturity.

III. BUY-OUT OF RE-CONVERSION BILLS

Whenever buying back bills are accepted before their maturity in payment of new Treasury bills, the amount to take into consideration is equal to their nominal value discounted by an average weighted rate as follows:

a- New Treasury bills of less than one year :

$$VABR = \frac{VBR}{1 + \frac{Tmp \cdot N}{36000}}$$

where:

- VBR** = the value of the buy back bill ;
- VABR** = the present value of the re-conversion (buying back) bills to be considered in the settlement of new bills of less than a year ;

Tmp = the weighted average rate of the tender or that of each concerned bidder;
N = the exact number of the remaining days until the maturity of re-conversion (buying back) bills.

B – New bill of more than one year :

$$\mathbf{VABR} = \frac{\mathbf{VBR}}{\frac{(1 + \mathbf{Tmpa})^{N/365}}{100}}$$

where:

VBR = the value of re-conversion bills ;

VABR = the present value to be considered for the settlement;

Tmpa = the weighted average yields at maturity. It could be either the weighted average yields rate at maturity of the tender, or that of each concerned bidder.

N = the exact number of days remaining until the maturity of the re-conversion bills.

The above present value should be lower than or equal to the amount to be paid for tendered bills. In case bills are insufficient, the *complement* is taken from the current account of the concerned bank.

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Appendix II.1

**TREASURY BILLS TENDERING
TENDER FORM**

Competitive Tenders.

Bidder

- Tender : n°of
- Bills duration:
- Tender total amount :
- Settlement date:
- Mode of settlement:.....
- Maturity date:
- Tender total amount:

Number of bills	Total amount	Rate of return

This tender constitutes an irrevocable agreement to debit our current account in BNR's books the net settlement amount corresponding to the selected tenders.

Date and signature

Appendix II.2

**TREASURY BILLS TENDER
TENDER BILL**

**Non-competitive tenders
(Reserved to bidders other than banks)**

Bidder
Bidder's bank.....

- Tender: n° of
- Bills duration:
- Total amount of tender:.....
- Settlement date :.....
- Settlement mode :.....
- Maturity date :.....

- Number of bills :
- Tenders total amount :

Date and Signature (of the bidder)

The bank irrevocably authorises the NBR to debit its current account n°... in NBR's books the net settlement amount.

Signature of the bank