



**CENTRAL BANK
OF ESWATINI**
Umntsholi Wemaswati

**FRAMEWORK FOR ISSUE OF GOVERNMENT TREASURY BILLS ON
BEHALF OF THE GOVERNMENT OF THE KINGDOM OF ESWATINI
2010 (AS AMENDED 2018)**

MBABANE

JUNE 2018

TREASURY BILLS

Treasury Bills are short-term marketable debt instruments of the Government. They are issued by the Central Bank of Eswatini (the Bank), which acts as fiscal agent for the Government. The Government is obliged to pay the holder of a Treasury Bill a fixed sum of money on the maturity date of the bill. As such, Treasury Bills are considered safe investments. Although Treasury Bills cannot be cashed in before their maturity dates, investors can sell them in the secondary market through the Authorized Primary Dealers or Stockbrokers at any time during normal market trading hours.

Treasury Bills are issued at a discount; that is, they are 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 a Treasury Bill held to maturity is the difference between the purchase price of the paper and its face (par) value.

OBJECTIVES

Governments around the world issue debt securities to raise funds needed to finance operating and development expenditure needs. In Eswatini, the major objectives of issuing the present series of Treasury Bills are to:

- provide a liquid investment alternative with no risk of default for individual and institutional investors;
- establish an efficient and liquid market in government securities, which will serve as a benchmark for the corporate debt securities market;
- provide funding for the government;
- encourage the development of domestic money and capital markets; and provide an instrument for the banking system to manage liquidity in an effective manner.

LEGISLATION

Treasury Bills are issued under the provisions and guidelines of the Public Finance Management Act, 2017, which are set out in part three (III), “FISCAL RESPONSIBILITY” of the Act. The Bank, as a fiscal agent for the Government, is charged with raising funds in the domestic market. Treasury Bills issued under this Act are exempt from withholding tax, stamp and transfer duties.

AUCTIONS AND MARKET OPERATIONS

AUCTION CALENDAR

Auctions of Treasury Bills are held weekly, at 12:00 HRS on Wednesdays, unless advertised otherwise. The details of the securities on issue will be announced publicly on the Bank's website (www.centralbank.org.sz) one week in advance of the auction date.

A publicly available issuance calendar will enable market players and investors to plan ahead and invest more efficiently. The move to announce the issuance of Treasury Bills in advance of the auction date reflects the Bank's desire for greater transparency, and the market's need for greater predictability.

AUCTION FORMAT

The auctions will be conducted using a multiple price and multiple bid auction format. This means participants are permitted to place more than one bid and each successful bidder pays what they bid at the auctions; differing from a uniform-price auction format, where all successful bidders pay a uniform price.

ELIGIBLE BIDDERS/PARTICIPATION

The auctions are open to all bidders, including commercial banks, non-bank financial institutions, stockbrokers, corporate and individual investors. USA citizens are prohibited from participating as enshrined in the United States Securities Act of 1933, as amended. Auction Committee members are eligible to participate in the auctions but are supposed to declare. Foreign individuals and institution are eligible to participate, subject to compliance with exchange control regulations.

Authorized Primary Dealers may also submit bids on behalf of their customers. These Primary Dealers may bid competitively for their own account and clients and may also submit non-competitive bids on behalf of their clients. Individuals bidding non-competitively have the option to submit their bids direct to the Bank, without going through a Primary Dealer.

COMPETITIVE BIDS

By submitting a competitive bid, the applicant wants to be allotted securities only at the discount rate specified on his or her application.

NON-COMPETITIVE BIDS

Non-competitive bids are provided to allow the general public to participate in the auctions of government securities without the detailed knowledge of market developments that

institutional investors hold.

By submitting a non-competitive bid, the applicant is willing to be allotted securities at the weighted average discount rate established by competitive bidding in that auction.

Non-competitive bidding is capped at an overall limit of twenty percent (20%) of each issue on offer or any such limit which the Auction Committee deems appropriate.

If no competitive bids are received, or allotted, at a given auction, the Auction Committee may elect to allocate the non-competitive bids either:

- 1) At the average yield established by competitive bidding in the last successful auction of that type of security or;
- 2) By applying the appropriate spread above South Africa yields from the last auction on the current market yields in South Africa.

The decision must reflect current pricing in the market and fairly compensate the noncompetitive bidders. This can be more readily applied to the 91-day Treasury Bill as this paper is auctioned weekly. However, the decision to allot securities will remain at the discretion of the Auction Committee.

AUCTION ANNOUNCEMENTS

Any change in the terms and conditions governing the auctions will be announced publicly on the Bank's web site (www.centralbank.org.sz) at least seven (7) days prior to the scheduled auction.

SUBMISSION OF BIDS

All competitive bids must be submitted in multiples of Five Million Emalangeni (E5,000,000) subject to a minimum bid of Five Million Emalangeni (E5,000,000). All non-competitive bids must be submitted in multiples of Ten Thousand Emalangeni (E10,000) subject to the minimum bid level of Ten Thousand Emalangeni (E10,000). Any investor who bids noncompetitively should apply for an amount less than Five Million Emalangeni (E5,000,000) otherwise the bid will be rejected.

Application forms to participate can be obtained from a Primary Dealer or downloaded from the Bank's web site (www.centralbank.org.sz).

Competitive bids are to be submitted in terms of annual percentage yield rate expressed to not more than three decimal points; non-competitive bids need only indicate the

amount.

On the morning of the auction, each Primary Dealer may submit any number of competitive bids for its own account and competitive or non-competitive bids for its clients' accounts subject to the minimum amounts stipulated in this framework.

All bidders must submit their completed application forms to the Primary Dealers or direct to the Bank (in case of individuals bidding non-competitively) any working day in advance of the auction day or before 10:00 HRS on the day of the auction.

AUCTION ALLOCATION

After the close of an auction, the Treasury Bill amount on offer is reduced by the total amount of non-competitive bids (subject to the overall limit of twenty percent (20%) of total issue on offer or any other limit determined by the Auction Committee during the auction.

If the amount of successful bids at the highest cut-off discount rate causes the total value of successful bids to exceed the total amount offered, each bid will be pro-rated and rounded to the nearest Ten Thousand Emalangeneni (E10,000).

If the total value of non-competitive bids tendered exceeds the limit (i.e. twenty percent (20%) of the issue size on offer, the Auction Committee has the prerogative to increase the limit. Non-competitive bids from investors deemed able to bid competitively by the Auction Committee may be rejected or prorated and rounded to the nearest Ten Thousand Emalangeneni (E10,000) in nominal value.

However, the Auction Committee reserves the right to change the allotment mechanism as and when it deems necessary.

AUCTION RESULTS

Primary dealers will be able to view their own and clients' successful bids on the CSD system by 15:00 HRS. Auction results will be sent to relevant stakeholders through email or fax by 15:00 HRS on the day of the auction.

The results of auctions will be announced publicly on the Bank's web site (www.centralbank.org.sz) and through Reuters. The auction results will include:

the total amount of bids received;

the total amount of accepted bids; and

the lowest and average discount rate of accepted bids.

SETTLEMENT

Settlement of successful bids will take place on the issue date, two days following the auction date (T+2) unless announced otherwise. Settlements will be debited from Primary Dealers' Accounts held at the Bank.

Individuals who have come direct to the Bank should deposit the funds with the Bank before the auction for amounts not exceeding Ten Thousand Emalangeni Only (E10,000). If bid submitted is over Ten Thousand Emalangeni (E10,000). Individuals shall use either bank guaranteed cheques subject to a maximum as guided by the existing banking regulations or bank transfers.

Primary Dealers have Securities Settlement Accounts at the Bank which must be funded before delivery of the Treasury Bills awarded. Failure to fund the account would lead to sanctions, including, ultimately, the loss of Primary Dealer status. These accounts will not be used for general transaction purposes.

Primary Dealers will be responsible for settlement with their clients. The proceeds of maturing Treasury Bills held by Primary Dealers will be credited to the Securities Settlement Account.

Bank transfers, cheques or cash vouchers (for sums not exceeding E10,000) will be issued by the Bank upon Treasury Bill maturing to pay individuals who have applied non-competitively direct to the Bank.

TREASURY BILLS AWARD ADVICES AND CENTRAL SECURITIES DEPOSITORY SYSTEM RECORDS

A Central Securities Depository System (CSD) will be used to capture all bids, make allotment algorithms and electronically hold securities. The Bank will confirm holdings to successful bidders by authenticated notice of allotment (award advices).

SECONDARY MARKET TRADING

Treasury Bills may be traded in the secondary market "over-the-counter". Primary Dealers may buy and sell Treasury bills among themselves; and in line with the Primary Dealer's Agreement. Primary Dealers are committed to quote two-way prices for Treasury Bills to facilitate retail and interbank transactions.

Primary Dealers will report such transactions when they occur to the Bank and will lodge

the relative stock transfer forms so that the Bank records can be updated.

The Bank will not be a continuous market maker, but it may buy and sell Treasury Bills in the secondary market for its own balance sheet purposes.

MARKET CONVENTIONS

Treasury Bills are issued at a discount, in percentage terms, expressed to three decimal places. The resultant prices are expressed to three decimal places.

NON-RESIDENTS

Nonresidents can participate in the auctions by submitting their applications through any of the Primary Dealers and submissions must comply with Exchange Controls regulations.

PRIMARY DEALERS

The Bank has appointed Primary Dealers who act as intermediaries in the Treasury Bills market. They are expected to play an important role in the growth and development of the market by undertaking market-making operations. In this regards, Primary Dealers are expected to:

- provide liquidity to the market by quoting effective two-way prices for Treasury Bills for outright purchases and sales;
- participate actively in the Treasury Bills issuance programme;
- actively contribute to the development of the Treasury Bill market;
- adhere to their obligations as stipulated in the Primary Dealers Agreement.

In recognition of their specialist intermediary role, Primary Dealers will enjoy the exclusive right to submit applications for participation at Treasury Bills auctions and will be in close consultation and dialogue with the Bank on all aspects of Treasury Bills auctions and related market issues.

AUCTION COMMITTEE

The Auction Committee confirms all auction results. It comprises of officials from the Bank and the Ministry of Finance.

GREEN-SHOE OPTION

In the event of oversubscription of an auction, the Auction Committee reserves the right to allocate an additional amount of 50 percent of the amount on offer for each auction.

The Bank chairs the committee sessions held at 12:00 HRS on the day of the auction to confirm

the auction results. **The Auction Committee retains the right to accept or reject bids without assigning any reason therefore. Members present at meetings will form a quorum.**