

CENTRAL BANK OF LIBERIA BILLS AUCTION

(RULES & REGULATIONS)

Approved February 2012

1.0 INTRODUCTION

1.1 OVERVIEW

The Central Bank of Liberia (CBL) has decided to issue marketable bills by way of regular auctions. The prime objective in such a program is to aid the CBL in liquidity management. Initially, only the commercial banks would be eligible to bid for Central Bank of Liberia Bills (CBL Bills). Non-bank investors may participate via a commercial bank.

Other important objectives of issuing CBL Bills in Liberia are to:

- provide an instrument for the banking system and the CBL to manage excess liquidity in an effective manner.
- provide Liberian banks a liquid Liberian dollar investment with no risk of default (in the future, institutional and individual investors may become eligible holders);
- establish a market in short-term securities, which will serve as a benchmark for a future Government of Liberia treasury bill market; and
- encourage the development of domestic (inter-bank) money and capital markets.

1.2 PURPOSE

These Rules and Regulations - including the appendices – shall govern the issuance and redemption of CBL bills issued by the Central Bank of the Republic of Liberia.

1.3 TERMINOLOGY

“Auction” means a bidding process that the Central Bank uses to allocate and sell CBL Bills.

“CBL” means the Central Bank of Liberia.

“Bid” means an offer to buy a stated face value of CBL bills in an auction.

“**Bidder**” means a person or entity who bids in an auction.

“**Book Entry**” CBL bills will be issued in “book-entry” form. This means that the electronic record of holdings of securities kept by the Central Bank of Liberia shall be adequate proof of ownership of CBL bills by the registered owner.

“**Book Value**” is the face value of securities less any discount amount.

“**Business Day**” means any day when the CBL is opened to provide banking functions.

1.4 AUTHORITY

CBL bills are issued under authority granted by the Board of Governors of the Central Bank of Liberia. CBL Bills issued under the above-mentioned legal authorities are exempt from all stamp and transfer duties.

2.0 AUCTION

2.1 AUCTION CALENDER

Auctions will be conducted if and when deemed necessary by the CBL. The date for the auctioning of CBL bills shall be preannounced and all such auctions shall start at 10:00 a.m. on the premises of the central Bank of Liberia. Initially CBL bills with a term to maturity of 91 days will be issued. Pre-announcing the auctioning of CBL bills reflects the CBL’s desire for greater transparency and accountability, and the market’s need for predictability and certainty.

2.2 AUCTION FORMAT AND PARTICIPATION

The auctions will be conducted using a multiple bid interest rate auction format. In other words, more than one bid per participant is allowed and successful bidders pay

an amount based on the interest rate bid. This is different from a uniform-price auction format, where all successful bidders pay a uniform price.

The banks are allowed to send an authorised representative to view the opening of bids at the CBL. Only the amount bid by each bank (not the rates) will be made known to those present at the auction.

2.3 ELIGIBLE BIDDERS

The auctions are open only to commercial banks with reserve and current accounts at the CBL. Others wishing to participate will have to do so via their respective commercial banks.

2.4 COMPETITIVE BIDS

By submitting a competitive bid, the applicant wants to be allotted with CBL bills at the interest rate bid on his/her application.

2.5 NON-COMPETITIVE BIDS

Non-competitive bids will not be allowed.¹

2.6 RESPONSIBILITY FOR PAYMENT

By bidding for a security, a bidder agrees to pay the book value for any securities awarded to it in an auction. This settlement amount will automatically be debited to the successful bidder's current account at the CBL. If the account does not have sufficient funds the CBL may automatically advance funds to make up the short fall.

¹In a non-competitive bid, the applicant pays the weighted average of all successful competitive bids. Total non-competitive bids are usually capped at a small percentage of the amount auctioned (e.g. 5%).

Such advances will bear interest on a daily basis at twice the average rate established at the auction.²

2.7 AUCTION ALLOCATION

The Treasury Operations Section at the CBL will be responsible for carrying out the auction allocation process and, if necessary, rejecting any bid that does not conform to the bidding rules. After the close of an auction the issue is allotted to competitive bids from the lowest to highest interest rate. If the amount of successful bids at the highest rate causes the cumulated total of successful bids to exceed the total amount offered, each bid at that rate will be pro-rated. The prorating percentage (i.e. the percentage allocation at the cut-off rate) will be announced with the auction results.

3.0 SECONDARY MARKET

To facilitate the development of a secondary market in CBL Bills, participants may buy and sell CBL Bills between themselves at rates (prices) subject to mutual agreement. Banks may also use CBL Bills as collateral in repo transactions. The CBL must be notified of all purchases, sales and collateral operations as these have to be recorded on the books of the Central Bank.

4.0 CENTRAL BANK OF LIBERIA PARTICIPATION

4.1 At auctions

The CBL will not participate in the auctions.

4.2 In the Secondary market

The CBL would not normally participate in the secondary market however it may, at its discretion, offer to buy CBL Bills from participants. Any such offer would be made

²For example if the average rate at the auction was 4.5% the bank would be charged interest at $9.00\% \times 1/365 \times$ the balance outstanding each day there is a balance outstanding.

in a manner transparent to all eligible participants at a price set by the CBL. The CBL may in the future establish a discount “window” whereby it would announce a rate at which it is prepared to buy back CBL Bills by way of reverse repos. Dealing at this discount window would be at the discretion of commercial banks and other market participants.

5.0 AUCTION COMMITTEE

This committee will confirm the auction results and will be comprised of officers from the Treasury Operations Section and the Departments of Research, Banking, and Finance.

The Deputy Governor of the Central Bank will chair committee sessions. The committee will meet at 1.00 pm on the day of the auction to review the auction results, and review any rejected bids and the reasons for their rejection. If the entire amount offered has not been taken up (i.e. the auction was undersubscribed) the CBL will not take up the under-subscription. A majority of members present at meetings will form a quorum. In the absence of the Deputy Governor, the Auction Committee will be chaired by the Head of Treasury Operations.

6.0 AUCTION ANNOUNCEMENTS

6.1 NEXT AUCTION

Auctions will normally be held on the first Tuesday of each month. Each eligible participant will be directly notified at least three business days before the CBL plans an auction and a public announcement will be posted on the CBL website. (See Appendix A.)

Each auction announcement will contain:

amount offered; auction date; maturity date; settlement date;

closing time for receipt of bid forms; minimum bid; bidding increment;

maximum total amount of bids per bank; rate ceiling.

Any change in the terms and conditions governing the auctions will be communicated to eligible participant and publicly through the CBL website.

6.2 AUCTION RESULTS

The CBL will announce the auction results at the conclusion of the Auction Committee meeting. Each successful bidder will be notified directly and the overall results posted on the CBL website (www.cbl.org.lr) and published in local dailies.

The posting/publication shall include the following:

Issue Date; Maturity Date; Total amount offered;

Total amount issued;

Total number of bids;

Total number of bids accepted;

Lowest interest rate bid;

Highest interest rate bid;

Highest interest rate bid accepted;

Per cent cut-off at highest interest rate accepted;

Average accepted bid (discount) rate;

Average discount price;

Average annual yield (effective rate);

The CBL 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.

7.0 SUBMISSION OF BIDS

7.1

BID FORMAT

Bids shall state the interest rate and the amount (face value) for each bid subject to the minimum and incremental constraints as stated in Section 7.2 below. The interest rate must be specified to 2 decimal places. (e.g. L\$700,000 at 5.15%). (See Appendix B.)

7.2 BID MINIMUM, INCREMENTS AND LIMITS

Each bid must be for a minimum of L\$500,000.00 and thereafter, in increments of L\$100,000.00. Banks may bid on behalf of their customers provided the customer's bid is not less than the incremental amount of L\$100,000. There is no limit on the number of bids an eligible participant may submit. The CBL may also set a maximum rate or bidding ceiling. Any bid with an interest rate above this ceiling would be rejected.

7.3 DELIVERY OF BID LETTERS/FORMS

Each auction bidding form should be enclosed in a sealed envelope addressed to the Head of Treasury Operations and marked on the outside "CBL Bills Auction Bids". Each bid will be registered by a designated staff of the Treasury Operations Section of the CBL and deposited in the auction box provided. All bids should be delivered to the CBL not later than 9:00 a.m. on the day of the auction.

7.4 ACCEPTANCE/REJECTION OF BIDS

The CBL reserves the right to accept or reject any or all bids but must explain the reasons for rejection to the bidder(s) whose bid(s) were rejected.

8.0 SETTLEMENT AND REGISTRATION

8.1 DETERMINATION OF SETTLEMENT PRICE

The settlement price (P) for CBL bills is calculated using the following formula;

$$P = F \times (1 - (t \times Y) / 365)$$

Where: P = the settlement price

F = the face value of the amount bid

t = the number of days remaining to maturity

Y = the interest rate specified in the bid expressed as a decimal

Example: if the interest rate on a successful bid was 5.15% and the bid is for L\$1,000,000.00 of 91 day CBL bills;

$$\begin{aligned} \text{Then: the settlement Price} &= \text{L\$1,000,000} \times (1 - (91 \times .0515) / 365) \\ &= \text{L\$1,000,000} \times (1 - (0.012839726)) \\ &= \text{L\$1,000,000} \times .98710274 \\ &= \text{L\$987,102.74} \end{aligned}$$

The difference between the settlement price and the face value (L\$12,897.26) is the interest that would be earned if the bill is held to maturity date.

8.2 SETTLEMENT

All CBL Bills transactions must be settled on the same day as the auction. Successful bidders' current accounts at the CBL will be debited with the aggregate settlement price of all CBL Bills won at the auction. Successful bidders must ensure that their current accounts are sufficiently funded on settlement day to meet the settlement obligations arising from participation in the auction. Failure to do so will incur interest costs. Upon maturity, respective accounts of the relevant participants will be credited with the aggregate face value of all CBL Bills concerned. All settlements of maturing CBL Bills will take place on the day of maturity.

Where a bidder fails to pay fully for CBL Bills on settlement day, the CBL may, at its discretion, exclude that bidder from participating in subsequent auction(s).

The CBL Bill registry for will be maintained by the CBL. There will be no physical certificates issued.

8.3 TRANSFER OF CBL BILLS

The CBL will facilitate the transfer of securities between bank holders and charge a fee for this service.³Requests for transfer must be received from both the buyer and the seller prepared as follows:

- correctly and legibly written, giving details of the nature of the transaction underlying the transfer including: the amount (must be in multiples of L\$100,000), the maturity date of the bills and the desired settlement date,
- must be signed by authorized signatories,
- and; delivered to the Head of Treasury Operations at least two business days before the desired settlement day.

8.4 PLEDGING OF CBL BILLS

When a bank pledges all of part of its holdings of CBL Bills as collateral for a repo or other borrowing, the amount so pledged and the Bills involved must be reported to the CBL. Additionally, the CBL must be kept informed of all changes in the amount pledged and the specific CBL Bills pledged as these changes occur. The CBL will charge a fee for this service similar to transfer fees (see footnote 3 below).

³To recover some of its costs the CBL will charge both the buying bank and the selling bank L\$ 500 per transaction. At the discretion of the bank, this fee may be adjusted from time to time. Participants would however receive prior notice of any pending change to this fee.

In notifying the CBL both the borrowing and lending banks should:

- give in writing details of the nature of the transaction underlying the pledge including: the amount pledged(must be in multiples of L\$100,000), the maturity date of the bills used, and in the case of a repo, the end date,
- must be signed by authorized signatories,
- and; delivered to the Head of Treasury Operations at least two business days before the pledge is executed.

APPENDIX A

SAMPLE CALL FOR TENDER

OFFER OF THREE MONTHS (91-Day) CENTRAL BANK OF LIBERIA BILLS

The Central Bank of Liberia will auction CBL Bills totalling L\$ ____ to be issued on Thursday, _____ 2012. This offering of CBL bills is governed by the Rules & Regulations of the Central Bank of Liberia bills Auction. All tenders for the bills must be enclosed in a sealed envelope addressed to the Head of Treasury Operations and marked on the outside “CBL bill bids”.

Term =====>	91 Days
I.D. Number =====>	CBLB-000x
Amt. to be issued=>	L\$ xxx,xxx,xxx
Issue Date =====>	xx-xx-2012
Settlement Date =>	xx-xx-2012
Maturity Date =====>	xx-xx-2012
Minimum bid =====>	L\$500,000
Bidding increment=>	L\$100,000
Maximum total bid=>	L\$ xx,xxx,xxx
Maximum rate =====>	x.xx%

All bids should be delivered to the CBL not later than 9:00 a.m. on the day of the auction.

APPENDIX B
SAMPLE OF THE CBL BILL AUCTION BIDDING FORM

To: Head of Treasury Operations
Central Bank of Liberia
Monrovia, Liberia

DATE:.....

DATE OF AUCTION:.....

NAME OF INSTITUTION:.....

Dear Sir/Madam:

BIDS FOR CBL BILL AUCTION (Total of all bids not to exceed 30% of amount offered)

Bid #	Amount Demanded	Interest Rate
1		
2		
3		
4		
5		
6		
7		
8		
9		
Total		

Please debit our current account number xxx.....with CBL for the total cost of the amount allocated to us under advice.

AUTHORISED SIGNATORY:

1. Name:.....

Date:.....

Signature:.....

2. Name:.....

Date:.....

Signature:.....

APPENDIX C
SAMPLE ELIGIBLE AND INELIGIBLE BIDS

Assume an auction of L\$ 10,000,000

Bank A bids as follows:

Bid	Amount	Rate	Eligible?	Comments
1	500,000	3.00%	yes	Minimum bid
2	700,000	3.25%	yes	
3	850,000	4.00%	no	Improper increment – reject bid 3
Total	2,050,00			

Bank B bids as follows:

Bid	Amount	Rate	Eligible?	Comments
1	1,000,000	2.50%	yes	
2	300,000	3.50%	no	Less than minimum bid – reject bid 2
3	1,200,000	4.75%	yes	
Total	2,500,000			

Bank C bids as follows:

Bid	Amount	Rate	Eligible?	Comments
1	500,000	2.50%	yes	
2	1,000,000	3.5%	no	Interest rate not expressed to two decimal places – reject bid 2
3	800,000	4.75%	yes	
Total	2,300,000			

Bank D bids as follows:

Bid	Amount	Rate	Eligible?	Comments
1	700,000	3.00%	yes	The total bid exceeds 30% of amount offered – highest interest rate bid (in this case bid 4) rejected to bring the total amount bid to 2,300,000 which is below the 30% limit.
2	800,000	3.50%	yes	
3	800,000	3.75%	yes	
4	1,000,000	4.00%	no	
Total	3,300,000			

Bank E Bids as follows:

Bid	Amount	Rate	Eligible?	Comments
1	600,000	4.50%	yes	
2	600,000	3.50%	yes	
3	800,000	3.75%	yes	
Total	2,200,000			

Recap:

The five banks submitted a total of 16 bids for a total amount of L\$ 12,350,000. Twelve bids for a total of L\$ 9,200,000 were eligible for the auction.