

Auction of Government of India Dated Security and Floating Rate Bonds

June 28, 2002

Ref.No.IDMC. 5640 /08.02.30.01/2002-03

All Scheduled Commercial Banks excluding RRBs/
All State Co-operative Banks/All Scheduled Primary
(Urban) Co-operative Banks /All Financial Institutions/
All Primary Dealers in Government Securities Market.

Dear Sirs,

Auction of Government of India Dated Security and Floating Rate Bonds

Government of India have offered to sell (re-issue), vide Notification F.No.4(9)-W&M/2002 (1) dated June 28, 2002 the dated security "7.55% Government Stock, 2010" for a notified amount of Rs 4,000 crore (nominal) by price based auction. Government of India have also offered to sell "Floating Rate Bonds, 2017" vide Notification F.No.4(9)-W&M/2002 dated June 28, 2002 for a notified amount of Rs.3,000 crore (nominal) by auction. Both the auctions will be conducted by Reserve Bank of India, Mumbai Office, Fort, Mumbai on July 1, 2002. The salient features of the auctions and the terms and conditions governing the issue of the Stock and Floating Rate Bonds are given in the Notifications (copies enclosed), which should be read along with the General loan Notification F.No.4 (9)-W&M/2000, dated 6th May, 2002 issued by Government of India.

2. We wish to draw your attention, in particular, to the following :

a. 7.55% Government Stock, 2010

- i) The Stock will be issued for a minimum amount of Rs.10,000/- (nominal) and in multiples of Rs.10,000/- thereafter.
- ii) The bids should be submitted in the prescribed form of application given in Annexure I, before 2.30 p.m. on July 1, 2002 in sealed covers superscribed "Tender for 7.55% Government Stock 2010- Auction dated July 1, 2002" and deposited in the appropriate tender box kept for the purpose at Reserve Bank of India, Mumbai Office, Fort, Mumbai. The price in Rupees expected by the bidder should be expressed up to two decimal places.
- iii) An investor can submit more than one bid at different prices but a separate application should be submitted for each bid. The aggregate amount of bids submitted by a person should not exceed the notified amount of loan issue.
- iv) Auction will be conducted on **'Multiple Price' method**. On the basis of bids received, the Reserve Bank will determine the minimum price up to which tenders for purchase of Government Stock will be accepted at the auction. Bids quoted at prices lower than the minimum price determined by the Reserve Bank of India will be rejected. Reserve Bank of India has full discretion to accept or reject any or all bids either wholly or partially without assigning any reason.
- v) The results of the auction will be displayed at Reserve Bank of India, Mumbai Office Fort, Mumbai on July 1, 2002. Successful bidders will be required to deposit with the Reserve Bank of India, Mumbai Office, Fort, Mumbai, the amount payable for the Government Stock allotted to them in cash or by cheque on their account with

Reserve Bank of India, Mumbai or by Banker's Pay Order, along with a covering letter on July 2, 2002 before 2.30 p.m. In case of Current account holders, the amount payable will be debited to their respective Current accounts maintained with the Reserve Bank of India.

- vi) The Government Stock will be issued by credit to Subsidiary General Ledger Account (SGL) of parties maintaining such account with Reserve Bank of India or in the form of Stock Certificate. Interest on the Government Stock will be paid half-yearly.
- vii) The Government Stock will be repaid at par on May 14, 2010.
- viii) The stock will qualify for the ready forward facility.

b. GOI Floating Rate Bonds, 2017

- ix) The Floating Rate Bonds ("The Bonds") will be issued at par (i.e. at Rs 100.00 per cent) for a minimum amount of Rs.10,000/- (nominal) and in multiples of Rs.10,000/- thereafter.
- x) The Bonds will be of 15-years tenure. The Bonds will be issued on July 2, 2002 and repaid at par on July 2, 2017.
- xi) Interest on the Bonds will be paid half yearly. The Bonds will carry an interest rate, which is calculated by adding a '**spread**' on a **variable base rate**. The '**spread**' **will be decided in the auction** to be conducted by Reserve Bank of India and will remain unchanged during the currency of the Bond. The variable base rate will be the average rate of the implicit yields at cut-off prices emerging in the immediate previous six auctions of 'Government of India 364 day Treasury Bills' held prior to the relative half-year coupon period. The implicit yield will be computed by reckoning 364-day year.
- xii) The base rate for calculation of interest for the first coupon period commencing from July 2, 2002 to January 1, 2003 as per the aforesaid formula is **6.50** per cent (Please see illustration enclosed).
- xiii) The base rate for the subsequent half yearly coupon periods, worked out as per the aforesaid formula, will be announced by RBI on or before the commencement of the relative half yearly coupon period.
- xiv) In the unlikely event of 364-day Treasury Bill auctions being discontinued during the currency of the Floating Rate Bonds, the applicable variable base rate will be the average of the Yield to Maturity (YTM) rate prevailing for one year Govt. of India Security as on last six reporting Fridays prior to the commencement of the relative half-yearly coupon period, worked out in consultation with the Fixed Income Money Market and Derivatives Association of India (FIMMDA). This rate will be announced by RBI on or before the commencement of the relative half yearly coupon period. In case particular Friday/s is/are holiday/s, the yield to maturity rates as on the previous working day shall be taken.
- xv) There will be no floor or cap for the interest rate on the Floating Rate Bonds.

3. The auction will be conducted by the Reserve Bank of India (RBI), Mumbai Office, Fort, Mumbai on Monday, July 1, 2002. The important features of the auction are given below

- i) The bids should be submitted in the prescribed form of application given in Annexure II, before 2.30 p.m. on July 1, 2002 in sealed covers superscribed "Tender for GOI Floating Rate Bonds, 2017- Auction dated July 1, 2002" and deposited in the appropriate tender box kept for the purpose at Reserve Bank of India, Mumbai Office, Fort, Mumbai. The nominal value of the Bonds applied for,

- and the 'spread' expected by them (up to two decimal places) on the variable base rate should be clearly indicated in the application form.
- ii) On the basis of bids received, RBI will determine the maximum spread, at which offers will be accepted.
 - iii) The auction will be conducted by using the **Uniform Price method** where bids offered up to and including the maximum spread as determined by Reserve Bank of India will be accepted at the maximum spread so determined. Bids quoted at spreads higher than the spread so determined by Reserve Bank of India will be rejected.
 - iv) The results of the auction will be announced on July 1, 2002 and payment by successful bidders will be during the banking hours on July 2, 2002. Successful bidders will be required to deposit with the Reserve Bank of India, Mumbai Office, Fort, Mumbai, the amount payable for the Bonds allotted to them in cash or by cheque on their account with Reserve Bank of India, Mumbai or by Banker's Pay Order, along with a covering letter on July 2, 2002 before 2.30 p.m. In case of Current account holders, the amount payable will be debited to their respective Current accounts maintained with the Reserve Bank of India.
 - v) An investor can submit more than one bid at different 'spread' but a separate application should be submitted for each bid. The aggregate amount of bids submitted by a person should not exceed the notified amount of loan issue.
 - vi) Reserve Bank of India has full discretion to accept or reject any or all bids either wholly or partially without assigning any reason.
 - vii) The Bonds will be issued by credit to Subsidiary General Ledger Account (SGL) of parties maintaining such account with Reserve Bank of India or in the form of Stock Certificate to others.
 - viii) The Bonds will qualify for ready forward facility.

Yours faithfully,

Sd/-

(Chandan Sinha)
General Manager

Encls: As above

Endt.No.IDMC. 5641 /08.02.30.01/2002-03 of date