

Auction for sale of Floating Rate Bonds, 2012

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November 5, 2003

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 for sale of Floating Rate Bonds, 2012

Government of India have offered to sell "Floating Rate Bonds, 2012" vide Notification F.No.4 (8)-W&M/2003 dated November 5, 2003 for a notified amount of Rs.5,000 crore (nominal) by auction. The auction will be conducted by Reserve Bank of India, Mumbai Office, Fort, Mumbai on November 7, 2003. The salient features of the auction and the terms and conditions governing the issue of the bonds are given in the Notification (copy enclosed), which should be read along with the General Notification F.No.4 (9)-W&M/2000 dated May 6, 2002 issued by Government of India as amended by Notification F.No.4(9)-W&M/2000 dated September 20,2002.

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

- i) 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.
- ii) The Bonds will be of 9 years tenure. The Bonds will be issued on November 10, 2003 and repaid at par on November 10, 2012.
- iii) Interest on the Bonds will be paid half yearly. The annual interest rate on the Bonds 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 three auctions of 'Government of India 364 day Treasury Bills' held prior to the relative annual coupon period. The implicit yield will be computed by reckoning 364-day year.
- iv) The base rate for calculation of interest for the first coupon period commencing from November 10, 2003 to November 9, 2004 as per the aforesaid formula is **4.53** per cent (please see enclosed illustration).
- v) The base rate for the subsequent annual coupon periods, worked out as per the aforesaid formula, will be announced by RBI on or before the commencement of the relative coupon periods.
- vi) 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 three reporting Fridays prior to the commencement of the relative annual 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 annual 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.

- vii) There will be no floor or cap for the interest rate on the Floating Rate Bonds.
- viii) The auction will be conducted by using the **Uniform Price Method** for Floating rate Bonds where bids offered up to and including the maximum spread as determined by the Reserve Bank of India will be accepted. Bids quoted at spreads higher than the spread so determined by Reserve Bank of India will be rejected.

3. The auction will be conducted by the Reserve Bank of India (RBI), Mumbai Office, Fort, Mumbai on Friday , November 7, 2003. The important features of the auction are given below:

- (i) The competitive bids should be submitted in the prescribed form of application given in Annexure I, before 12.30 p.m. on November 7, 2003 in sealed covers superscribed "Tender for GOI Floating Rate Bonds, 2012-Auction dated November 7, 2003" and deposited in the appropriate tender box kept for the purpose at Reserve Bank of India, Fort, Mumbai. The nominal value of the Bonds applied for and the 'spread' (on the base rate) expected (up to two decimal places) should be clearly indicated in the application form. The competitive bids by the NDS members should be submitted only in electronic form using NDS.
- ii) For the auction, Government Stock up to 5% of the notified amount of sale will be allotted to the eligible individuals and institutions under the Scheme for Non-competitive Bidding Facility in the Auctions of Government Securities (enclosed with the notifications F. No.4(8)-W&M/2003 dated November 5,2003). The non competitive bids should be submitted in the prescribed form of application given in Annexure I (a) before 12.30 p.m on November 7, 2003 in sealed covers superscribed "Non -Competitive bid for GOI Floating Rate Bonds, 2012" and deposited in the appropriate tender box kept for the purpose at Reserve Bank of India, Fort, Mumbai. All non-competitive bids should only be submitted in prescribed physical forms.
- iii) The result of the auction will be announced on November 7, 2003 and payment by successful bidders will be during the banking hours on November 10, 2003. 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 November 10, 2003 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.
- iv) 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.
- v) Reserve Bank of India has full discretion to accept or reject any or all bids either wholly or partially without assigning any reason.
- vi) 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.
- vii) The bonds will qualify for ready forward facility.

Yours faithfully,

Sd/-
(S. K. Mishra)
Deputy General Manager