

All Scheduled Commercial Banks /
All State Co-operative Banks/
All Scheduled Primary (Urban) Co-operative Banks/
All Financial Institutions/ All Primary Dealers

Dear Sirs,

Auction of Government of India Dated Securities

Government of India have offered to sell (re-issue) of (a) "7.02 percent Government Stock 2016 " for a notified amount of Rs.4,000 crore (nominal) through a price based auction using uniform price method vide Notification No.4(1)-W&M/2009 dated December 11, 2009, (b) "Floating Rate Bonds 2020" for a notified amount of Rs.2,000 crore (nominal) through a price based auction using uniform price method vide Notifications No.4(1)-W&M/2009(i) dated December 11, 2009 and (c) "8.28 percent Government Stock 2032" for a notified amount of Rs. 3,000 crore (nominal) through a price based auction using uniform price method vide Notification No.4(1)-W&M/2009(ii) dated December 11, 2009. The Reserve Bank of India at Mumbai will conduct the auctions on December 18, 2009. The salient features of the auctions and the terms and conditions governing the issue of the Stocks are given in the Notifications (copies enclosed), which should be read along with the General Notification F. No. 4 (13)-W&M/2008, dated October 8, 2008 issued by Government of India.

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

A. With regard to Floating Rate Bonds (FRBs)

- i. 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 carry a variable interest rate to be computed by taking the average of the implicit yields at cut-off prices of last three auctions of

Government of India 182 day Treasury Bills. The reset and payment of variable interest will be made on a semi-annual basis.

- iii. The implicit yield will be computed by reckoning 365-day year.
- iv. **The coupon rate for payment of interest, as per the aforesaid formula for the first half year ending June 20, 2010 will be 3.79 per cent** (please see enclosed illustration).
- v. The variable coupon rate for the subsequent semi-annual 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 event of Government of India 182-day Treasury Bill auctions being discontinued during the currency of the Bonds, the coupon rate will be the average of Yield to Maturity (YTM) rates prevailing for six month Government of India Security/ies as on the last three non-reporting Fridays prior to the commencement of the semi-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. 'Floating Rate Bonds 2020' will be repaid at par on December 21, 2020.
- viii. There will be no floor or cap for the interest rate on the Floating Rate Bonds.

B. With regard to '7.02% Government Stock 2016' and '8.28% Government Stock 2032'

- i. The Stocks will be issued for a minimum amount of Rs.10,000/- (nominal) and in multiples of Rs.10,000/- thereafter.
- ii. '7.02% Government Stock 2016' and '8.28% Government Stock 2032' will be repaid at par on August 17, 2016, and February 15, 2032 respectively.

C. In all the cases

- i. 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 (1)-W&M/2009, F. No.4 (1)-W&M/2009(i) and F. No.4 (1)-

W&M/2009(ii) all dated December 11, 2009). Each bank or PD on the basis of firm orders received from their constituents will submit a single consolidated non-competitive bid on behalf of all its constituents in electronic format on the Negotiated Dealing System (NDS). Allotment under the non-competitive segment to the bank or PD will be at the cut-off price that will emerge in the auction on the basis of the competitive bidding.

- ii. Both competitive and non-competitive bids for the auction should be submitted in electronic format on the Negotiated Dealing System (NDS) on December 18, 2009. Bids in physical form will not be accepted except in extraordinary circumstances such as general failure of the NDS system. The non-competitive bids should be submitted between 10.30 a.m. and 11.30 a.m. and the competitive bids should be submitted between 10.30 a.m. and 12.30 p.m.
- iii. An investor can submit more than one competitive bids at different prices in electronic format on the Negotiated Dealing System (NDS). However, the aggregate amount of bids submitted by a person in an auction should not exceed the notified amount of auction.
- iv. 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 auctions. Bids quoted at rates lower than the minimum price determined by the Reserve Bank of India will be rejected. Reserve Bank of India will have the full discretion to accept or reject any or all bids either wholly or partially without assigning any reason.
- v. The result of the auctions will be announced on December 18, 2009 and payment by successful bidders will be on December 21, 2009 (Monday).
- vi. The Government Stocks 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 Floating Rate Bonds/ Government stocks will qualify for the ready forward facility.

- viii. The Stock will be eligible for “When Issued” trading during the period December 14-18, 2009 in accordance with the guidelines on ‘When Issued’ transactions in Central Government Securities’ issued by the Reserve Bank of India vide circular No. RBI /2006-07/178 dated December 7, 2006 as amended from time to time.

Yours faithfully,

(Rajendra Kumar)
Deputy General Manager

Encls: As above

Illustration: Rate of interest payable on Floating Rate Bonds 2020

Calculation of variable coupon rate applicable for the half Year ending June 20, 2010

Sr.No.	Date of Auction	Cut-off price	Implicit yield @ cut off price
1	11-Nov-09	98.13	3.8217
2	25-Nov-09	98.17	3.7385
3	9-Dec-09	98.13	3.8217
		Total =	11.3819515

@ annualized for 365day year

$$\text{Variable Coupon Rate} = \frac{11.3819515}{3} = 3.7940$$

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Rounded off to two decimal places = 3.79

Interest rate applicable for the year

(December 21, 2009 to June 20, 2010) = 3.79 per cent per annum