CHAPTER

15 182-DAY TREASURY BILLS

INTRODUCTION

Treasury bill is a unique monetary instrument. It represents short-term borrowings of the government. As other monetary instruments, treasury bills are also brought and sold in the market known as Treasury Bill Market. Treasury bills are very popular and enjoy a higher degree of liquidity since they are issued by the Government. In this chapter, the salient features of one such popular instrument, '182-day Treasury bills' are discussed.

MEANING

A treasury bill is nothing but a promissory note issued by the Government under discount for a specified period stated therein in the Government promises to pay the specified amount mentioned therein to the bearer of the instrument on the due date. It is purely a finance bill since it does not arise out of any trade transaction.

Treasury bills are issued by the RBI on behalf of the Government for meeting temporary Government deficits.

IN PERSPECTIVE

In India, prior to the institution of reforms (1990s) the 91-day Treasury Bills were sold on tap at an administered rate of discount, which was fixed at 4.6 per cent from July 1974. They, however, could not emerge as useful money market instrument due to the administered nature of interest rates, which reflected the perspective of the issuer rather than the buyer. A reform process in this segment started with the introduction of 182-day Treasury Bills from by November 1986.

SALIENT FEATURES

The salient features of the 182-day treasury bills announced on October, 28, are by given below:

The bills with a maturity of 182 days are issued for a minimum amount of ` 1 lakh and in multiples thereof. The bills are issued on discounting basis as in the case of 91 days treasury bills but the rate of discount and the corresponding issue price are determined through auctions. The bills may be purchased by any person resident in India including individuals, firms, companies, corporate bodies and institutions. However, State Government and Provident Funds are not eligible to invest in the 182 days treasury bills.

The 182-day Treasury Bills are to be issued and repaid at Mumbai only. The RBI issues from time to time press releases indicating the date of auction and the last date for submission of tenders. For the present, the treasury bills are being issued once in a month, normally on the last Friday. The tenders are received upto 3.00 p.m. on the preceding Wednesday. The prescribed tender forms are available at the Reserve Bank of India, Mumbai Main Office. Applications indicating the nominal value of the bills required and the tender price, should be placed in a sealed cover superscribed 'Tender for 182-day treasury bill' and deposited in the tender box exclusively kept for the purpose. An investor can submit multiple tenders at different prices but a separate form should be filled for each tender.

The Reserve Bank would determine the amount of treasury bills it proposes to issue at each auction after receipt of tenders. In the case of accepted tenders, treasury bills would be issued at the price at which these were tendered by the bidder in the relevant application. The result of auction, viz., the price up to which bids have been accepted at the auction, would be displayed at the RBI, Mumbai Main Office, on the day following the last date stipulated for the submission of tender and the bidder should check for himself whether his bid was successful and, if successful, collect the letter of acceptance from the RBI office. He should arrange to deposit the required amount at the RBI, Mumbai Main Office, within 24 hours of announcement of results of auction. Payments should be made in cash or by cheque drawn on Reserve Bank of India, Mumbai Main Office. In the case of investors who do not maintain any account with the Reserve Bank of India, they may obtain from their bankers cheques on Reserve Bank of India or bankers' Payment orders and deposit them in time. If the bills are to be issued in scrip form, they will be released only after realisation of bankers cheque/payment order.

The bills, issued in the form of a promissory note/credit to SGL Account, would be transferable in terms of the Public Debt Act 1944 and the Public Debt Rules 1946 insofar as they are applicable to a treasury bill. In the case of investors who do not have SGL facility with the RBI, the bills in scrip form would be issued and they are transferable by endorsement and delivery.

On expiry of 182 days from the date of their issue, the bills will be repaid only at the Mumbai Main Office of the RBI. While in the case of SGL Account holders the transfers should be made for crediting the proceeds to the investor's current account with RBI on the maturity date, others holding the treasury bills in the scrip form will have to submit the scrip duly discharged through their banker for repayment on the maturity date. If, however, such scrips are directly presented by the holder to RBI, it would issue an "Account Payee-Payment Order" in favour of the holder. To facilitate verification and payment without delay, the scrips may be submitted up to one week in advance of the date of maturity.

The 182 days bills is an approved investment for SLR purpose of banks. It will also be considered as an eligible collateral for borrowing under the stand-by refinance facility. The 182 days bill will not be rediscounted by the Reserve Bank of India.

The RBI has announced that for the time-being, the structure of the call-money market in terms of the administered interest rates and participants in the market will remain unchanged.

So far, interest rates were prescribed for short-term advances to various categories of borrowers and the prescribed rate was applicable uniformly to cash-credit, overdrafts and bills. The RBI has announced that effective April 1, 1987, the maximum lending rate would be reduced from 17.5 per cent to 16.5 per cent, and the interest rate on bills for such categories of borrowers would be prescribed at a rate one percentage point below the new maximum lending rate. Thus, effective April 1, 1987, banks are required to fix the bill discounting rate for such borrowers at a level equivalent to an effective interest rate of 15.5 per cent.

The RBI has also raised, with effect from April 1,1987, the ceiling on the rediscount rate from 11.5 per cent to 12.5 per cent per annum. This is intended to attract additional funds into the rediscounting market and also encourage the LIC and UTI to progressively move from the call-market to the rediscount market. The RBI has also decide to continue to control entry into the rediscount market or institutions on a case-by case basis, although access to the rediscount market will be less restrictive than hitherto. 182-day Treasury Bills were re-introduced with effect from April 6, 2005.

ATTRACTIONS OF SCHEME

The RBI's efforts appear to make the bill system attractive to borrowers and to augment the supply of funds in the rediscount market.

It has announced that in the case of all parties subject to the Credit Authorisation Scheme (CAS), both in the private and public sectors, while calculating the drawing power on cash credit/overdraft facilities against receivables. Effective from April 1, 1988, only 75 per cent of the receivable will be eligible for financing, subject to the normal margins prescribed by banks. The idea is to make the remaining credit requirements to be financed through demand/usance bill. The RBI desired that the constituents of banks should progressively move towards bill financing. In the case of parties, where the proportion of receivables financing in already less than 75 per cent, the RBI has prescribed that the banks should not permit an increase in the proportion of receivable financing under the cash credit/overdraft facilities.

As an incentive to use the bill facility in the event of an increasing the scale of operation, in addition to the present power to sanction additional limits temporary, banks have been permitted a separate additional inland bill limit for a period not exceeding three months up to an amount equivalent to 10 per cent of the existing bill limit subset to a ceiling of ` 1 crore.

The RBI has told banks that all parties subject to the CAS will be required to attain a retio of bill acceptance to credit purchase of 25 per cent by April 1, 1988. In cases, where this ratio is below the stipulate level, banks should advice their constituent to progressively move towards the attainment of the stipulated ratio. Bank should impress upon their constituents that adherence to the stipulated ratios would be made one of the key pre-requisites in considering whether an account is being operated satisfactorily and after a run-in period, specific incentive or disincentive as the case may be will be prescribed.

The auctioning of 182-day Treasury Bills in 1986 followed by a switch over to a full-fledged auctioning system in issuances of all Treasury Bills by the early 1990s and The institutionalisation of a system of primary dealers realigned the discount rates of Treasury Bills to the market-determined rates. It also helped in the development of a Treasury Bill market outside the Reserve Bank and facilitated the use of Treasury Bills as a monetary instrument to suitably manage short-term liquidity through open market operations. The underlying rationale for developing the Treasury Bill instrument during this phase lay in providing short-term funds to the Government at market-determined rates which, through the emergence of market reference rate, would also facilitate monetary policy operations. The issuances of Treasury Bills were also modulated in the wake of extinguishing ad hoc Treasury Bills and relatively transparent and also determine the repaying capacity of the States. Accordingly, the Reserve Bank revised the WMA Scheme for the States on March 3, 2003 Interest rate on Special WMA was kept below that of normal WMA so as to encourage the recourse to Special WMA before availing normal WMA.

IMPORTANCE

The merits of 182-Day Treasury Bills are:

(i) Safety
(ii) Liguidity
(iii) Ideal short-term investment
(iv) Ideal fund management
(v) Form part of SLR of banks
(vi) Source of short-term funds
(vii) Non-inflationary monetary tool
(viii) Hedging facility

However, the yield from TBS is the lowest.

OPERATION

Treasury Bills of different tenors were introduced to consolidate the market for imparting liquidity, while yields were made market determined through auctions for their use as a bench -mark for other short-term market instruments. Treasury Bills with 364-day maturity were introduced in April 1992 and tendered through auction-determined rates of discount. Subsequently, 91-day Treasury Bills were introduced on an auction basis in January 1993 and, 182-day Treasury were re-introduced on April 6, 2005 on an auction basis.

The RBI auctions 91-days Treasury Bills on a weekly basis and 182-day Treasury Bills and 364-day Treasury Bills on a fortnightly basis on behalf of the Central Government. The amounts earmarked for auctions are pre-announced and bids received from non-competitive bidders have been kept outside the notified amount since April 1998. The dates of payment are synchronised on the following Friday after the auctions with a view to providing fungible stock of varying maturities and to activate the secondary market in Treasury Bills.

Institutional investors like commercial banks, DFHI, STCI, etc., maintain a Subsidiary General Ledger (SGL) account with the RBI. Purchases and sales of TBs are automatically recorded in this account. Others can purchase and sell TBs through DFHS. The DFHI is actively participating in the auctions of TBs and also playing a significant role in the secondary market by quoting daily buying and selling rates.

PARTICIPANTS

The participants in the Treasury Bill market are the following:

1. Reserve Bank of India (RBI) and State Bank of India (SBI)
2. Commercial Banks
3. State Governments
4. Discount and Finance House of India (DFHI)
5. Securities Trading Corporation of India (STCI)
6. Financial Institutions
7. Corporate Customers, and
8. Public

However, banks play a significant role in the Treasury Bills market. Their share is around 90 percent of the annual sale of Treasury Bills.

The DFHI's operations in 182-day Treasury Bills are aimed at imparting greater flexibility to banks in their funds management. When the inter-bank call money market is tight, banks holding 182-day Treasury Bills have and advantage in raising funds at lower cost against the collateral of these bills through the DFHI. When the conditions are easy, banks having surplus funds can enter into buying arrangements in 182-day TREASURY BILLS for comparatively better returns.

In view of the limited stock of government securities with the Reserve Bank, Treasury Bills were made eligible for issuance under the Market Stabilisation Scheme (MSS).

CONCLUSION

Treasury Bills, in particular 182-Day Treasury Bills, have not only served the Government in their cash management, but have also been effectively used for sterilisation purposes under the MSS.

An abiding objective of the Reserve Bank has been to evolve new ways and means in making treasury bills more beneficial. Auction system was introduced to benchmark the yield curve money market instruments. 182-Days Treasury Bills has stood the test of the market and responded positively to the RBM initiatives.

SELF ASSESSMENT QUESTIONS

(1) What are the treasury bills.

(2) Analyse the special tealeaves of treasury bills.

(3) Discuss the neuritic of Treasury bills and it operation.