

BANK OF PAPUA NEW GUINEA

TERMS AND CONDITIONS FOR THE AUCTION OF CENTRAL BANK BILLS (CBB)

Under Section 10 of the Central Banking Act 2000, the Governor has the power to do in the country or elsewhere all things necessary or convenient to be done to formulate and implement monetary policy, consistent with its objectives of achieving and maintaining price stability.

CENTRAL BANK BILLS ON OFFER

Central Bank Bills of 28 and/or 63 days maturities will normally be offered. Both maturities may not necessarily be offered at every auction. Other maturities may be offered from time to time at the Central Banks discretion. Central Bank Bills will be sold at a discount and are redeemable at par on maturity.

ANNOUNCEMENT OF AUCTION

An announcement of each auction will include details of the terms, the amount of Central Bank Bills on offer and the closing date and time for bids. Registered Bidders will be invited to bid at this auction from Tuesday 3:00pm.

APPLICATIONS

The Central Bank Bills auction is restricted to commercial banks and other deposit taking financial institutions that are licensed under the Banks and Financial Institutions Act 2000 or under the Savings and Loans Act 1995. These entities are considered as registered bidders for this auction.

The Bank of Papua New Guinea reserves the right to refuse to provide, or to withdraw, registered status to any bidder.

Bids must be lodged before 11.00am on Wednesdays at the Money Markets Operations Unit, Financial Markets Department, Bank of Papua New Guinea, Douglas Street, Port Moresby.

Each bid must be for a minimum lot of K2,000,000 face value and in multiples of K100,000 face value over this amount. Bids must be submitted on the basis of a rate of return to maturity (% per annum). Applications at different rates of return must be submitted on separate forms and must separately comply with minimum bid requirements. The rate of return bid must be expressed to the second decimal place (e.g. 3.50%, 3.90%, 4.00%).

Bidders may assign the proceeds of maturing Treasury Bills and Central Bank Bills for which the bids are submitted.

Other conditions of the bidding at the Central Bank Bills auctions are ;

- No fees will be charged on Central Bank Bills sold at auction.
- No bid may be withdrawn or amended after it has been submitted.
- Bids not in compliance with the terms and conditions are liable to rejection.
- The Bank of Papua New Guinea reserves the right to reject any bid or part thereof.
- Bidders at the Central Bank Bills auction will use the prefix CB when quoting the auction number.

ALLOTMENT

Acceptance of bids will be made in ascending order of rate of return bid, i.e. from the lowest to the highest rate of return bid. At the highest rate of return accepted, a pro rata distribution will be made if necessary. Acceptance of bids will be for minimum sized lots of K2,000,000 face value and in multiples of K100,000 face value above this amount. If a pro-rata distribution is made the Bank of Papua New Guinea reserves the right to accept any part of a bid even if the accepted part is less than K2,000,000.

Notice of acceptance or rejection of a bid or any part thereof will be made available to each bidder as soon as possible after the auction. Settlement confirmation will be sent to successful bidders.

SETTLEMENT

All successful bidders will pay the price bid at, calculated in accordance with the rate of return at which the bid was accepted. The common price per K100 face value, shall be calculated on the basis of the following formula:

$$\text{Common Price} = \frac{3650000}{ni + 36500} \quad \begin{array}{l} \text{Where } n = \text{days to maturity} \\ i = \text{common rate of return bid expressed to two} \\ \text{decimal places.} \end{array}$$

Settlement amount is rounded to the nearest Kina (50 toea rounded up).

Settlement is to take place by twelve o'clock (12:00 noon) on the Friday, 2 days following the closing date for the auction. Payments by the commercial banks must be by debit to their account at the Bank of Papua New Guinea. In the case of other bidders, payment must be by bank cheque if not effected through a bank. It remains the responsibility of the bidders to ensure delivery of funds to the Bank of Papua New Guinea by twelve o'clock, (12:00 noon) on settlement day. Bills will not be allotted if funds are not received by the designated deadline. All applicable refunds will be made by cheque drawn on the Bank of Papua New Guinea unless prior arrangements have been made to credit a bank account.

REGISTRATION

Central Bank Bills will be registered in the name of each successful bidder and notices to that effect will be issued on settlement date or shortly thereafter. Such notices will be advices of initial registration only and will be neither transferable nor negotiable.

The registered holder of any Central Bank Bill may transfer the Bill or any part of the Bill in amounts of K10,000 or multiples thereof. Such transfers will be registered provided the completed Transfer and Acceptance Form is submitted to the Registrar, Bank of Papua New Guinea, no later than 7 days prior to the date the Bill is due to be repaid.

Central Bank Bills will not be accepted as collateral under the Repurchase Agreement Facility between the commercial banks and the Bank of Papua New Guinea.

REPAYMENT ON MATURITY

Central Bank Bills will be repaid at par on maturity by means of a cheque drawn on the Bank of Papua New Guinea or, with prior arrangement, the proceeds may be credited to a bank account designated by the holder. Alternatively the proceeds may be assigned for settlement of a successful bid at a following auction. For commercial banks, the respective Exchange Settlement Accounts will be credited.

L. Wilson Kamit, CBE
Governor

18 August 2005