



BANK OF PAPUA NEW GUINEA

Investing in Government Securities

TREASURY BILLS AND INSCRIBED STOCK

Information Brochure

Gross interest = K100,000.00 – 97,076.00 = K2,924.00
(this is the interest you will get for your K100,000.00 investment).

Tax on interest (15%WHT) = K2,924.00 x 15% = K439.00
Net interest = K2,924.00 – K439.00 = K2,485.00

After 182-days, K439.00 will be deducted on the face value so the investor will only get back K99,561.00.

Note: Withholding tax is charged upon maturity of the bill.

2.0 Inscribed Stock

2.1 What is an Inscribed Stock (IS)?

Inscribed Stock is a medium to long-term debt instrument or a Kina denominated Bond with maturities of more than one year (e.g. 3, 6, 10 & 17 years). Unlike Treasury bills, an Inscribed Stock is a loan to the Government that earns interest semi-annually and is repayable on the maturity date. Inscribed Stock is traded at a price unlike the Treasury bill, which is traded at a yield.

2.2 What are the benefits of investing in Inscribed Stock?

When you invest in Inscribed Stock, you assist in the future development of our country, our financial market and at the same time earn regular interest on the amount invested. The interest you will receive is fixed for the length of time for which you are prepared to have your money invested with the Government.

2.3 Who can purchase or invest in Inscribed Stock?

Investing in Inscribed Stock is restricted to Registered Bidders only. These include Licensed Financial Institutions such as Commercial banks, Finance companies, Savings & Loans companies, Insurance companies & Superannuation Funds.

2.4 How can one purchase or invest in Inscribed Stock?

Inscribed Stock is available for purchase at the Bank of PNG through a closed auction. Bids must be in shield envelopes and are dropped into an auction box made

available at the Financial Markets Department (BPNG) counter. The auction is conducted on the 3rd Tuesdays of each month. The minimum amount needed to participate is K100,000.00 and in multiples of K10,000.00 thereafter. The requirements for investing are the same as Treasury bills.

2.5 Can Inscribed Stock be purchased from outside Port Moresby?

Yes, this is possible, however the current arrangement requires the investor to complete bid forms and deliver to BPNG in shield envelopes. Please contact the Money Markets and Registry Units for more information.

2.6 How is interest on my IS investment paid?

Interest is paid every six months (semi-annually) direct to the holder by bank cheque or credited to the nominated bank account. Interest or the coupon earned is calculated as simple interest (principal x interest rate x no. of days/365). More information on IS calculation can be obtained by contacting the Money Market Operations Unit of the Bank of PNG or consult the Department of Treasury's website: www.treasury.gov.pg.

3.0 Maturity and Secondary Market

3.1 Am I allowed to sell back my security to the issuer before maturity?

Currently, the investor cannot sell back any security (full/part) to the Government, be it Treasury Bills or Inscribed Stock, before maturity. The security issued matures on the maturity date specified at the time of issuance. However, the Government does allow the investor to sell the security (bill/bond) on the secondary market (i.e. Government securities are allowed to be traded on the secondary market). In so doing, the security holder may transfer to other persons all or part of his/her stock by a way of Transfer and Acceptance Form prescribed by the Registrar.

Contact Us

Money Market Operations Unit/Registry Unit
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What are Government Securities?

Government Securities are financial debt instruments which the Government issues/sells to investors to borrow cash and finance its budget shortfalls. The Government is like a business, it must have enough revenue to meet the amount it spends. As the flow of revenue and spending may not always equal at any one time, the Government may issue these securities to raise funds to finance the times when it spends more than it receives. The two Government Securities available for investment are Treasury Bills and Inscribed Stock.

1.0 Treasury Bills

1.1 What is Treasury Bills?

Treasury Bills is a discounted paper or security issued by the Government. It is a short-term debt instrument with current maturities of 91, 182 & 364 days. By issuing Treasury Bills, the Government borrows cash from investors and promises to repay with interest at a nominated maturity term agreed upon. The Government repays the holder of the paper with interest when it generates revenue through the collection of taxes and other sources.

1.2 Who can purchase or invest in Treasury Bills?

Investing in Treasury Bills is open to the general public. This includes Financial Institutions (e.g. Commercial Banks, Finance Companies, Savings & Loans Companies, Insurance Companies, and Superannuation Funds), non-Financial Institutions and Individuals.

1.3 How can one purchase or invest in Treasury Bills?

The Bank of PNG (or Central Bank) is currently the only Agent authorized by the Government to conduct the sale/issuance of Treasury Bills. Hence, Treasury Bills can be purchased at the Bank of PNG through the weekly auctions.

BPNG conducts the Treasury bills auction every Wednesdays at the 2nd Floor of ToRobert Haus, Down Town, Port Moresby. The auction times are from 9.00am – 11.00am. The minimum amount needed to participate at the auction is K100,000.00 with additional purchases

in multiples of K10,000.00. The Requirements for investing are as follows:

1. Must have a Commercial Bank account with funds available.
2. Complete a New Account Investor Identification Form (for new investors only and in the event you change your contact address or banking details).
3. Complete a Bid Form.
4. Attach a Bank Cheque equivalent to the face value of the bid (for non-registered bidders only)

A Bid Form must contain the investor's name, contact address, face value, term and nominated interest rate. (For more information on how to complete a Bid Form, please contact the Money Market Operations/Registry Units).

BPNG conducts the auction at closed doors without the presence of the bidders. At the auction, the bids are sorted in ascending order of rate of return until the amount on offer is allocated. This is done to minimize cost to the borrower.

The results of the auction are announced at around 3.00pm the same day and Settlement is done on Fridays (i.e. two days after the trading day or T+2 in symbolic notation). Deal confirmation is faxed to successful bidders and unsuccessful bidders are advised by phone, followed by faxes.

1.4 Can Treasury Bills be purchased from outside Port Moresby?

Yes, an investor outside of Port Moresby can purchase Treasury Bills through the auction and this can be done via any of the licensed commercial banks. The following is a brief description of the process.

1. Express your interest to purchase Treasury Bills by completing a bid form with Dealers at the Money Markets Unit.
2. Transfer the Face value you wish to invest by a **Bank Warrant**. This can be facilitated by any of the licensed commercial banks in your province. Ensure that the Warrant is made payable to "Bank of PNG" and marked "Treasury Bills".

3. Confirm with Dealers that you have arranged for funds transfer and if necessary fax a copy of the TT together with the bid form to the Dealers. You must also ensure that the warrant is delivered to BPNG by 11.00am on the auction day (Wednesdays).
4. Check results of the auction at around 3.30pm on Wednesdays. If your bid is successful, settlement will take place on Fridays and the difference will be credited to your commercial bank account. If your bid is unsuccessful, the full value of your funds will be repaid to your account also on Friday.
5. A week before maturity, liaise with Dealers to roll over the investment by filling in a new bid form and assigning proceeds from maturity for settlement. Otherwise, advise if full maturity is to be paid to your commercial bank account. This can be done if there is an auction on the maturity week.

1.5 How is interest on my Treasury Bills investment calculated?

The following is an example of how interest is calculated:

The formula:

SV = common price x face value

$$SV = \left[\frac{1}{1 + \left[\frac{ni}{36500} \right]} \right]^N$$

where

SV = Settlement/Discounted value

N = face/future value

n = no. of days to maturity

i = interest rate

For example: to invest K100,000.00 for 182-days at 6.04%, the calculation will be as follows:

$$SV = \left[\frac{1}{1 + \left[\frac{182 \times 6.04}{36500} \right]} \right] 100,000.00$$

SV = 0.97076 x 100,000.00

SV = 97,076.00