



CENTRAL BANK OF
TRINIDAD & TOBAGO

**ARRANGEMENTS
GOVERNING
THE AUCTION OF
GOVERNMENT BONDS**





Introduction

1. This document outlines the arrangements for the auction of government bonds. These arrangements are intended to achieve two key goals:
 - Improve the efficiency of the primary market for government bonds; and
 - Encourage market making towards developing a more active secondary bond market.
2. The Central Bank of Trinidad and Tobago (Bank) manages the auction process on behalf of the Ministry of Finance and also acts as registrar and paying agent.
3. Bonds will be issued in book entry form. Bonds will be registered with the Trinidad and Tobago Securities & Exchange Commission (TTSEC) and listed on the Stock Exchange.
4. The Bank and the Stock Exchange will establish arrangements for the clearance and settlement of secondary market trades on the Exchange.
5. Payments, clearance and settlement transactions will be transacted via RTGS.

The Auction System

6. The Government generally issues plain vanilla bonds and has established a group of Government Securities Intermediaries as counterparties. A single price auction system is used. The Bank recognizes that the single price auction is sometimes susceptible to noncompetitive behaviour. Accordingly, the Bank monitors closely the performance of the market to deter this development. The auction system accommodates competitive and non-competitive bidding. Non-competitive bidding

will be allowed by customers asking to purchase a maximum of \$100,000.00. The minimum lot size will be \$1,000.00.

7. Government Securities Intermediaries will submit bids, reflecting the prices that they and their customers are willing to pay for securities. All bids will be ranked by the yield bid from lowest to highest. The highest yield (lowest price) needed to exhaust the issue would be determined and securities allocated to those bidders whose yield bids are equal to or lower than this cut-off point. All successful bidders (including non-competitive bidders) will be awarded securities at the cut-off price required to allow full absorption of the entire issue. Settlement will be at T+2.

Government Securities Intermediaries

8. The existing Government Securities Intermediaries are listed in Appendix 1. Intermediaries can submit bids both on own account and for third parties. Third party transactions must be identified separately.
9. Consistent with the philosophy underlying an auction system and in an effort to further its objectives for broadening the investor base, stimulating competition in the financial sector and developing financial products and markets, the Government's aim is to open auctions to as wide a range of participants as is practical. Apart from the immediate benefit of increased competition, the merit of such a policy measure also includes improved auction results - better price and allocation outcomes. Accordingly, the Bank has taken steps to establish a group of Government Securities Intermediaries. The criteria for selection to become an Intermediary are defined in the next section. All financial institutions desirous of being a Government



Securities Intermediary and who meet these criteria are requested to submit an application with the required supporting documents to the Bank. The procedures for applying are spelt out later in this paper.

10. All Government Securities Intermediaries are required to adhere to the obligations and privileges later defined in this paper.
11. The names of intermediaries and any changes to these arrangements will be made known to the market.

Criteria for Participation

12. Given the desirability to make markets, Government Securities Intermediaries must not only have the capacity to participate meaningfully at auctions but must also have a reasonable customer base. In addition, they must be sound and successful organizations which possess the managerial and technical capabilities for trading in fixed income securities and which practice risk management behaviours.
13. The following seven criteria are used for the selection of Government Securities Intermediaries. The Bank reserves the right to select participants from among potential applicants meeting these criteria with the ability to make good markets and satisfy auction obligations.
 - (i) Regulatory Supervision
 - (ii) Capital Adequacy Levels
 - (iii) Record of Profitability
 - (iv) Managerial and Technical Competencies
 - (v) Auction Participation
 - (vi) Active Market Presence
 - (vii) Reporting Requirements

Regulatory Supervision

All Government Securities Intermediaries must demonstrate that they are in good standing with their respective primary regulatory body and must be authorized to trade in fixed income securities.

Capital Adequacy Levels

All Intermediaries must have capital levels that are sufficient to sustain their market obligations while simultaneously meeting the prudential requirements of the primary regulator for mitigating market and operational risks. The minimum capital level needed for entry will be established initially at TT\$15.0 million. This minimum, capital requirement takes account of the position of all existing underwriters. However this capital requirement will be subject to modifications by the Bank in accordance with its assessment of appropriate risk management needs.

Profitability Records

All Intermediaries must demonstrate a history of strong and healthy financial performance. This would be measured by a net profit after taxes in the last three annual statements of accounts.

Managerial and Technical Competencies

All Intermediaries must have strong management and technical teams capable of managing the risks associated with trading in fixed income securities. Management teams must be comprised of individuals who are fit and proper persons as defined in the Second



Schedule of the FIA 2008. The standards for technical competencies are as defined in Sections 54-58 of the Securities and Exchange Act No.32, 1995. Additionally, back office operations for settling security transactions must be efficient.

Auction Participation

All Intermediaries are expected to meaningfully support the issues of government bonds. Third parties who participate in the auction with only a single bid for amounts under \$100,000 will not face any transaction fees from specified intermediaries who agree with the Bank to provide a window for such small transactions. Intermediaries will be subject to an aggregate bidding limit of 50 percent of the tender for bids on their own behalf and on behalf of customers. In order to encourage active market presence, Intermediaries will be required to participate regularly in auctions and to take up a specified minimum on an annual basis; this minimum will be a function of their relative capital base, recent performance in the market and the size of the issue.

Intermediaries are required to maintain appropriate records of their activities, including the chronological sequence in which orders are received from customers and the sequence in which they are filled.

Active Market Presence

All intermediaries are expected to promote trading activity in government bonds. Accordingly, in the evaluation of performance, consideration will be given to the volume of secondary market activity.

Reporting Requirements

Intermediaries must be willing to provide the Bank with information on their activities and more broadly, on conditions and developments in the bond market.

Requirements of Intermediaries

14. Government Securities Intermediaries are expected to play a vital role in the development of the government bond market. They have the exclusive right to bid at all government auctions; investors not so designated will have to place all bids through Intermediaries. Additionally, these Intermediaries will have a settlement account at the Central Bank¹¹ and have the privilege of liaising directly with the Bank with regard to market developments. The terms of the settlement account are in Appendix II.
15. Intermediaries will be expected to fulfill the following obligations:
 - *Support the auctions*
Each Intermediary is required to take up a minimum share of bond issuance. An Intermediary who consistently fails to fulfill its obligation at auctions will lose its status as a Government Securities Intermediary.
 - *Act as market makers*
All Intermediaries are expected to promote trading activity in the secondary market. Intermediaries are expected to make active two-way markets, quoting bids and offers on demand. Bid/offer spreads must be in line with market trends.

For Intermediaries who do not hold Reserve Accounts at the Central Bank.



- *Provide information on the market*
All Intermediaries must provide the Bank with information necessary for appropriate monitoring of the market on a regular basis. This must include information on their trading activities such as prices, volumes of secondary market activity and bond holdings. This data will also facilitate the monitoring of Intermediaries' performance with regards to their obligations.
 - *Avoid anti-competitive Practices*
Intermediaries are expected to desist from anti-competitive practices as these are detrimental to the market development.
- (ii) approval from relevant regulator or proof of being a valid registrant on the Register of the Trinidad and Tobago Securities and Exchange Commission;
 - (iii) audited financial statements of the company for the last three years along with a copy of the auditor's report;
 - (iv) a description of the firm's capital market activities over the last three years;
 - (v) a description of the firm's investment portfolio, and
 - (vi) a brief report of the company's business plan along with current information on the size and nature of its customer base.

Operational Arrangements

16. The operational rules and procedures for the auction system and the government securities depository are outlined in detail in documents available from the Domestic Market Operations department of the Central Bank.

The requirements to be approved as Government Securities Intermediary are as follows:

Institutions must address their application letters to become a Government Securities Intermediary to the Domestic Market Operations Department, Central Bank of Trinidad & Tobago, PO Box 1250, Independence Square, Port of Spain.

The application must include a copy of the following:

- (i) the Memorandum of Association and Articles of Association;

The Bank will assess each application (and supporting documents) in order to make a decision on the suitability of the firm for the designation of Government Securities Intermediary. If all information is provided, this assessment will take approximately six weeks. For successful applicants, the Bank will convene a meeting to outline its obligations and privileges. Unsuccessful applicants will be advised of the basis for non-approval.

March 8, 2010



Appendix I

Existing Government Securities Intermediaries

ANSA Finance and Merchant Bank Limited

Caribbean Money Market Brokers Limited*

Citicorp Merchant Bank Limited

First Citizens Bank Limited

Intercommercial Trust and Merchant Bank Limited

Republic Finance and Merchant Bank Limited

RBTT Merchant Bank Limited

Scotiabank and Merchant Bank (Trinidad and Tobago) Limited

FirstCaribbean International Bank (Trinidad and Tobago) Limited

Trinidad and Tobago Unit Trust Corporation*

*Intermediaries designated to accept non-competitive bids from the public



Appendix II

Settlement Accounts

The Central Bank of Trinidad and Tobago will provide settlement accounts to Government Securities Intermediaries who do not already maintain reserve accounts. The objective of providing settlement accounts is to enable delivery versus payment in securities transactions and to promote settlement among Government Securities Intermediaries in an efficient manner. The following terms will apply to settlement accounts:

- (i) A settlement account is a basic current account.
- (ii) Settlement account holders will use these accounts for the sole purpose of making payments to settle security transactions with the Central Bank and other primary dealers in the primary and secondary market. The account may not be used for settlement with non-members.
- (iii) The account will operate without credit facilities – i.e. the account must be pre-funded before settlement can be effected. If the account is not funded, payment will not be made and the transaction will not be effected. Settlement account holders will be required to manage their liquidity efficiently.
- (iv) Account holders do not have right of access to lender of last resort facilities.
- (v) No other rights or status are conferred upon account holders. No emergency liquidity assistance will be provided to account holders.
- (vi) The provision of a settlement account is at the Central Bank's discretion.