

TREASURY BILLS

What is a Treasury Bill?

A treasury bill is a paperless short-term borrowing instrument issued by the Government through the Central Bank of Kenya (as a fiscal agent) to raise money on short term basis – for a period of up to 1 year. Treasury bills are issued in maturities of 91, 182 and 364 days. Treasury bills are sold at a discounted price to reflect investor's return and redeemed at face (par) value.

Who Can Invest in Treasury Bills in Kenya?

- Resident or non-resident individuals and/or corporate bodies who hold an account with a local commercial bank.
- Resident or non-resident individuals and/or corporate bodies who may not have an account with a local commercial bank but invests as a nominee of a commercial bank or investment bank in Kenya.
- Resident or non-resident individual and/or corporate bodies that has **CDS Account** with Central Bank of Kenya.
- Must have minimum face value of Ksh.100, 000. Any additional amounts **MUST** be in multiples of Kshs. 50,000.

Please note that a non-Kenyan investor who is NOT domiciled in Kenya can invest in Kenya Government Treasury bills as a **NOMINEE** of a local commercial bank or investment bank. Non-Kenyan investors domiciled in Kenya can however invest directly by opening a CDS account at Central Bank of Kenya (CBK).

How and When do I Invest?

- Any potential investor must have an active and updated CDS account at Central Bank of Kenya.
- 91-, 182- and 364-days Treasury bills are sold weekly.
- Each new offer is advertised in the Daily Nation Newspaper on Fridays and is available on <http://www.centralbank.go.ke/index.php/what-is-on-offer-this-week> or from the previous auction results available at <http://www.centralbank.go.ke/index.php/financial-markets/auction-results>
- Investors **MUST** correctly and appropriately complete Treasury Bills application form available at the Central Bank of Kenya head office Nairobi or any of its branches in Eldoret, Kisumu and Mombasa or currency centres in Meru, Nyeri and Nakuru or can be downloaded on <http://www.centralbank.go.ke/index.php/financial-markets/application-forms>
- The duly completed application form must be submitted to Central Bank (or branches) on or before **2.00pm** on Thursdays for 91-days and on Wednesdays for the 182- and 364-days papers.

- Investors may place their application either as competitive or non-competitive (average) bids.
- **Competitive** bidders (investors who quote a price or interest rate) MUST indicate the desired price/yield and usually monitor and understand the movements in interest rates and market conditions. However, such bids may either be **accepted** or **rejected** depending on interest rates and liquidity levels. There is no maximum amount per bid per investor for competitive bidders.
- Non-competitive bidders on the other hand only indicate 'Average' or 'Non-Competitive' in the place of offer price per Ksh 100 in the application forms. Since this category is a price-taker of market outcome (successful weighted average rate/price), their placement is guaranteed. However, maximum amount one can invest per CDS account per issue/tenor is Ksh 20,000,000.
- Application forms should be deposited in the tender boxes marked "Treasury bills" at any branch (or currency centre) of Central Bank by 2.00p.m on Wednesday for 182- and 364-days papers and on Thursday for the 91-days paper.

How Do I Determine my Return on a Treasury Bill?

Treasury bills are sold at discounted price (always lower than unit par value of Ksh 100) and therefore the discount is the only return an investor earns on Treasury bills. The price is computed per Kshs 100 depending on the interest rate/yield quoted by investor using the following formula:

$$P = 100 \left[\frac{1}{\left(1 + \left(\frac{r}{100} \times \frac{d}{365} \right) \right)} \right]$$

Where,

- P = Price per Ksh 100 which investor will pay
- r = interest rate or yield per annum quoted by the investor
- d = days to maturity or tenor (91, 182 and later 364 days)

Illustration

An investor intends to invest Ksh 12,000,000 (face value) in the 91 days Treasury bill at a quoted rate/yield of 7.65% p.a. What is the return assuming taxable and tax exempt scenarios?

Solution

Using the formula above already inputted in Treasury bills calculator on the Central Bank website published as the 'Treasury bills pricing calculator', by clicking on the link

<http://www.centralbank.go.ke/index.php/financial-markets/calculator> , the investor's return will be as follows:

(a) **Tax payer at 15%;**

Determine the offer price – Offer price is the amount investor pays for every Kes 100

$$P = 100 \left[\frac{1}{\left(1 + \left(\frac{7.65}{100} \times \frac{91}{365} \right) \right)} \right] = \text{Ksh}98.128$$

This implies for every Ksh 100 investor wishes to lend to the Government, s/he will pay Ksh 98.128 on the value date (the day interest begins to earn) and receive Ksh 100 on maturity date (the 91st day). This translates to a net return of Ksh 1.872 per Ksh 100. Therefore for Ksh 12,000,000, the investor will pay the Government a total of

$$\left(\frac{12,000,000}{100} \right) \times 98.128 = \text{Ksh}11,775,360$$

Implying investor's total return/interest amount is Ksh (12,000,000 – 11,775,360) = **Ksh 224,640** in 3-months period.

(b) **For Withholding Tax payer at 15%**, the investor's total return/interest amount will be Ksh (12,000,000 – 11,775,360) = **Ksh 224,640** in 3-months period.

$$\left(\frac{12,000,000}{100} \right) \times 98.128 = \text{Ksh}11,775,360$$

$$\text{But 15\% withholding tax} = \left\{ (12,000,000 - 11,775,360) \times \frac{15}{100} \right\} = \text{Ksh}33,696$$

Then investor pays = $\text{Kshs}(11,775,360 + 33,696) = \text{Kshs}11,809,056$

Implying, the investor's return is **Ksh 190,944** for 3-months investment of Ksh 12 million.

Note: An investor will be exempt from paying withholding Tax on presentation of Tax Exemption Certificate from the Kenya Revenue Authority (KRA).

When Do I Know what Amounts to Pay Central Bank after Application?

- The Auction Management Committee (AMC) meets every Thursday at 4.00pm to conduct the auction of the 91-days T-bill and on Wednesday for the 182- and 364-days papers T-bills.

- After considering all bids received, competitive and non-competitive, AMC arrives at a cut-off rate.
- The successful weighted average rate derived from competitive bids is applied to all non-competitive bids (average) and is published with the results in the Daily newspaper.
- The Central Bank reserves the right to allocate equal or lower amount of Treasury Bills applied for by an investor.

When Do I Make Payment and Where?

- Investors call or visit the Central Bank or its branches or currency centres a day after the auction date to know how much to pay for each successful bid. Payment MUST be done not later than 2.00pm on the following Monday (Value Date), provided it is a working day. If Monday is NOT a working day, then Tuesday 2.00pm becomes the deadline for making payments.
- Successful bidder MUST pay total amount given to him/her by any officer from Central Bank by 2.00pm on the value date, usually on Mondays unless it is a holiday. Any Investor who **defaults** in payment may be **suspended** from participating in future auctions for some specified period.
- Payments can be made in Cash or Bankers cheques for amounts less than Kshs 1 million. Direct debits (Banks only) or Rollover of funds on matured securities. Amounts equal to or more than Kshs 1 million can only be paid by electronic transfer using Real Time Gross System (RTGS) known as Kenya Electronic Payment and Settlement System (KEPSS) through commercial banks. When making payments, the following details are required: Name, Reference No., CDS account Number (Portfolio Account Number) and Virtual Account Number. The account to be credited is the customer's Virtual Account Number at Central Bank.

What is the Evidence of Payment on the Part of the Investor?

- Being paperless securities, implying no physical certificate is issued; investors receive a statement showing their holdings as registered on the Central Depository Securities (CDS) Registry at the Central Bank of Kenya.
- Physical CDS account Statements are sent to investors every time a transaction takes place in their account. Further, statements are sent on quarterly basis and also at request provided the accounts have outstanding securities.

Can I Trade my Treasury Bill in the Secondary Market (Read Nairobi Securities Exchange - NSE)?

No. Treasury Bills are not traded at the Nairobi Securities Exchange. However, investors may pledge them as collateral (or for lien creation) security against credit

facilities (loans), and may also be transferred among holders of CDS accounts. CDS Statements are adjusted accordingly to reflect these transactions. Commercial banks also use them as collateral for liquidity management through Repurchase Agreements (Repos) and Intraday Liquidity Facility (ILF). It is however important to note that the non-listed 364-days Treasury bill is tradable Over The Counter (OTC) with transactions processed at the CBK.

What Option do I have in Case I want my Money back Before Maturity of my Bills?

Investors who do not wish to hold their investments until maturity are allowed to sell back (rediscount) their Treasury Bills to Central Bank as a last resort. This is however punitive to the investor as a way of discouraging the practice. The following formula is used to calculate amounts receivable (A) by an investor:

$$RP = 100 \left[\frac{1}{\left(1 + \left(\frac{R}{100} \times \frac{d}{365} \right) \right)} \right]$$

Where,

RP = Rediscount Price per Ksh 100 which investor will receive

R = Rediscount interest rate or yield per annum

d = days to maturity or tenor (91, 182 and 364 days)

Note:

R is prevailing weighted average interest rate of the respective tenor plus 3% margin.

$$A = F.V. \times \frac{RP}{100}$$

Where;

A = Amount receivable

$F.V.$ = Face value Invested

RP = Rediscount Price

What Happens When my Treasury Bills Mature?

- The Central Bank remits electronically the face value of maturing bills directly to the investor's commercial bank account on due date. The investor's CDS account is debited by the same value of the security and statements are sent to the investor showing new position.
- Investors may however choose to **rollover** their securities into a new forthcoming issue and in this case, they have to complete application form giving **rollover instructions** and submit to Central Bank before set deadline specified in the results of the preceding auction. The maturity date of the maturing security (investment) and the value date of the new Treasury bill **MUST** match for rollover instruction to be successful. The Bank therefore does not remit maturing proceeds into investor's

bank account but rather send only **refund** amounts generated from the new investment.

- If the security is still held under **lien** on maturity date, the Bank will remit funds in the account of the holder of the security (the lender of cash).

TREASURY BONDS

What is a Treasury bond?

Treasury Bonds are medium to long term debt instruments, usually longer than one year issued by the government to raise money in local currency. Maturities of Treasury Bonds that have been issued so far range from 1-30 years.

What Types of Treasury Bonds Issued by Government of Kenya?

- The types of Treasury bond may be defined by the purpose, interest rate structure, maturity structure, and even by issuer. So far, the Government has issued **Fixed** Coupon/Rate Bonds, **Zero** Coupon, **Floating** Rate, **Infrastructure** (project specific), Restructuring/Special bonds, and **Savings Development** bonds.
- Most commonly issued bonds are fixed coupon bonds which have huge investor demand. Treasury bonds are issued on **monthly** basis.

Fixed coupon Treasury bonds – Bear predetermined or market determined fixed coupon (interest) which is paid semiannually (every 6 months) on the face value held during the life of the bond. When bought at a discount (required yield¹ higher than coupon), investor benefits from discount (capital gain) which is critical for secondary market trading and regular interest payment.

Infrastructure bonds – Proceeds are used to fund specific infrastructure/projects specified in the prospectus. The coupon (interest) rate is fixed for the life of the bond.

¹ Yield is the desired rate of return by an investor which ordinarily is the interest rate that equates the present value of future cash flows to the price of the bond.

Floating Rate Bonds – Pay semiannual interest based on a benchmark rate, for example average rate of 91-days or 182-days Treasury bill plus some margin. They are on high demand in high inflationary environment. They are no longer issued by the Government since 2001, most corporate bodies issue them.

Zero Coupon Bonds – Do not have fixed interest and investor's return is only the discount amount equivalent to the yield quoted. The bonds are mostly short term and a favorite for commercial banks.

Who can invest in Treasury bonds in Kenya?

- Resident or non-resident individuals and/or corporate bodies who hold an account with a local commercial bank.
- Resident or non-resident individuals and/or corporate bodies who may not have an account with a local commercial bank but invest as a nominee of a commercial bank or investment bank in Kenya.
- Resident or non-resident individual and/or corporate body that has **CDS Account** with Central Bank of Kenya.
- Minimum face value of Ksh 50, 000, additional values **MUST** be in multiples of Ksh. 50,000 except for Infrastructure bonds whose minimum investible amount is Ksh 100,000.

Please note that a non-Kenyan investor who is NOT domiciled in Kenya can invest in Kenya Government Treasury bonds as a **NOMINEE** of a local commercial bank or investment bank. Non-Kenyan investors domiciled in Kenya can however invest directly by opening CDS account at CBK.

How Do I Invest in Treasury Bonds?

- The first step is to have a CDS account at Central Bank of Kenya. Currently, the government offers fixed coupon bonds of maturities ranging from 1-30 years. Treasury bonds are sold (auctioned) once every month.
- Each investor **MUST** correctly fill in the Treasury Bonds application form available at <http://www.centralbank.go.ke/index.php/financial-markets/application-forms> and submit to Central Bank (or branches or currency centers) on or before 2.00pm on Tuesdays of the last week of bond (s) sale period. The closing date of the sale period is indicated in the **bond prospectus**.
- The minimum amount required to invest in a treasury bonds is Ksh 50,000.00 and any additional amounts in multiples of Kshs 50,000.00.

How Do I know which Bonds are on Offer at any time?

Information about the Treasury bond(s) on offer every month is available on the Daily Nation Newspaper from the first or the second week of each month and also at <http://www.centralbank.go.ke/index.php/treasury-bond-on-offer>

How Can an Investor Determine the Price Payable and Return on Treasury bonds?

The price of a bond is determined by the time to maturity (t), the coupon rate and the quoted yield to maturity.

- *Discount price*- This is when the offer price falls **below** face/par value. In this case, the quoted yield is higher than the coupon rate.
- *Premium* - This is when the offer price is **above** the face/par value. In this case, the quoted yield is lower than the coupon rate. Investors paying premium price **pay more** at initial investment.
- *Par price* - This is when the offer price equals the face value. In this case, the quoted yield equals the coupon rate.
- *Capital gain/loss* - Since Treasury bonds trade at the Nairobi Stock Exchange (NSE), investors may sell/buy them when prices become favorable. A capital gain is realized when the selling price is higher than the buying price and the reverse is true for capital loss.
- *Reinvestment income* - Assuming semi-annual coupon and/or capital gains are re-invested at same or better yield than the previous bond; the return generated at the favorable yield is the reinvestment income.

How Do I Calculate the Yield on my Bond?

The yield on the bond is generated using the Net Present Value formula as follows;

$$P = \frac{I_1}{(1+r)^1} + \frac{I_2}{(1+r)^2} + \dots + \frac{FV + I_n}{(1+r)^n}$$

Where;

P = Price per Kshs 100

I = Semiannual interest payments (coupons) - fixed interest rate on the bond

F = Face Value (Ksh 100)

r = Quoted yield (semiannual)

n = Number of semiannual interest periods in a bond's life

The Day Count Convention for pricing Treasury bonds in Kenya is 364 days. From the formula above, if an investor quoted;

- A yield = coupon rate, the result is par price
- A yield > coupon rate, the result is a discount price
- A yield < coupon rate, the result is a premium price

Illustration

Investor intends to invest **Ksh 1,000,000** in a two-year Treasury bond **offered at 8.75%** coupon rate. Assuming the investor is tax exempt, below are three scenarios if he quotes premium, par or discounted price:

(a) Scenario 1: Premium Price - Quoted Yield at 8.5%

$$P = \frac{4.375}{(1.0425)^1} + \frac{4.375}{(1.0425)^2} + \frac{4.375}{(1.0425)^3} + \frac{104.375}{(1.0425)^4} = Ksh100.451$$

For Ksh 1,000,000 investment, the investor will be required to pay Central Bank Ksh 1,004,510 on value date, but receive Ksh 1,000,000 on maturity date. This implies a premium of Ksh 4,510 that the investor pays. The periodical coupon payment of Ksh 4.375 par 100 is however based on the face value of Ksh 1,000,000 and NOT the Ksh 1,004,510 the investor paid.

(b) Scenario2: Price at Par - Quoted Yield at 8.75%

$$P = \frac{4.375}{(1.04375)^1} + \frac{4.375}{(1.04375)^2} + \frac{4.375}{(1.04375)^3} + \frac{104.375}{(1.04375)^4} = Ksh100.00$$

For Ksh 1,000,000 investment, the investor will pay Central Bank Ksh 1,000,000 and receive same amount on maturity date. The periodical coupon payment of Ksh 4.375 par 100 is based on the face value of Ksh 1,000,000.

(c) Scenario 3: Discount Price - Quoted Yield at 9%

$$P = \frac{4.375}{(1.045)^1} + \frac{4.375}{(1.045)^2} + \frac{4.375}{(1.045)^3} + \frac{104.375}{(1.045)^4} = Ksh99.552$$

For Ksh 1,000,000 investment, the investor will be required to pay Central Bank Ksh 995,520 on value date, but receive Ksh 1,000,000 on maturity date, implying a discount amount Ksh 4,480 the investor receives in advance. The periodical coupon payment of Ksh 4.375 per 100 is however based on the face value of Ksh 1,000,000 and NOT the Ksh

995,520 the investor paid. Therefore the investor has two investment gains – coupon and discount earned.

What is Bond Reopening?

This is where a bond originally issued in the market is **reopened /reoffered** to the market on any date after the value date. If reopening occurs on interest payment date, the price payable by investors is the **clean price**. However, if reopening takes place on a date other than an interest payment date, the settlement price is the **dirty price** which includes **accrued interest**. Reopening is used as bond market deepening strategy.

Example 1: Reopening at exact interest payment date

A 20-year bond originally issued on June 30th 2008 is reopened on June 30th 2009. Given the following features:

Issue Number:	FXD 1 /2008/20
Value Date:	30/06/2008
Term:	20 Years
Maturity Date:	05/06/2028
Original Amount Offered:	Ksh 15 billion
Coupon Rate:	13.75% p.a.
Last Interest Payment:	29 th December 2008
Next Coupon Payment Date:	30/06/2009
Reopening Date:	30/06/2009
Time to Maturity:	19 Years
Accrued Interest:	0

And the following formula used to calculate its price:

$$DP = \frac{I}{(1 + \gamma)^\delta} + \frac{I}{(1 + \gamma)^{1+\delta}} + \frac{I}{(1 + \gamma)^{2+\delta}} + \frac{I}{(1 + \gamma)^{3+\delta}} + \dots + \frac{FV + I}{(1 + \gamma)^{38+\delta}}$$

Where:

$P = \text{Clean Price derived from yield quoted by investor} = \text{Dirty Price} - \text{Accrued Interest}$

$I = \text{Periodical Interest Payable} = 6.875$

$\gamma = \text{Quoted by the Investor} = 13.75 / 2 = 0.06875$

$FV = \text{Face Value} = \text{Ksh}100$

$\delta = \text{Days between last coupon payment and reopening date} = 91 \text{ days}$

Where;

$$\delta = \omega = \frac{m - k}{m} = \left(\frac{182 - 91}{182} \right) \text{ days} = \frac{91}{182} \text{ days} = 0.5$$

Example 2: Reopening on a date other than Interest payment date

A 2-year bond originally issued on May 25th 2008 is reopened on June 29th 2009. Given the following features:

Issue Number:	FXD 2 / 2009/2
Value Date:	25/05/2009
Term:	2 Years
Maturity Date:	23/05/2011
Original Amount Offered:	Ksh 2.6952 billion
Coupon Rate:	8.75% p.a.
Last Interest Payment:	None
Next Coupon Payment Date:	23/11/2009
Reopening Date:	29/06/2009
Time to Maturity:	1.9038 Years
Accrued Interest:	Kshs 0.841

And the following formula is used to calculate its price:

$$DP = \frac{I}{(1 + \gamma)^\delta} + \frac{I}{(1 + \gamma)^{1+\delta}} + \dots + \frac{FV + I}{(1 + \gamma)^{3+\delta}}$$

Where:

DP = Dirty price - Price includes accrued interest on clean price

$P = \text{Clean Price derived from yield quoted by investor} = \text{Dirty Price (DP)} - \text{Accrued Interest (AI)}$

$I = \text{Periodical Interest Payable} = 4.375$

$\gamma = \text{Quoted by the Investor} = 0.0875 / 2 = 0.04375$

$FV = \text{Face Value} = \text{Ksh}100$

$\delta = \text{Days between last coupon payment and reopening date} = 35 \text{ days}$

Where;

$$\delta = \omega = \frac{m - k}{m} = \left(\frac{182 - 35}{182} \right) \text{ days} = \frac{147}{182} \text{ days} = 0.8077$$

So that;

$P = \text{Kshs } 97.630$

$AI = \text{Kshs } 0.841$

$DP = \text{Kshs } (97.630 + 0.841) = \text{Kshs } 98.471$

Note:

The final settlement price payable by investors is the Dirty Price plus Withholding Tax. Note however that withholding tax is computed on the Clean Price.

For ease of calculating prices, the Central Bank includes a yield table in the prospectus for the T/bonds on offer. One can also use Treasury bonds pricing calculator available on <http://www.centralbank.go.ke/index.php/financial-markets/calculator>

Do I pay withholding and/or income tax on Treasury bonds?

Yes. Withholding Tax of 15% on Treasury bonds with tenor up to 9 years and 10% for Treasury bonds of tenor of 10 years or more is charged on the discount as well as **periodic interest payment**, unless an investor is tax exempt, in which case a tax exemption certificate must be provided or the investor has made arrangements to pay tax directly to the Kenya Revenue Authority (KRA). However, discount and interest earnings from infrastructure bonds as defined under CMA and KRA Acts do not attract any form of tax.

When Do I know What Amounts to Pay Central Bank after Application?

- The Auction Management Committee (AMC) meets on the Wednesday, following the date of closure of bond sale, at 4.00 p.m. to conduct the auction and determine successful bidders.
- After considering all bids both competitive and non-competitive bids received, AMC arrives at a cut-off rate based on amounts advertised.
- The successful weighted average rate derived from competitive bids is applied to all non-competitive bids and is published with the rest of the Results in the Daily newspaper.
- The Central Bank reserves the right to allocate the equal or lower amount of Treasury Bonds applied for by an investor.

When Do I Make Payment and Where?

- Investors call or visit the Central Bank a day after the auction date to know how much to pay Central Bank, not later than 2.00pm on the following Monday, provided it is a working day.
- Successful bidder **MUST** pay total amount given to him/her by 2.00pm on the value date, usually on Mondays. If that Monday is a holiday the payment period is extended up to Tuesday 2.00p.m. Any Investor who **defaults in payment** may be **suspended** from participating in future auctions for some specified period.
- Payments can be made in Cash or Bankers cheques for amounts less than Kshs 1 million, Direct debits (for banks only) or one can also rollover of funds from matured securities. Amounts equal to or more than Kshs 1 million can only be paid

by electronic transfer through the Real Time Gross System (RTGS) known as Kenya Electronic Payment and Settlement System (KEPSS) through commercial banks.

- During payment, the following details are required: Name, Reference Number, CDS account Number (also called Portfolio Number) and Virtual Account Number when using RTGS. The account to be credited is the Customer's **Virtual Account Number**.

What is the Evidence of Payment on the Part of Investor?

Being a paperless security i.e. no physical certificate, Investors receive a statement showing their holdings in the Central Depository (CDS) registry at the Central Bank.

Are Treasury bonds Tradable in the Secondary Market?

YES. Treasury bonds are traded at the Nairobi Securities Exchange (NSE). In addition, investors may pledge them as collateral (or for lien creation) security against credit facilities (loans), and may also be transferred among holders of CDS accounts. CDS Statements are adjusted accordingly to reflect these transactions. Commercial banks also use them as collateral for liquidity management through Repurchase Agreements (Repos) and Intraday Liquidity Facility (ILF).

What Option Do I have in Case I want my Money Back before Maturity of my Bonds?

Investors who do not wish to hold their bonds until maturity and are **unable** to **sell** them at the secondary market are allowed to sell back (rediscount) the bonds to Central Bank as a last resort. This is however punitive to the investor as a way of discouraging the practice. The following formula is used to calculate amounts receivable by investor:

$$RP = \frac{I_1}{(1 + R)^1} + \frac{I_2}{(1 + R)^2} + \dots + \frac{FV + I_n}{(1 + R)^n}$$

Where;

RP = Rediscount Price per Kshs 100

I = Semiannual interest payments (coupons)

F = Face Value (Ksh 100)

R = Rediscount rate (semiannual)

n = Number of semiannual interest periods remaining to bond's maturity

Note:

$$R \text{ is higher of the bond's } \left\{ \begin{array}{l} \text{Coupon rate} \\ \text{prevailing weighted average rate} \\ \text{Prevailing Market yield} \end{array} \right. + 3\% \text{ Margin}$$

$$A = F.V. \times \frac{RP}{100}$$

Where;

A = Amount receivable
F.V. = Face value Invested
RP = Rediscount Price

What Happens When my Treasury Bonds Mature?

- The Central Bank remits electronically the face value of maturing bond directly to the investor's commercial bank account on due date. The investor's CDS account is debited by the same value of the security and statements are sent to the investor showing new position.
- Investors may however choose to **roll over** their security into a new forthcoming issue and in this case, they have to complete the application form giving rollover instructions and submit it to Central Bank, before closure of the period of sale for that bond, at 2.00 p.m. The maturity date of the maturing security (investment) and the value date of the new bond **MUST** match for the rollover instruction to be successful. The Bank therefore does not remit face value into investor's account but rather send only **refunds** amounts generated from new investment.
- If the security is still held under **lien** on maturity date, the Bank will remit funds in the account of the holder of the security (the lender of cash).

OTHER QUESTIONS

I have a CDSC Account with a Stock Broker; can I Use it to Purchase Treasury Bonds and Bills?

No. To invest in Treasury Bills/Bonds, one must open a CDS account at Central Bank of Kenya. The Central Depository for Securities Account (CDS) at the Central Bank differs from the one operated by the stock brokers.

If I Buy a Treasury Bill or Bond, Can I Access my Funds before Maturity Date?

Yes. One can exit Treasury Bonds through trading at the Nairobi Stock Exchange or may be transferred to other parties through licensed stock brokers or may be rediscounted at the Central Bank.

Treasury Bills on the other hand may either be transferred or rediscounted at Central Bank or in the case of the 364-days Treasury bills, traded Over The Counter.

How Do I Bid a Competitive Interest Rate in Treasury Bill/Bond Successfully?

It is difficult to tell exactly what interest rate one will get in any given auction when bidding. However, by closely monitoring trends in interest rates, prevailing market conditions and any other events in the market, and advice from investment advisors, one may be lucky with the market outcome.

What are proceeds from Issuance of Government Securities used for?

Proceeds are used by the Government to finance budgetary shortfalls. Borrowing target is usually set at the beginning of the financial year by the National Treasury and approved by the National Assembly.

Who Can Open a CDS Account and are there Any Charges?

Individuals, Commercial Banks, Non-bank Financial Institutions (NBFIs), Parastatals, Cooperative societies, Pension funds, Trust companies, Insurance companies and registered societies are free to open Central Depository for Government Securities Account (CDS) at CBK. Foreign citizens can invest in Treasury bills/bonds through nominee accounts with commercial banks or investment banks. There are **no charges** for opening and maintaining a CBK-CDS account but one must operate a Commercial bank or an NBFIs account as a prerequisite.

What is the Difference between Treasury Bond and Corporate Bond?

Treasury bonds are issued by a Government to raise funds for financing budgetary deficits while corporate bonds are issued by corporate entities to finance capital projects and enhance their balance sheets.

DECEASED INVESTOR FUNDS

How can I claim proceeds/funds of a deceased investor, as the administrator of the estate?

The first step is to notify the Central Bank of Kenya in writing of the demise of the investor. After notification the CDS account of the deceased is flagged to ensure that any monies payable either for interest or redemptions are withheld.

Where are the funds held?

The funds are withheld in a **non-interest** earning account at the Central Bank of Kenya awaiting necessary documentation to facilitate payment to the bona fide administrator of the estate.

What documents are necessary to facilitate payment of proceeds withheld in the non interest earning account?

- Original and copy of the Certificate of Confirmation of Grant from the High Court which should explicitly specify the CDS account amongst the properties described in the schedule of assets
- Original and copy of letter of administration from the High Court
- Original and copy of the claimant(s) Identity card
- Original and copy of the Claimant(s) Pin Certificate
- Details of the claimant(s) bank account including bank name, branch and account number
- Indemnity form duly completed by the claimant(s) and signed off by a Commissioner of Oaths(form issued by the Central Bank of Kenya)

The above documents should be personally delivered to Central Bank of Kenya, Branches or Currency Centers for certification by the Front office Staff or Branch Managers. The original documents shall be released to the claimant upon certification.

How do I find out about the holdings of a deceased investor?

Due to the Bank's policy on confidentiality we can only disclose the details of the holdings of the deceased once necessary documentation is received and verified.

When will interest/redemption be paid to the claimant(s)?

After the Central Bank of Kenya establishes the claimant(s) is the bona-fide administrator of the estate any monies withheld by the Bank will be paid out immediately. Subsequent payments on outstanding Government securities will be paid on each interest/redemption date.

Is it possible to transfer outstanding securities in the deceased investor's account to my CDS account at the Central Bank of Kenya?

Yes, through a process known as a gratis transfer. You need to contact any listed broker in the Nairobi Securities Exchange (NSE) who will provide you with the requisite documents to facilitate the transfer. When the securities are transferred to your CDS account you can decide either to liquidate them or hold them until their maturity.

What happens when one of the signatories in a joint CDS account dies?

In the event that one of the signatories in a joint CDS account dies, the surviving account holder can take sole ownership of the account. However, it is prudent to notify the Central Bank of Kenya of the demise for proper record management.

INVESTMENT INFORMATION FOR KENYANS IN DIASPORA

A. STEP-BY-STEP GUIDE IN OPENING A CBK-CDS ACCOUNT FOR KENYANS IN DIASPORA

N.B: Please note that **ONLY** Kenyans living in the diaspora and who hold a local (Kenyan) commercial bank account are eligible to apply for a CDS account directly at Central Bank of Kenya (CBK). Non-Kenyans and Kenyans without a local commercial bank account can however still invest in Kenya government securities as nominees of authorized CBK agents which include commercial banks, investment banks and stock brokers domiciled in Kenya.

1. Visit the Central Bank of Kenya website <http://www.centralbank.go.ke/> and download mandate card. (Individual) for individual investors and Mandate card (Corporate) for corporate investors.
2. Print the **appropriate mandate card** and fill out your details.
3. Attach a recently taken colored passport **size photograph** and a copy of investor's **Kenyan National Identity Card (ID)** or **Passport**. These documents **MUST** be certified by your bankers (A local commercial bank based in Kenya).
4. Have the filled in CDS mandate card **certified** by your **Commercial bank**.
5. The investor's Commercial bank will certify the completed CDS mandate card by way of **appending the bank's stamp** and **signatures of two of their authorized signatories** on the space provided.
6. **Scan** the completed CDS mandate card and **email** to ndo@centralbank.go.ke
7. Send the physical mandate and attachments by **post** to:

**The Director,
Financial Markets Department
P.O. Box 60000-
00200, Nairobi, Kenya**

8. Once the CDS account has been opened, the investor will be notified of the CDS account number via **email as provided on the CDS mandate** card submitted to CBK. A formal letter of notification will follow thereafter.

B. GUIDELINES FOR SUBMISSION OF BIDS (APPLICATION) FOR INVESTMENT IN GOVERNMENT OF KENYA SECURITIES

1. Once the investor has been allocated and notified of their CDS account number (portfolio and virtual account numbers), they can then proceed to apply for the Treasury bills/ bond(s) that are on offer.
2. To apply for Treasury bills or(and) bonds, download the bond application forms at <http://www.centralbank.go.ke/index.php/application-forms>
3. Fill in the following key details:
 - Issue Number

- Duration (Tenor of security – Treasury bills (days), Treasury bonds (years))
 - Value date
 - Face Value - Amount the investor is willing to invest in Kenya Shillings. (Minimum Kes 100,000 for Treasury bills and infrastructure bonds and Kes 50,000 for normal Treasury bonds. Additional amounts MUST be in Multiples of Kes. 50,000 with a maximum of Kes 20 million per CDS account per investor for non-competitive bids).
 - Interest Rate or price
4. Investor's details- complete the investor's details as provided required in the form. i.e. Name, CDS Number (Portfolio number), telephone contact etc.
 5. Append a signature on the application form and email to ndo@centralbank.go.ke or fax to +254202863726/3666
 6. Please note the deadline for submission of application forms as detailed above.
 7. Do not make payments for the bond until notified by the Central Bank of Kenya of the actual amount to pay. It is the responsibility of the investor to contact Central Bank of Kenya to obtain details of the auction results.

C. DISSEMINATION OF RESULTS FOR SUCCESSFUL APPLICATIONS

All successful applicants will be notified of their allocation - **Amount they are required to pay by contacting Central Bank of Kenya on Tel No. +254-020-2860000.**

D. MODE OF PAYMENT FOR SUCCESSFUL BIDS

1. Deadline for payment for successful bids is **the following Monday at 2.p.m Kenyan time.**
2. All successful applicants will be required to **pay the exact payable amount.**
3. Investors whose applications were successful will instruct their local commercial banks to remit the payable amounts.

For any queries and information, please contact

The Director,
Financial Markets Department
P.O. Box 60000-00200,
Nairobi, Kenya
Tel +254202863060
Or email ndo@centralbank.go.ke