



*PARTICIPATION OF COMMERCIAL BANKS IN THE
SECONDARY MARKET FOR TREASURY BILLS AND
CENTRAL BANK BILLS*

CENTRAL BANK OF THE GAMBIA OPERATIONAL NOTICE

1. Background

- 1.1 This Operational Notice contains the procedures that will govern the participation of the commercial banks in the secondary market for Treasury Bills and Central Bank bills. It should be read in conjunction with MM0002 General Conditions of Issue and Redemption of Treasury Bills and Central Bank Bills (Amended November 2002) which governs all transactions in this Operational Notice. If there is any conflict between this Notice and MM0002, the latter prevails.
- 1.2 The primary aim of the Bank's operations in the money market is to implement monetary policy. Subject to this objective, the Bank also seeks to meet the government's borrowing objectives. In addition, the Bank tries to encourage the development of private sector markets in securities with the aim of encouraging banks to use these markets to manage their daily liquidity positions. This will enable the Central Bank to come in only as a last resort to clear the market in the event of overall market shortages and surpluses.
- 1.3 The current refinancing framework gives unlimited access to any bank to Central Bank refinancing facilities. Any bank that is short of cash can use the Central Bank's rediscount window to sell Treasury and Central Bank bills to the Central Bank. This is done at a penalty rate of three percentage points above the benchmark 91-day Treasury bill rate. Similarly, a bank with a cash surplus may purchase Treasury and Central Bank bills from the Central Bank, subject to availability, at a penalty rate of one percentage point below the benchmark 91-day Treasury bill rate. There is very little inter-bank dealing.
- 1.4 In addition, the averaging of cash reserves over a two-week period, which was introduced in 1998 afforded banks more flexibility in their liquidity management. It also enabled banks to run deficits on their accounts with the Central Bank on some days as long as they made it up on some other days during the reserve-averaging period. This made it less necessary for banks to borrow from one another.
- 1.5 In December 2002, a weekly auction of Treasury and Central Bank bills replaced the fortnightly auction system. This provided a further disincentive for banks to trade with one another as it afforded them greater flexibility in their weekly management of their reserve requirements. Partly to offset this, the reserve-averaging period was reduced to one week in March 2004.

- 1.6 Banks have preferred to borrow from the Central Bank rather than assume the liquidity and credit risks of borrowing from another bank. This will be mitigated by the introduction of a repurchase market. The Central Bank will work with the commercial banks to initiate the development of a Master Repurchase Agreement for The Gambia in 2004.
- 1.7 In the absence of the repo, the Central Bank will work to encourage the banks and other investors in Treasury and Central Bank bills to borrow from and lend to each other in the secondary market through outright sales and purchases.

2. Eligibility

- 2.1 All financial institutions that operate current¹ accounts with the Central Bank are eligible to participate.
- 2.2 All participants should ensure that they have in place systems and procedures to ensure that the payments are effected to their customers' accounts on the same day that the transfers are registered by the Central Bank. Therefore, the transfer form should be presented to the Central Bank on or prior to the agreed settlement day.

3. Transfers

- 3.1 Bills are transferable at the Central Bank of The Gambia, 1 /2 ECOWAS Avenue, Banjul, The Gambia by instrument in any usual or common form, without charge and stamp duty.
- 3.2 All transfers must be in multiples of D2,500.
- 3.3 On an approved Central Bank form similar to Appendix A, the owner must authorise the transfer of the security from the owner's account to the buyer's account. The authorisation of the transfer for the transfer of securities shall be irrevocable after the transfer has been made to the new owner's account.
- 3.4 The Government of The Gambia and the Central Bank shall not be liable for any loss which the transferor or transferee may incur as a result of the transfer or the inability of the Central Bank to complete the transaction.
- 3.5 The Transfer Form should be executed by both the buyer and seller. The Transfer Form must be signed by at least two officials duly authorized to sign on behalf of the commercial bank whose signatures (one of which must be an "A" class) are registered with the Central Bank.

¹ In this Notice, "current" refers to the account that is used by the commercial banks to settle transactions between themselves and the Central Bank. These accounts are also used to keep reserve requirements.

² Bills refer to both Treasury and Central Bank Bills

- 3.6 Transfers may be simple transfers between banks and their customers that do not involve any payment made through the Central Bank.
- 3.7 Transfers may also involve settlement through accounts at the Central Bank. These transfers would usually be between two financial institutions that operate accounts at the Central Bank.
- 3.8 Participating financial institutions shall not purchase Bills at a yield that is above the Central Bank's official rediscount rate as announced by public notice from time to time.
- 3.9 Participating financial institutions shall not sell Bills at a yield that is below the Central Bank's **official selling** rate as announced from time to time.
- 3.10 Participating financial institutions shall not be allowed to buy or sell Bills that are at least one **day** to maturity.
- 3.11 Participating financial institutions shall ensure that each transaction thereof is reported to the Central Bank daily during Central Bank's official banking hours.

4. **Reporting**

- 4.1 The participating financial institution shall send to the Central Bank, a statement of securities bought and sold every week, giving daily balance positions. This statement should be sent every Monday or next working day and should cover the week to the previous Friday and may also involve settlement through accounts at the Central Bank. These transfers would usually be between two financial institutions that operate accounts at the Central Bank.
- 4.2 All participating financial institutions shall report to the Central Bank on the prescribed Central Bank form similar to Appendix B (purchase) and/or Appendix C (sale).
- 4.3 Failure of any participating financial institution to comply with the reporting deadline and prescribed format shall be liable to a penalty charge to be determined by Central Bank.

(From the following, strike out the parts that are not applicable)

- I. We hereby authorise the Central Bank to debit our account with the amount of consideration as stated above under item number B.
- II. The amount of consideration will be duly debited/credited to the client's funds account maintained with us.

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FOR OFFICIAL USE ONLY
(Central Bank of The Gambia)

Transfer Registered by: Transfer Verified by Transfer Authorised by:

Name ----- ----- -----

Signature ----- ----- -----

Date ----- ----- -----



PURCHASE FORM

COMMERCIAL BANKS OPEN MARKET OPERATIONS WEEKLY REPORTING FORM

Reporting Bank:.....

Period of Return: week ending

In the event of a query, the Central Bank of the Gambia may contact (block letters please)

Name.....Tel #:.....

Designation.....

Trans. Date	Type of Instrument	Issue Date	Maturity Date	Face Value	Cost	Purchased From	Purchase Price

RECORD OF RECEIPT

Delivered by

Received by

Name:

Signature:

Date

NB: If you have difficulty in completing this form, please telephone 4229826
This return must be submitted to the Manager Banking Services Department in duplicate.



SALES FORM

COMMERCIAL BANKS OPEN MARKET OPERATIONS WEEKLY REPORTING FORM

Reporting Bank:.....

Period of Return: week ending

In the event of a query, the Central Bank of the Gambia may contact (block letters please)

Name.....Tel #:.....

Designation.....

Trans. Date	T	Type of Instrument	Issue Date	Maturity Date	Face Value	Cost	Bought From	Selling Price

RECORD OF RECEIPT

Delivered by

Received by

Name

Signature

Date

NB: If you have difficulty in completing this form, please telephone 4229826
 This return must be submitted to the Manager Banking Services Department in duplicate.