Annex 7.5

GLOSSARY

Accrued interest

The accrued interest on a bond is the amount of interest accumulated on a bond since the last coupon payment. The interest has been earned, but because coupons are only paid at set intervals the investor has not gained the money yet. In India day count convention for G-Secs is 30/360.

Bid price/yield

The price/yield being offered by a potential buyer for a security.

Competitive Bid

Competitive bid refers to the bid for the stock at the price stated by a bidder in an auction.

Coupon

The rate of interest paid on a debt security as calculated on the basis of the security's face value.

Coupon frequency

Coupon payments are made at regular intervals throughout the life of a debt security and may be quarterly, semi-annual (twice a year) or annual payments.

Face value

Face value is the amount that is to be paid to an investor at the maturity date of the security. Debt securities can be issued at varying face values, however in India they typically have a face value of Rs.100 The face value is also known as the repayment amount at par. This amount is also referred as redemption value, principal value (or simply principal), maturity value or par value.

Floating-rate Bond

Bonds whose interest rate varies with changes in a pre-specified market interest rate.

Gilt/Government Securities

Government securities are also known as gilts or gilt edged securities. "Government security" means a security created and issued by the Government for the purpose of raising a public loan or for any other purpose as may be notified by the Government in the Official Gazette and having one of the forms mentioned in The Public Debt Act, 1944.

LAF

Liquidity Adjustment Facility (LAF) is a facility by which the RBI adjusts the daily liquidity in the domestic markets (India) either by injecting funds or by withdrawing them out.

Maturity Date

The date when the principal (face value) is paid back. The final coupon and the face value of a debt security is repaid to the investor on the maturity date. The time to maturity can vary greatly from short term to long term (30 years).

Non-competitive Bid

Non-competitive bidding means the bidder would be able to participate in the auctions of dated government securities without having to quote the yield or price in the bid. The allotment to the non-competitive segment will be at the weighted average rate that will emerge in the auction on the basis of competitive bidding. It is an allocating facility wherein a part of total securities are allocated to bidders at a weighted average price of successful competitive bid.

Open Market Operations:

Central banks buy bonds in exchange for money, thus increasing the stock of the money, or sell bond; thus reducing the money stock. This operation is known as Open Market Operation.

Price

The price quoted is for per Rs. 100 of face value. The price of any financial instrument is equal

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to the present value of the expected cash flow. The price one pays for a debt security is based on a number of factors. Newly-issued debt securities usually sell at, or close to, their face value. On the secondary market, where already-issued debt securities are bought and sold between investors, the price one pays for a bond is based on a host of variables, including market interest rates, accrued interest, supply and demand, credit quality, maturity date, state of issuance, market events and the size of the transaction.

Primary Dealers

In order to accomplish the objective of covering the government borrowing needs as cheaply and efficiently as possible, a group of highly qualified financial firm/banks are appointed to play the role of specialist intermediaries in the government security market between the issuer on the one hand and the market on the other. These are generally called Primary dealers or market makers. In return of a set of obligations, such as making continuous bids and offer price in the marketable government securities or submitting reasonable bids in the auctions, these firms receive a set of privileges in the primary/ secondary market.

Private Placement

A private placement is a direct offer by a company to subscribe to a security issued by it, which is not available to any person other than the person to whom the offer is made. Section 67(3) of Company Act, 1956, while specifying what does not constitute a public offer, lays down two basic conditions, viz., (a) the share and debentures should not be available for subscription to persons other than those receiving the offer, and (b) the offer should be made to less than 50 persons.

Repo Rate

Repo rate is the return earned on a repo transaction expressed as an annual interest rate.

Repo/Reverse Repo

Repo means an instrument for borrowing funds by selling securities of the Central Government or a State Government or of such securities of a local authority as may be specified in this behalf by the Central Government or foreign securities, with an agreement to repurchase the said securities on a mutually agreed future date at an agreed price which includes interest for the fund borrowed.

Reverse Repo means an instrument for lending funds by purchasing securities of the Central Government or a State Government or of such securities of a local authority as may be specified in this behalf by the Central Government or foreign securities, with an agreement to resell the said securities on a mutually agreed future date at an agreed price which includes interest for the fund lent.

Secondary Market

The market in which outstanding securities are traded. This term differentiates from the primary or initial market when securities are sold for the first time. Secondary market refers to the buying and selling that goes on after the initial public sale of the security.

Tap Sale

Under Tap sale, a certain amount of securities is created and made available for sale, generally with a minimum price, and is sold to the market as bids are made. These securities may be sold over a period of day or even weeks; and authorities may retain the flexibility to increase the (minimum) price if demand proves to be strong or to cut it if demand weakens. Tap and continuous sale are very similar, except that with Tap sale the debt manager tends to take a more pro-active role in determining the availability and indicative price for tap sales. Continuous sale are essentially at the initiative of the market.

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Treasury Bills

Debt obligations of the government that have maturities of one year or less is normally called Treasury Bills or T-Bills. Treasury Bills are short-term obligations of the Treasury/Government. They are instruments issued at a discount to the face value and form an integral part of the money market.

Underwriting

The arrangement by which investment bankers undertake to acquire any unsubscribed portion of a primary issuance of a security.

Weighted Average Price/yield

It is the weighted average mean of the price/ yield where weight being the amount used at that price/yield. The allotment to the non-competitive segment will be at the weighted average price/yield that will emerge in the auction on the basis of competitive bidding.

Yield

The annual percentage rate of return earned on a security. Yield is a function of a security's purchase price and coupon interest rate. Yield fluctuates according to numerous factors including global markets and the economy.

Yield to maturity (YTM)

Yield to maturity is the total return one would except to receive if the security is being held until maturity. Yield to maturity is essentially the discount rate at which the present value of future payments (investment income and return of principal) equals the price of the security.

Yield curve

The graphical relationship between yield and maturity among bonds of different maturities and the same credit quality. This line shows the term structure of interest rates. It also enables investors to compare debt securities with different maturities and coupons.