

August 4, 2004

All Scheduled Commercial Banks excluding RRBs/
All State Co-operative Banks/All Scheduled Primary
(Urban) Co-operative Banks /All Financial Institutions/
All Primary Dealers

Dear Sirs,

Auction of Government of India Dated Securities

Government of India have offered for sale "Floating Rate Bonds 2015(II)" for a notified amount of Rs.6,000 crore (nominal) through uniform price auction method vide Notifications No.F.No.4(8)-W&M/2004 dated August 4, 2004. Government of India have also announced the sale a new 30 year Stock for a notified amount of Rs 2,000 crore (nominal) through a yield based auction using uniform price method vide Notifications No.4(8)-W&M/2004(i) dated August 4, 2004. The auctions will be conducted by Reserve Bank of India at Mumbai on August 9, 2004. The salient features of the auctions and the terms and conditions governing the issue of the Stocks are given in the Notifications (copy enclosed), which should be read along with the General Notification F.No.4 (9)-W&M/2000 issued by Government of India on May 6, 2002 amended from time to time.

2. We wish to draw your attention, in particular, to the following:

A. For Floating Rate Bonds

- i) The Bonds will be issued at par (i.e. at Rs 100.00 per cent) for a minimum amount of Rs.10, 000/- (nominal) and in multiples of Rs.10, 000/- thereafter.
- ii) Interest on the Bonds will be paid half yearly. The annual interest rate on the Bonds is calculated by adding a '**spread**' on a **variable base rate**. The '**spread**' will be decided in the **auction** to be conducted by Reserve Bank of India and will remain unchanged during the currency of the Bond. The variable base rate will be the average rate of the implicit yields at cut-off prices emerging in the immediate previous three auctions of 'Government of India 364 day Treasury Bills' held prior to the relative annual coupon period. The implicit yield will be computed by reckoning 364-day year.
- iii) The base rate for calculation of interest for the first coupon period commencing from August 10, 2004 to August 9, 2005 as per the aforesaid formula is **4.62** per cent (please see enclosed illustration).
- iv) The base rate for the subsequent annual coupon periods, worked out as per the aforesaid formula, will be announced by RBI on or before the commencement of the relative coupon periods.
- v) In the unlikely event of 364-day Treasury Bill auctions being discontinued during the currency of the Floating Rate Bonds, the applicable variable base rate will be the average of the Yield to Maturity (YTM) rate prevailing for one year Govt. of India Security as on last three reporting Fridays prior to the commencement of the relative annual coupon period, worked out in consultation with the Fixed Income Money Market and Derivatives Association of India (FIMMDA). This rate will be announced by RBI on or before the commencement of the relative annual coupon period. In case

particular Friday/s is/are holiday/s, the yield to maturity rates as on the previous working day shall be taken.

vi) There will be no floor or cap for the interest rate on the Floating Rate Bonds.

B. For the new 30-year Government Stock

(i) The Stock will be issued at par (i.e. at Rs 100.00 per cent) for a minimum amount of Rs.10, 000/- (nominal) and in multiples of Rs.10, 000/- thereafter. will be issued for a minimum amount of Rs.10,000/- (nominal) and in multiples of Rs.10,000/- thereafter.

3. In both the cases

(i) The competitive bids should be submitted in the prescribed form of application given in Annexure I/II, before 12.30 p.m. on August 9, 2004 in sealed covers superscribed "Tender for Floating Rate Bonds 2015(II)" or "Tender for 30 year Government Stock "(as the case may be) and deposited in the appropriate tender box kept for the purpose at Reserve Bank of India, Fort, Mumbai. The spread on the variable base rate/yield percent expected by the bidders should be expressed up to two decimal points. The competitive bids by the NDS members should be submitted only in electronic form using NDS.

(ii) For both the auctions, Government Stock up to 5% of the notified amount of sale will be allotted to the eligible individuals and institutions under the Scheme for Non-competitive Bidding Facility in the Auctions of Government Securities (enclosed with the notifications F. No.4(8)-W&M/2004 and F. No. 4(8)-W&M/2004 (i) both dated August 4, 2004). The non competitive bids should be submitted in the prescribed form of application given in Annexure I(a)/II(a) before 12.30 P.M. on August 9, 2004, in sealed covers superscribed "Non -Competitive bid for Floating Rate Bonds 2015" or "Non-competitive bid for 30 year Government Stock "(as the case may be) and deposited in the appropriate tender box kept for the purpose at Reserve Bank of India, Fort, Mumbai. All non-competitive bids should only be submitted in prescribed physical forms.

(iii) An investor can submit more than one bid at different spreads/prices but a separate application should be submitted for each bid. The aggregate amount of bids submitted by a person should not exceed the notified amount of each loan.

(iv) On the basis of bids received, the Reserve Bank will determine the maximum spread/yield up to which tenders for purchase of Bonds/Government Stock will be accepted at the auctions. Bids quoted at spreads/yield higher than the spread/yield decided in the auction determined by the Reserve Bank of India will be rejected. Reserve Bank of India will have full discretion to accept or reject any or all bids either wholly or partially without assigning any reason.

(v) The results of the auctions will be displayed at Reserve Bank of India, Mumbai Office, Fort, Mumbai on August 9, 2004. Successful bidders will be required to deposit with the Reserve Bank of India, Public Debt Office, Fort, Mumbai, the amount payable for the Bonds/Government Stock allotted to them in cash or by cheque on their account with Reserve Bank of India, Mumbai or by Banker's pay order payable at Mumbai, along with a covering letter on August 10, 2004

before 2.30 p.m. In case of current account holders, the amount payable will be debited to their respective current accounts maintained with the Reserve Bank of India.

(vi) The Government Stocks will be issued by credit to Subsidiary General Ledger Account (SGL) of parties maintaining such account with Reserve Bank of India or in the form of Stock Certificate. Interest on the Bonds/Government Stock will be paid half-yearly.

(vii) The Floating Rate Bonds and the 30 year Government Stocks will be repaid at par on August 10, 2015 and August 10, 2034, respectively.

(viii) The Floating Rate Bonds/ Government stock will qualify for the ready forward facility.

Please acknowledge receipt.

Yours faithfully,

Sd/-

(R.Sebastian)
General Manager

Encls: As above

Illustration: Base rate and rate of interest payable on Floating Rate Bonds 2015 II **Calculation of Base Rate applicable for the Year ending August 9, 2005**

Serial No.	Date of Auction	Cut-off Price	Implicit yield @ at cut-off price
1	07-Jul-04	95.60	4.6025
2	21-Jul-04	95.58	4.6244
3	04-Aug-04	95.58	4.6244
		Total =	13.8513

$$\text{Base Rate} = \frac{13.8513}{3} = 4.6171$$

Rounded off to two decimal places = 4.62

If the spread decided in the auction is = 0.35
(Only an example)

Interest rate applicable for the year (August 10, 2004 to August 9, 2005) = 4.97 (Percent per annum)

@ annualised for 364 day year