

Free

BANK OF UGANDA

OFFICE OF
THE EXECUTIVE DIRECTOR
OPERATIONS



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EDO.306.2

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To: All Chief Executives of Commercial Banks

Transition from Pre-set Bond Coupons to Market-Determined Coupons

Please refer to our previous circulars to all chief executives of commercial Banks Ref EDO.306.2 dated 18th October and 25th October 2013 on the captioned matter.

Bank of Uganda wishes to inform you that the relevant updates on the new Central Securities Depository (CSD) system have been completed and accordingly, starting with the 3- and 15-year bond auctions of December 04 2013, Phase II of the market-determined coupons will commence. This means that market participants will submit amount/yield pair bids instead of the usual amount/price pair bids.

For example, under the new arrangement, Bidder X will submit a bid of UGX.20 billion at a yield to maturity (YTM) of 13.250% instead of UGX.20 billion at a price of 99.123. Bank of Uganda will then set the coupon rate as the auction's average YTM of the successful bids, rounded to a YTM which is a multiple of 0.125%.

For bonds being re-opened, the bidding process will remain on a price basis given that these bonds would already have fixed coupon rates. Prices will be quoted to the usual three decimal places e.g. 99.123.

The announcement of the bond auction results will contain details of the resulting prices and/or cash amounts to be paid by the successful participants in an auction.

The purpose of this circular is twofold:

1. To update you on the aforementioned developments, and
2. To invite one staff from your Treasury department for a practical demonstration of the new pricing methodology at the Bank of Uganda premises on Friday 15 November 2013 starting at 2:30 pm.

Philip Andrew Wabulya
Executive Director Operations

Copy to: Deputy Governor, Bank of Uganda
Executive Director Supervision, Bank of Uganda ✓