

Regional Government Securities Market

I. Introduction

○ Background

The Regional Governments Securities Market (RGSM) is a regional market for the trading of debt instruments of the member states of the ECCU which comprise Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, St Kitts and Nevis, Saint Lucia, and St Vincent and the Grenadines. The market was established in November 2002 and operates on a fully electronic platform. The instruments on the RGSM take the form of Treasury-bills, notes and bonds and have varying maturities. These securities are backed by the full faith of the governments of the issuing member states.

○ *Objectives*

The RGSM was set up to assist the governments of the member states with the following:

- To supplement the financing needs of the member governments of the ECCU
- To minimise the cost of borrowing for member governments and assist in their overall debt management.
- To deepen the region's financial markets by integrating the eight fragmented member governments of the ECCU and creating a single regional financial space.
- To provide more opportunities for regional and international investors in the development of the region through investment in these securities.

○ *Types of Instruments*

The RGSM currently issues two types of securities with varying maturities: Treasury bills and bonds. Treasury bills are often issued as discount securities with maturities of less than a year and bonds are coupon securities with maturities greater than one year. Governments on the RGSM currently issue T-bills with maturities of 91 days and 365 days, as well as bonds at maturities of 5 years, 7 years, as well as ten years.

The table provides a summary of the range of securities on the RGSM:

Instrument	Maturity	Minimum Investment
Treasury-bills	91 days	\$5000
	365 days	\$5000
Bonds	5 years	\$5000
	7 years	\$5000
	10 years	\$5000

○ *Legislation*

The Regional Government Securities Market is regulated by the Eastern Caribbean Securities Act. All 8 member countries participating in the market have passed the Act which sets out the laws under which the market must operate. In keeping with the Securities Act, the Eastern Caribbean Securities Regulatory Commission (ECSRC) has been set up to ensure that the market adheres to international best practices.

The ECSRC requires that each government submit a prospectus before going to market for a primary issue. This prospectus is usually published at least two weeks prior to the issue and discloses vital information such as the amount and type of

security, the terms of the security including the maximum interest rate, the denominations of the issue as well as the country's macroeconomic performance which enable investors to make informed investment decisions.

Having listed securities on the ECSE, governments are required to present semi-annual updates on the economic and financial performance of their country. This keeps investors updated on the performance of governments.

○ *Governance*

The Eastern Caribbean Central Bank performs the role of fiscal agent to the participating governments. Thus, the Bank advises governments on the most appropriate instruments to issue within the context of sound debt management policies/practices, as well as the most appropriate time to issue securities on the primary market. The ECCB also undertakes some of the administrative duties associated with the issue. However, each government is responsible for the full repayment of the instruments it issues.

The Regional Debt Coordinating Committee, the RDCC, comprises Financial Secretaries/Finance Directors from each of the 8 participating governments and the Governor. The Committee has been set up by the Monetary Council to ensure that the market operates efficiently within the context of harmonized objectives, policies, procedures and rules. The RDCC is responsible for ensuring that the governments comply with established disclosure requirements.

II. Securities Issuance

○ *Frequency*

These securities are issued to the market via auctions. Auctions are used to sell these securities and to determine their rate or yield. Auctions are held according to the needs of participating governments. Auction dates are published on the ECCB and ECSE websites based on the Issuance Calendar.

○ *Issuance Calendar*

The Schedule of auctions specifies the auction dates, the issue dates and the tenor of each issue. Currently, there is no set schedule for the issuance of different tenors. The Auction Schedule is usually published and updated regularly thus enabling sufficient planning for investors who wish to participate in an auction. The issue size is often not published far in advance in the Calendar of issues, but specified in the auction announcements. Auction announcements on size are made at least 5 days before the auction date.

○ *Form*

The RGSM operates in dematerialised form, which means that ownership of securities are recorded and transferred electronically. Settlement takes place at T+1, that is, one day after the auction date.

○ *Rates and Auction Format*

Currently, RGSM securities are auctioned using a uniform price auction format. This auction methodology ensures that all successful competitive bids will be allotted at a single, uniform rate. This represents the highest cut-off rate of all successful bids, submitted at the auction.

Auctions are held one day before the actual issue date. Auctions are held from 9 am to 12 noon Eastern Caribbean time.

○ *Structure of Securities*

Currently, the RGSM issues a small range of instruments, comprising Treasury bills and Treasury bonds. T-bills are often issued as zero-coupon instruments which means that they are bought at a discount from the face value. However, investors receive the full amount at maturity.

Bonds are longer term instruments and are often issued in maturities of five, seven and ten years. These securities carry a fixed semi-annual coupon/rate ie interest is often paid semi-annually on the face value.

○ *Admission/Participation*

Securities on the RGSM are open to all bidders, residents and non residents. However, only licensed brokers will be allowed to bid in the RGSM auctions.

○ *Minimum Bids*

The minimum bid amount on the RGSM is currently set at \$EC5000.

○ *Licensed Brokers*

Investors wishing to participate on the RGSM must do so through the licensed brokers. Securities are therefore bought through intermediaries or licensed brokers that currently operate in seven of the eight member territories. The contact details of the licensed brokers participating on the RGSM are listed below:

Country	Institution	Contact Address	Associated Persons
Anguilla	National Bank of Anguilla Ltd.	PO Box 44 The Valley	Principal

Country	Institution	Contact Address	Associated Persons
		Tel: 264-497-2101 Fax: 264-497-3310 Email: nbabank1@anguillanet.com	Selwyn Horsford Representative Idona Reid
Antigua & Barbuda	ABI Bank Ltd.	ABI Financial Centre Redcliffe Street St John's Tel: 268 480 2824 Fax: 268 480 2765 Email: abibsec@candw.ag	Principal Casroy James Representative Laura Abraham
Antigua & Barbuda	Antigua Commercial Bank Ltd	ACB Financial Centre P O Box 3089 St John's Tel: 268 481 4200 Fax: 268 481 4158 E Mail: acb@candw.ag	Principals Peter N. Ashe Sharon Nathaniel Representatives Sharon Nathaniel Barbara Martin
Dominica	National Mortgage Finance Company of Dominica Ltd	64 Hillsborough Street Roseau Tel: 767 448 4401/4405 Fax: 767 448 3982 Email: ncbdom@cwdom.dm	Principal Caryl Phillip-Williams Representatives Dawn Yankey Marilyn Edwards
Grenada	Republic Finance and Merchant Bank Ltd. (FINCOR)	NCB House Grand Anse St George's Tel: 473 444 1875 Fax: 473 444 1879 Email: fincorec@caribsurf.com	Principals Heather Titus Wilma Williams Representatives Tarlie Francis Heather Titus Wilma Williams
St. Kitts & Nevis	St Kitts Nevis Anguilla National Bank Ltd	P O Box 343 Central Street Basseterre Tel: 869 465 2204	Principals Winston Hutchinson Anthony Galloway

Country	Institution	Contact Address	Associated Persons
		Fax: 869 465 1050 Email: <u>national_bank@sknanb.com</u>	Representatives Marlene Nisbett Desilu Smithen Petronella Edmeade-Crooke
St. Kitts & Nevis	The Bank of Nevis Ltd.	P O Box 450 Charlestown Nevis Tel: 869 469 5564 Fax: 869 469 5798 Email: <u>bon@caribsurf.com</u>	Principals Rawlinson Isaac Hanzel Manners Representatives Lisa Jones Vernesia Walters
Saint Lucia	Bank of Saint Lucia Ltd	P O Box 1862 Bridge Street Castries Tel: 758 456 6000 Fax: 758 456 6190 Email: <u>bankofsaintlucia@candw.lc</u>	Principals Donna Matthew Beverley Henry Representatives Trevor Lamontagne Lawrence Jean
Saint Lucia	Caribbean Money Market Brokers Ltd. (CMMB St. Lucia)	9 Brazil Street Castries Tel: 758 450 2662 Fax: 758 451 7984 Email: <u>info@mycmmmb.com</u>	Principals Leslie St Louis Brent Salvary Sharmaine Rosemond Representatives Sharmaine Rosemond Leslie St Louis Vishwatee Jagroop
St. Vincent & The Grenadines	National Commercial Bank (SVG) Ltd.	P. O. Box 880 Cnr. Bedford and Grenville Streets Kingstown Tel: 784 457 1844 Fax: 784 456 2612 Email: <u>natbank@caribsurf.com</u>	Principal Keith Inniss Jeffrey Ledger Representative Patricia John

Country	Institution	Contact Address	Associated Persons
Trinidad & Tobago	Caribbean Money Market Brokers Ltd. (CMMB)	No. 1 Richmond Street , Ground Floor Furness Court , Independence Square Port of Spain Tel: 868 623 7815 / 5153 Fax: 868 624 4544/627 2930 Email: info@mycmmmb.com	Principals Brent Salvary Leslie St Louis Sharmaine Rosemond Representatives Leslie St Louis Vishwatee Jagroop Sharmaine Rosemond

○ ***Prospectuses***

The prospectus is usually published at least two weeks prior to the issue and is the principal disclosure document for governments issuing on the RGSM. The prospectus provides specific information on government's fiscal performance which includes major sources of income and expenditure, budget surpluses or deficits and the size and components of the government's debt.

○ ***Taxes***

Interest income earned on the RGSM is exempted from tax within the ECCU area.

IV. Additional Information

Frequently Asked Questions

1. What is the Regional Government Securities Market

The eight ECCB member countries (Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, St Lucia, St Vincent and The Grenadines and St Kitts and Nevis) have established a regional market for Government Securities, with the assistance of the Eastern Caribbean Central Bank.

The regional market allows all member governments to issue their securities throughout the member countries and beyond, allowing residents and non-residents to buy and sell the securities of their choice. This initiative will enhance the investment options available to investors by enabling investment opportunities beyond the domestic/home market, incorporating the regional market as well.

2. What are government securities?

Government securities are financial instruments including *treasury bills, notes and bonds* that are issued by a sovereign and sold to the public. Backed by the full faith and credit of the issuing Government, these instruments are usually considered safe investments.

Treasury Bills are short-term instruments issued with a term of one year or less.

They are sold at a discount from face value (par) and do not pay interest before maturity. The difference between the purchase price of the bill and the amount that is paid at maturity (par), or when the bill is sold prior to maturity, is the interest earned on the bill.

Treasury Notes and Bonds bear a stated interest rate, and the owner receives periodic, typically semi-annual income. Treasury notes have a term of more than one year but less than ten. Treasury bonds are long-term instruments issued with a term of more than 10 years.

3. What is the ECCB's role in the regional government securities market?

The Eastern Caribbean Central Bank acts as Fiscal Agent to Governments. In this role, the ECCB assists the Governments by facilitating the operations of the RGSM, serving as secretariat to the RDCC and providing advice to the Governments.

4. What is an intermediary?

An intermediary is a person or organisation, which provides services related to financial securities to investors such as a broker, dealer or custodian. These services include facilitating trading on behalf of investors and providing investment advice. Intermediaries dealing in securities must be licensed by the Eastern

Caribbean Securities Regulatory Commission (ECSRC).

5. How are government securities sold?

When a government brings a new issue of securities (treasury bills, notes and bonds) to the market for the first time it does so through the primary market. Government securities issued on the regional market are sold via the Eastern Caribbean Securities Exchange (ECSE) Ltd.

Treasury Bills are sold on the regional market through a single price auction where the yield/price of the security is determined by competitive bidding by investors. Each investor must submit a bid specifying a yield or price for a specified quantity of securities. Those bids that fall within the range accepted by the auction will be awarded the security. Each successful investor pays the same price (or receives the same yield) for their securities. The risk associated with competitive bidding is that an investor might bid a yield that is too high and not obtain the quantity requested.

Treasury Notes and Bonds may be sold on the regional market through an auction (as explained above) or on a fixed-price subscription basis where the price is determined by the government before issuing the securities and the investor submits an application for only an amount. Bonds and notes may be sold at par (face

value), discount or at premium, that is, a price above the face value. Member Governments usually sell their bonds at par value.

6. How can I get information on upcoming issues?

Announcements with information on securities to be issued on the regional market are provided to the market at least a week before the auction. These announcements provide the details on upcoming issues which include: type of instrument, Government of issue, issue date, auction or subscription date, maturity date and deadline date, time for receiving applications, names and addresses of licensed intermediaries participating in the government securities market.

Announcements are also provided in local newspapers, member governments' gazettes, ECCB and ECSE web sites. In addition, a week before the auction date, the government issuing the securities provides a press release with details on the specific issue. This announcement serves to reconfirm details provided to the market.

7. How can I buy government securities?

Persons wishing to purchase government securities issued on the regional market

may do so by using the services of a broker/dealer that is licensed by the Securities Regulatory Commission and is a member of the ECSE. The names of intermediaries dealing in the government securities will be provided in announcements to the market. Intermediaries will submit applications for securities on behalf of their customers to the ECSE where the securities are sold. Investors should submit their applications for securities before the deadline specified in the announcements for the specific issue.

8. What is the minimum purchase amount for government securities?

The minimum investment on the RGSM is \$EC5,000.

9. Why should I consider purchasing government securities?

Government securities usually provide a good savings option as they are generally risk free and provide a higher return than that which can be received from a regular savings account. Interest rates on treasury bills and bonds issued in the region generally exceed 3.00%, as compared to the rates on a three month fixed deposit offered by commercial banks, which may be lower. In addition, Government bonds are generally ideal for savings as they provide long term savings options. Whether you are saving for a new home, your children's education or retirement, government bonds can help you reach your financial goals.

10. How is ownership recorded?

Investors will receive a confirmation notice indicating the success of their application for securities. This notice indicates the amount of securities allotted to the investor and the market yield/price for those securities. Securities are issued to investors in a dematerialised form, which simply means that ownership of the securities is recorded and maintained electronically by the Eastern Caribbean Securities Registry (ECSR). Investors do not receive printed certificates as previously done, however they receive regular statements of their holdings at the Registry.

Dematerialisation of securities offers several advantages over printed certificates such as facilitating trading of securities and elimination of risks associated with theft, loss or destruction of physical certificates.

11. Can I sell my securities before maturity?

Yes. The Eastern Caribbean Securities Exchange (ECSE) Ltd provides investors with the opportunity to sell and buy securities (government securities, shares and other financial instruments) on the secondary market. As on the primary market,

investors will need to place their orders to sell or buy securities through a licensed intermediary.

12. Can I use my securities as collateral?

Yes. You may pledge your government securities as collateral for financial obligations such as loans. Pledging of securities are done at the Eastern Caribbean Securities Registry (ECSR) where the ownership of the securities are held and recorded.

13. What happens when my security matures?

On maturity date, each investor will be paid an amount equal to the face value (principal and interest) in respect of their holdings of the specific security.

Treasury bills are sold at a discount and are redeemed at face value at maturity, your return is the difference between the purchase price and the face value, assuming you hold the bill until maturity.

Notes and Bonds may be sold at discount or at premium. As with Treasury Bills, when the security is sold at a discount, the purchaser pays less than the face value. Holders of notes and bonds receive periodic interest payments (coupons) usually on

a semi-annual basis. The annual return on notes and bonds is equal to the face value of the securities times the coupon interest rate.

14. How do I receive interest and principal?

When submitting applications for an issue of securities, investors must provide the intermediaries acting on their behalf. With bank details such as the name and address of bank, bank account number for which they want their principal and interest payments deposited. *(editor's note: provide also for payment by cheque to holders)*

15. What type of information should I as a potential investor consider?

In bringing an issue of securities to the market, the Government is required to disclose certain information to the market. This information provides prospective investors with insight into the fiscal performance of the government and the economic performance of the country, which enables them to make an informed investment decision. An investor's assessment of a government should include an examination of the country's level of outstanding debt in particular, outstanding debt to GDP and debt interest payments to current Government revenue. Such ratios and data provide some indication of the country's ability to meet current and future debt as well as interest payments.

16. What are the costs to the investor when purchasing a security?

If the bid is successful the investor must pay the principal cost of the bond or discounted cost of T-Bill, plus the commission to the broker. The commission charged will vary by broker, as each broker calculates the commission according to their requirement. Please seek advice from one of the licensed brokers to determine the commission charge. If the bid is not successful then there are no fees incurred by the potential investor.

17. How do the various issues fit with my investment strategy?

The variety of issues (i.e. 91 day T-bills, 1-year, 5-year, and 10-year bonds) allows the investor to satisfy short, medium, and long-term investment objectives. An investor may look to the RGSM if seeking an investment vehicle to help with the purchase of a home or automobile in the near future, or tuition for the children when they go to school, or to supplement a retirement plan.

18. Who will regulate Governments participation in the RGSM?

Regulation of the activities of the issuers (Governments) is the responsibility of the Regional Debt Coordinating Committee (RDCC) which comprises the Financial Secretaries/Directors in the Ministries of Finance of each member country. The Governor of the ECCB, or his designate, is an ex-officio member of this Committee.

19. How can I get more information about the market?

An investor may obtain additional information about the Regional Government Securities Market through the Fiscal Agent (ECCB), Treasury Department of the respective government, the intermediaries established in the market as well as Eastern Caribbean Securities Exchange website, www.ecseonline.com.