



Central Bank of Nigeria

**GUIDELINES FOR THE USE OF AMCON BONDS IN CBN
OPERATIONS**

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I. Introduction

The CBN currently conducts operations under the Standing Lending Facility for overnight transactions, and for terms up to 90 days using term repurchase (repo) transactions. Under these facilities the eligible collateral is; CBN Bills, FGN Treasury Bills and FGN Treasury Bonds.

The purpose of this guideline is to outline the terms and conditions under which Government guaranteed zero-coupon bonds issued by the Asset Management Corporation of Nigeria (AMCON) can be used in the current CBN operations. The existing operations using CBN and FGN securities are unchanged, but are under review in light of the recently issued Nigerian Global Master repurchase Agreement (MRA).

II. Eligibility and Limits

The CBN will accept *all* AMCON bonds as collateral in its operations from Money Market Dealers.

III. Pricing

In the absence of reliable secondary market yields the CBN will use an equivalent modified duration FGN bond yield in determining the yield (and accordingly the price) of AMCON bonds. Initially, no liquidity premium will be added to the FGN bond yield but when AMCON bonds are fully traded then actual yields may indicate that a premium or discount could be appropriate.

The CBN will undertake the following steps in determining the amount to be lent:

1. Establishing the equivalent modified duration bond yield,
2. Calculate the resulting price for the zero-coupon bond (for the given settlement date),
3. Apply a haircut of 5 percent haircut (i.e. price / 1.05) for repos of less than 30 days, and of 10 percent (i.e. price/1.10) for repos between 31 and 90 days.

The haircut is applied to compensate the CBN for the risk that the value of securities could fall during the period of the repo. The longer the repo, the greater the risk that the value of the securities could fall during the period of the transaction; hence the justification for a higher haircut for repos longer than 30 days.

The amount to be repaid at maturity of the repo is calculated on the basis of, the amount lent, the applicable repo rate and the numbers of days of the repo.

IV. Initiation and Settlement

A bank must submit a request to Central Securities Clearing System Ltd (CSCS) for it to transfer the security from the account of the bank to the account of the CBN. The bank will in turn provide to the CBN, a copy of the confirmation that the securities have been

transferred. This confirmation must be provided to the Market Liquidity Management Office in CBN Lagos, in line with current deadlines.

Based on the above stated pricing, the discounted price will be credited to the bank's account at the CBN.

At maturity of the repo, the bank's account at the CBN will be debited with the repayment amount and securities will be credited to the bank's account at the CSCS.

V. Example

An institution wishes to raise funds on February 4, 2011 through a 24-day repo of N5,000,000,000 zero-coupon AMCON bonds at the CBN rate of 9.50 percent.

Settlement date:	February 4, 2011
Coupon:	0 %
Maturity date:	December 30, 2013
Nominal value:	N 5,000,000,000
Yield on equivalent FGN bond:	10.78 %
Price / 100	73.663
Market Value:	3,683,150,000.00
Haircut	= 1.05

$$\begin{aligned} \text{Amount to be discounted (repaid)} &= 3,683,150,000.00 / 1.05 \\ &= 3,507,761,905.00 \end{aligned}$$

$$\begin{aligned} \text{Amount to be lent} &= 3,507,761,905.00 - (3,507,761,905.00 * .0950 * 24/365) \\ &= 3,485,850,405.98 \end{aligned}$$



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