



# **Deposit Auction Arrangement**

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## **Procedures for the Deposit Auction Arrangement**

### **I. Introduction**

As part of its initial steps towards the Monetary Policy Reforms, the Bank introduced the “Deposit Auction Arrangement (DAA)” in September 2008, a short term liquidity management instrument.

The instrument serves as a convenient means for commercial banks to invest their excess liquidity with the Bank and earn a return on idle funds. The Bank uses the DAA as a fine tuning instrument to absorb excess liquidity levels within the banking system as part of its reserve money targeting framework.

Thus, by being able to decide on the composition of deposits and rates to accept at each auction, the Bank has the benefit of steering the interest rate spread which aids in the chronological development of the yield curve. With the latter being an important step in establishing a fully functioning secondary market and in the long term, financial market.

### **II. Terms of the Auction**

#### **a. Eligibility**

Only banks licensed to conduct domestic banking business in Seychelles shall be the authorised participants in the auction. Banks must be in a ‘generally sound financial condition’ and must not have any existing arrangement under the Emergency Loan Facility (ELF).

Participation is entirely on a voluntary basis.

#### **b. Schedule**

Given that the instrument is an open-market operation instrument used primarily to control the level of excess reserves banks keep at the Central Bank, it will only be used as and when the need arises, without any pre-determined schedule. Banks will be informed of the intention of the Central Bank to open an auction through an Auction Announcement, via email.

#### **c. Maturity**

Maturity for a particular auction will be determined on the basis of the liquidity stance of the Bank at the time of the intervention. These shall be in multiples of seven (7) and be no greater

than three (3) months or ninety-one (91) days. The Bank will state in its announcement the maturity (maturities) on offer in a particular auction.

To benefit the short term liquidity conditions, the Bank reserves the right to close or suspend any existing duration and/or offer other new maturity terms.

**d. Interest Determination**

Consistent with the new Monetary Policy Framework adopted in September 2008 the interest rate will be, as per standard protocol in open-market operations, determined through the auction process, using a variable rate tender system. Hence, banks will be rewarded at the submitted auction bid rate. If however the Bank sees the need to instead use a single price auction, this will be stated in the Auction Announcement.

In exceptional cases where the Bank feels the need to influence the interest rates, it may decide to fix the interest rates on any or all offered maturities. The rates may be fixed at any rate and may be determined from a previous auction conducted on the same day of a market instrument of identical maturity.

**e. Limit**

No limit will be set on the aggregate amount a bank can bid for in the facility. However, banks should ensure that the aggregate volume of tender will not result in non-compliance with the statutory reserve requirements.

**III. Procedures**

**a. Announcement**

The Bank will issue an announcement, via email prior to the opening of the auction window. This will specify the terms and conditions of the auction and will contain the following;

- A reference number of the Auction, for example DAA20090509,
- Date of the Auction, for example May 9, 2009,
- Maturity period(s) (days): for example seven (7) days
- Type of Auction: for example Multiple price Auction
- Method of allotment, for example Single Rate per Maturity Period per Bank
- Auction Window Start Time: for example 09:00 hours
- Auction Window Closing Time: for example 10:00 hours

The Bank may also include either of the following;

- An Auction Amount irrespective of maturity terms, for example SR100 million
- The offered interest rate(s) by maturity should it be decided to have a fixed interest rate tender, for example 4.50% on 42 days, 4.25% on 28 days

**b. Bidding**

Participants will be provided with a soft copy of the DAA Bid table, which must be completed for submission by email to omo@cbs.sc. The table will require the following information;

- Bid Amount
- Bid Rate, when applicable (expressed as an annual percentage rate to two decimal points)
- The name of an authorised personnel

Only requests with the bank's email extensions will be accepted and furthermore, requests must be confirmed via telephone. In the event that emails are not working, bids may be submitted via facsimile (+248 224502) or hand delivered. This will require two authorised signatories and official stamp details.

Only bids submitted within the auction window timeframe and meeting the information requirements for submission will be considered in the allocation process. Submitted bids shall be irrevocable, representing firm commitments of the eligible participants. At the outset, banks will be allowed to place one bid per maturity period.

**c. Auction Awards and Notification**

Once the auction window has been closed, the Market Operations Unit (MOU) of the Bank will process the bids for submission to the Monetary Operations Committee (MOC). The MOC will meet immediately after to review and assess the bids for allotment.

When applicable, allotment priority shall be given to the lowest bid rate through successively higher rates until the Offering Amount is met. When necessary, bids at the highest accepted interest rate will be prorated. The Bank has the right to accept or reject part, all or any of the bids received and is not required to provide any reason for doing so.

Notification of approved and rejected bids will be sent to participants instantly following allotment via email or other means in exceptional circumstances, stating the amount approved as well as the rate. The Bank will publish the Weighted Average DAA Rate for the auctioned maturity period(s) on the CBS website on the auction date. In the event of a uniform rate auction, this rate will instead be published.

**d. Settlement**

Following the notification, Banking Services of the Bank will debit the commercial banks' demand deposit accounts kept at the Bank (accounts 15XXs) by the amount as awarded in the auction and credit their respective DAA accounts. Each bank should ensure that it has sufficient funds in its demand deposit account for the transfer.

**e. Maturity and Remuneration**

Upon maturity, the participating banks will have their demand deposit accounts at the Central Bank credited with the principal amount plus interest as stated in the notification.

**IV. Exceptional Buy-Back Option**

In exceptional cases, the Bank will buy-back the instrument with no penalty being charged. That is, only in an emergency case, as approved by the MOC, can a commercial bank be allowed to call prematurely on the fixed deposit.

**V. Penalties**

In the event that the Bank establishes arbitrage undertakings by banks on the facilities in operation, the institution in question will be penalised by decisions taken by the Board.

In the case of insufficient funds for settlement a penalty as decided by the MOC will be applicable.

**VI. Other Provisions**

The Bank is not responsible for, among other things, technical or any other failures that prevent a participant from receiving an announcement, participating in an auction, making any communication with respect to a bid or receiving auction outcome results.

The Bank is not responsible for any delays, errors or omissions, including any errors in determining the auction results, except for its own delays and/or errors or omissions.

The Bank reserves the right to amend any of the above provisions to meet the overall objective of its monetary policy stance.