

**Royal Government of Bhutan  
Ministry of Finance**



**RULES AND REGULATIONS  
FOR  
ISSUANCE OF GOVERNMENT BOND**

**June 2020**

## Contents

<b>1. Title and Commencement</b>	<b>1</b>
<b>2. Authority to Issue</b>	<b>1</b>
<b>3. Administration</b>	<b>1</b>
<b>4. Application</b>	<b>1</b>
<b>5. Eligibility</b>	<b>1</b>
<b>6. Issuance Calendar</b>	<b>2</b>
<b>7. Auction Rules</b>	<b>2</b>
<b>7.1 Invitation for Tender</b> .....	<b>2</b>
<b>7.2 Submission of tenders</b> .....	<b>2</b>
<b>7.3 Bid Size</b> .....	<b>2</b>
<b>7.4 Auction method</b> .....	<b>2</b>
<b>7.5 Notification of the award</b> .....	<b>2</b>
<b>7.6 Settlement</b> .....	<b>3</b>
<b>7.7 Result Announcement</b> .....	<b>3</b>
<b>8. Public Subscription Rules</b>	<b>3</b>
<b>8.1 Invitation to subscribe</b> .....	<b>3</b>
<b>8.2 Timing</b> .....	<b>3</b>
<b>8.3 Application for subscription</b> .....	<b>3</b>
<b>8.4 Allotment</b> .....	<b>3</b>
<b>8.5 Settlement</b> .....	<b>4</b>
<b>9. Cancellation of Auction or Subscription Allocation</b>	<b>4</b>
<b>10. Correction or resubmission of application</b>	<b>4</b>
<b>11. Government Bond Certificate</b>	<b>4</b>
<b>12. Payment of Coupon and Redemption</b>	<b>4</b>
<b>12.1 Coupon payment</b> .....	<b>4</b>
<b>12.2 Redemption</b> .....	<b>4</b>
<b>13. Tax</b>	<b>5</b>
<b>14. Listing of Government Bonds</b>	<b>5</b>
<b>15. Grievance Redressal Mechanism</b>	<b>5</b>
<b>Glossary of Terms</b>	<b>6</b>
<b>Annexures</b>	<b>8</b>
<b>Annexure I: Issuance Calendar</b> .....	<b>8</b>
<b>Annexure-II: Invitation for Tender (Term Sheet)</b> .....	<b>8</b>
<b>Annexure III: BID FORM</b> .....	<b>9</b>
<b>Annexure IV: Auction Result</b> .....	<b>10</b>
<b>Annexure V: Invitation for Subscription (Term Sheet)</b> .....	<b>11</b>
<b>Annexure VI: Subscription Application Form</b> .....	<b>12</b>

## Foreword

Till now the Government has been raising much of its financing requirements through external concessional borrowings from bilateral and multilateral development banks. This has benefited the Government in maintaining its cost of financing low and sustainable, thereby minimizing the burden on future generations.

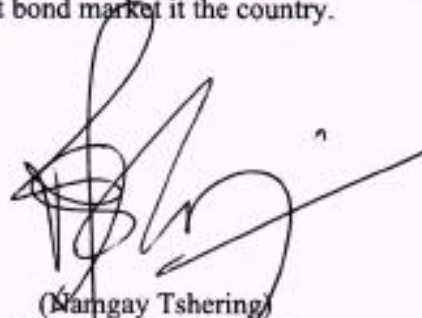
However, as Bhutan graduates from the group of LDC to lower middle-income country in 2023, the access to concessional financing from external sources will be limited. Therefore, the Government will have to raise financing at market rates from domestic and international market to fund its development projects and programs.

The issuance of bond is one of the conventional methods of raising finance from the market, for which a robust Rules and Regulations on bond issuance will be critical. Therefore, the "Rules and Regulations for Issuance of Government Bond 2020" is timely, and will go a long way in developing a dynamic bond market in the country.

The Rules and Regulation provides a broad framework for the primary issuance of Government Bond in the domestic bond market. In particular, the Rules and Regulations lays out procedures for auction and subscription of the bond, the settlement, coupon payment, and grievance mechanisms. This is expected to help both the Government(issuer) and the investors for a smooth primary issuance process.

With the adoption of this Rules and Regulation, the Government plans to issue long-term bond on a regular basis to help develop domestic bond market. Regular issuance of various maturity bonds will help create a benchmark yield curve, which will serve as pricing reference for corporate and private bond issuances. In addition, the long-term bond issuance by the Government is will provide opportunities to investors with long-term liabilities to invest in long-term assets, helping to strengthen their Asset Liability Management.

The Ministry of finance is hopeful that Rules and Regulation would enable successful issuance of Government Bond, and benefit investors in meeting their long-term investment needs, ultimately helping to build a vibrant bond market in the country.



(Namgay Tshering)  
**FINANCE MINISTER**



## **1. Title and Commencement**

This rules and regulations shall be called, “The Rules and Regulations for Issuance of Government Bond 2020”, and shall come into force on the date of public notification issued by the Ministry of Finance.

## **2. Authority to Issue**

The Public Finance Act (amended 2012) 2007 authorizes the Government to raise loans through the following provisions:

Section 125: The Minister of Finance may raise a loan from any person, organization, or Government, either within or outside Bhutan.

Section 126: The Minister of Finance may borrow money for the following purposes only:

- (a) To finance budget deficits;
- (b) To refinance maturing debt or a loan paid before the redemption date;
- (c) To maintain credit balances in the bank accounts and on-lending to state enterprise and other legal entities;
- (d) Or any other purpose approved by the Lhengye Zhungtshog.

Section 127: The authority of the Minister of Finance to under Section 125 shall include the authority to borrow money by way of the issue of public securities such as bills, *bonds* or commercial paper.

## **3. Administration**

The Royal Monetary Authority (RMA), as the fiscal agent of the Royal Government of Bhutan, shall administer the primary issuance of Government Bonds.

## **4. Application**

This Rules and Regulations shall apply to primary issuance of Government Bonds through Public Offerings only, and shall not apply to issuance through Private Placement.

## **5. Eligibility**

Following are eligible for the purchase of Government Bonds:

- a) Bhutanese citizens; and

- b) Firms, companies, corporate bodies, institutions, trusts and NGOs incorporated/registered under the existing laws of the Kingdom of Bhutan.

## **6. Issuance Calendar**

The Ministry of Finance shall publish Government Bonds Issuance Calendar on its website. The calendar shall contain information on the issuance date, tenors, and the tentative amount, in the format provided as annexure I.

## **7. Auction Rules**

### **7.1 Invitation for Tender**

The RMA, upon the approval of MoF, shall issue tender notice through public announcement at least 10 days before the issue date. The issuance notice shall include the Term Sheet of the issuance (annexure II)

### **7.2 Submission of tenders**

Tender shall be submitted using the bid-form provided as annexure-III.

The investor shall submit separate bid forms for each maturity; however, the bids for different maturity must be submitted in one envelope.

The bidders shall maintain sufficient fund balance in their account from the submission bids till the allotment and authorize RMA to debit their account for settlement if the bid is successful.

### **7.3 Bid Size**

The minimum bid size and the multiples in which the bid should be submitted shall be specified in the Term Sheet.

### **7.4 Auction method**

The Government bond may be allotted through a multiple-price or a uniform-price auction method, which shall be specified in the Term Sheet provided during the auction announcement.

### **7.5 Notification of the award**

The RMA shall notify on the acceptance or rejection of the bid to each applicant

as soon as the allotment is complete.

## **7.6 Settlement**

Successful bidders shall settle for the allotment within one day after the issue date (T+1). RMA shall settle the issue by debiting the successful bidder's account and crediting the Government's Budget Fund Account.

## **7.7 Result Announcement**

The RMA shall announce the auction results on its website on the same day of the auction. The announcement shall contain the following general information (annexure IV):

1. Tenor
2. Volume of bids received
3. Bid accepted and allotted
4. Cut-off price/yield

The announcement shall not include any information that may identify an individual bidder.

## **8. Public Subscription Rules**

Under public subscription method, the Government will offer for sale of a specified volume of bonds at a coupon rate determined by the Government.

### **8.1 Invitation to subscribe**

The RMA shall offer for public subscription of the Government Bond through announcement in the public media. The announcement shall include a Term Sheet (annexure V) of the issuance.

### **8.2 Timing**

The bond shall be opened for subscription for 15 days after the issuance announcement date.

### **8.3 Application for subscription**

The eligible investors shall apply for subscription using the application form (annexure-V) along with the subscription amount.

### **8.4 Allotment**

The bond shall be allotted on pro-rata or equivalent allocation method, which shall be specified in the Term Sheet for the issuance.

The allotment shall be undertaken within three days after the subscription closing date, and the allotment shall be confirmed to the applicants on the same day of the allotment.

### **8.5 Settlement**

The amount deposited with the application shall be used for settlement of the Government Bonds. The deposits of unsuccessful applicants shall be refunded within three working days of settlement without any interest.

## **9. Cancellation of Auction or Subscription Allocation**

The RMA in consultation with the Government may, at any time after the announcement of the issuance notice, but before settlement, cancel the auction or allocation, in which event the RMA shall inform the public.

## **10. Correction or resubmission of application**

The correction or resubmission of application once submitted shall not be accepted.

## **11. Government Bond Certificate**

The Government Bonds shall be maintained in a dematerialized form in the RSEBL's Central Depository System.

## **12. Payment of Coupon and Redemption**

### **12.1 Coupon payment**

The number of coupon payments in a year shall be specified in the Term Sheet provided during the issuance announcement.

The day-count convention for calculation of coupon shall be 30/360 days basis.

The MoF shall credit the coupon amount into the bondholder's account on the coupon payment date. If the coupon payment date does not fall on a business day, the payment shall be made on the next business day without any additional interest.

### **12.2 Redemption**

The redemption shall be on maturity date specified in the Term Sheet provided during the public announcement of the issue. If the maturity date does not fall on a business day, the redemption proceeds shall be paid on the next business day.



The face value of the Bond plus the last coupon shall be paid into the Bond holders account maintained with any of the banks in Bhutan, as per the instructions provided during the application.

### **13. Tax**

The provisions of the Tax Laws in force in Bhutan will be applicable for the purpose of assessing and determining the liability of the investor or holder of the Government Bonds.

### **14. Listing of Government Bonds**

Government Bonds issued to the public through auction and public subscription shall be listed on the Royal Securities Exchange of Bhutan Limited.

The transactions in the secondary market shall be as per the RSEBL's *Rules and Regulations Governing the Official Listing of Securities and Rules of the Exchange*.

### **15. Grievance Redressal Mechanism**

Any grievances related to Government Bonds shall be notified in writing to RMA/MoF.

## **Glossary of Terms**

**Application:** Application means the application to purchase the Government Bond.

**Auction:** Sale of Government Bond through an open tender

**Bid:** It is an offer to purchase a stated par amount of Government Bond in an auction

**Business Day:** A day not being Saturday, Sunday or a public holiday in Bhutan as declared by the Government.

**Coupon rate:** It is an annual percentage rate of interest paid on the face value of a specific issue of the Government Bond.

**Coupon payment:** is the Ngultrum interest payments payable periodically until maturity.

**Face Value:** The Principal, nominal or par value amount of a Government Bond on which coupon interest payments are calculated.

**Issue Date:** The date specified in the issuance announcement on which Government Bond is issued.

**Maturity date:** The date on which a Government Bond becomes due and payable, and ceases to earn interest.

**Multiple-price auction:** The auction method in which each successful bidder pays the price equivalent to the price that it bid.

**Minimum to Purchase/Bid:** It is the smallest amount of a Government Bond that may be purchased/bid for an issuance.

**Multiple to Purchase/Bid:** It means the smallest addition amount of a bond that may be purchased/bid for an issuance.

**Uniform-price auction:** The auction method in which all successful bidders pay the same price regardless of the price they each bid.

**Offering amount:** Total face value Government Bond that is offered to the public for purchase through auction, or subscription if sale is not through auction, as specified in the issuance announcement.

**Private Placement:** Direct issue of Government bond by the government to particular investors, at the Government's sole discretion.

**Settlement:** The final and complete payment by investors who receive an allotment for Government Bond and the delivery of the Bonds.

**Settlement Amount:** The total face value of the Bonds awarded, less any discount amount, and plus any premium amount.

**Settlement Date:** The date of payment for the Bond issued. The interest on the Government Bond purchased will start accruing from the settlement date.

## Annexures

### Annexure I: Issuance Calendar

Announcement Date	Auction Date	Issuance Date	Tenor	Maturity Date

### Annexure-II: Invitation for Tender (Term Sheet)

The Royal Government of Bhutan, invites bids for Treasury Bonds (T-Bonds) from eligible Bhutanese individuals and entities registered in the Kingdom of Bhutan.

The following are the details of the issue:

- Issuer**
- Issue Amount**
- Tenor**
- Face Value**
- Minimum Subscription Amount**
- Multiples**
- Maturity Date**
- Coupon Payment frequency**
- First Coupon Payment Date**
- Day count convention**
- Final Date and Time for Bid Submission**
- Allotment**
- Auction Method**
- Settlement Date**

Those interest are requested to submit the application to ..... The application form for the subscription can be obtained from the MoF website ([www.mof.gov.bt](http://www.mof.gov.bt)).

**Annexure III: Government Bond Bid Form**

Governor  
Royal Monetary Authority  
Thimphu

**Date:**

Subject: Bid for Government Bond

Sir/Madam:

Pursuant to public notification for Government Bond issuance dated ...../...../....., I/We tender for the Government Bond as specified in the table below, and authorize the RMA to debit my/our account number.....with.....(name of the bank) with the price of successful bids:

<b>Series no.</b>	<b>Tenor</b>	<b>Face value amount sought (in multiples mentioned in term sheet)</b>	<b>Quoted price/ yield expressed as a percentage (%)</b>
GB2019/07/001			

I/We..... hereby authorize RMA to verify my/our account and put a lien on my/our account from ...../...../..... to ...../...../.....

Name.....

Signature.....

Date:

.....

The form should be officially stamped

**Annexure IV: Auction Result**

RMA is pleased to announce result of the Government bond auction held on ....., as follows:

<b>Tenors</b>			
<b>Maturity Dates</b>			
<b>Total Bid Received</b>			
<b>Total bid accepted and allotted.</b>			
<b>Average Yield (if auctioned using multiple price method)</b>  <b>Or</b> <b>Cut-off Price/yield (if auctioned using uniform-price auction method)</b>			

**Annexure V: Invitation for Subscription (Term Sheet)**

The Ministry of Finance, the Royal Government of Bhutan, invites application for subscription of Government Bonds. The terms of the Bond is given below:

<b>Issuer</b>	:
<b>Issue Amount</b>	:
<b>Tenor</b>	:
<b>Face Value</b>	:
<b>Coupon/Interest Rate</b>	:
<b>Minimum Subscription Amount</b>	:
<b>Multiples</b>	:
<b>Maturity Date</b>	:
<b>Coupon Payment frequency</b>	:
<b>First Coupon Payment Date</b>	:
<b>Day count convention</b>	:
<b>Opening Date</b>	:
<b>Closing Date</b>	:
<b>Allotment Date</b>	:
<b>Allotment Method</b>	:
<b>Settlement Date</b>	:

This Bond Issuance is fully backed by the faith and credit of the Royal Government of Bhutan.

Rules and Regulations governing the Government Bond Issuance can be assessed from the MoF’s website, [www.mof.gov.bt](http://www.mof.gov.bt)

For any clarifications, please contact the following officials at MoF:

1. Ms/Mr.....[Mobile #: .....                      Email:.....]
2. Ms/Mr.....[Mobile #: .....                      Email:..... ]

**Annexure VI: Subscription Application Form**

**1. Name of the Applicant**.....

**2. Applicants CID No**..... **Tax Payer Number (TPN)**.....

**2. Applicant(s) Status:** Individual/Propriety [ ], Partnership/Company[ ], Institute/Organization [ ], Others[ ], Please specify:.....

**3. Mode of Subscription** [ ] Cash [ ] Cheque/DD [ ] Electronic Transfer

	No. of Bonds Applied For	Cheque/Demand Draft No.	Dated
(In Figures)			
(In Words)			

**Amount Remitted (in figures)**.....

**(In words)**.....

**Bank Particulars for Payment of Coupon/Redemption**

- Account Holder Name:.....
- Account Number:.....
- Bank Name:.....
- Account Type: Saving Account [ ] Current Account[ ]

**Full Address of the Applicant**

<b>Present Address</b>	<b>Permanent Address</b>

**Declaration**

I/We the applicants of hereby declare that the information provided in this form is correct and true to the best of my/our knowledge.

Signature:

Official Seal:

Date:.....