



Treasury Bond Switch Auctions FAQs

1. What are Treasury Bonds?

- These are long term investment instruments that give the public an opportunity to invest with the Government.
- The investment opportunities are available in tenors of 3-, 5-, 10-, 15- and 20-years bonds.
- Investments in bonds earn a fixed interest called a coupon which the investor receives every 6 months.
- At the end of the investment period, the investor receives back the principal amount invested plus the final coupon payment.

2. How should I invest in Treasury Bonds?

All investors (individuals or corporate bodies) wishing to participate in the treasury bond transactions must be registered on the CSD (Central Securities Depository) System at Bank of Uganda. An investor registers by filling one CSD Account Opening Form, which is available on the BOU website and can as well be obtained from commercial banks. The form should then be delivered to a commercial bank that opens the CSD account at BOU on behalf of the customer. Upon completion of the registration process, applicants are now eligible to submit their orders via their commercial banks in the regular primary bond auctions (for uncompetitive bids) or in the secondary market.

3. Why should I invest in Treasury Bonds?

- They are safe and offer a steady stream of income over the investment period.
- They offer a competitive rate of return.
- They are credit/default risk-free instruments.
- A good saving mechanism requiring minimal starting amount of Ugx.100,000 only.
- Government bonds are very liquid as they can easily be sold in the secondary market at competitive prices.
- They can be pledged as collateral for borrowing from BOU supervised financial institutions.

4. Who can invest in Treasury Bonds?

- Residents or non-residents who have opened CSD accounts.
- The investors may be individuals, organizations, or corporates.
- For individuals, they must have attained the contractual age of 18 years.

5. Bank of Uganda (BOU) on behalf of Government plans to hold a Treasury Bond switch auction on February 8, 2023. What does this mean?

A bond switch is the exchange of a running bond (source bonds) maturing at a future date, with new bonds (destination bonds) of various maturity profiles. It is not a transaction aimed at raising new money but as a tool for efficient management and smoothing of the maturity profile of outstanding debt. In this regard, it creates high market liquidity, attracting potential buyers and sellers in the bond securities market thus minimizing price swings/volatility.

6. Which specific bond are you targeting?

The security targeted in the current switch is ISIN UG0000001244 11.000% maturing on 13-APRIL-2023.

7. Why is BOU carrying out a Treasury Bond switch auction?

In any bond market, it is ideal that the issuer of the bond spreads out repayment obligations. BOU is also mindful of the need for efficient management of liquidity in the domestic market. This Bond switch is therefore, primarily intended to restructure the maturity profile of existing bonds to a future date and is a welcome development in the efficient liquidity management strategy

8. Is this the first time this is happening?

No, it is not the first time. BOU has carried out bond switches before - the most recent ones on 6th January 2021 and on 9th February 2022.

9. How does one participate in a Treasury Bond switch auction?

In a bond switch auction only existing holders of that particular bond to be switched (source bond) are given the privilege through their commercial banks to voluntarily exchange part or the entire holding of that bond for another bond (destination bond) issued by the government.

10. What are the costs to the investor if any?

Since it is a barter exchange (between the government and investors) of one bond for another at existing market prices, there are no costs incurred by the bondholder.

11. What are the benefits of this transaction for the investors?

- By participating in the bond switch the investor is given an opportunity to benefit from coupon payments over an extended investment horizon.
- The investor also enjoys the privilege of extended investment holding in government bonds which are safe and provide a steady stream of income.
- Depending on the investor's preference, the switch will also offer an opportunity to stagger the investment holdings thus improving the investor's portfolio allocation strategy, across the desired tenors
- It reduces risk/chances that cash flows received later will earn less when reinvested.

12. What happens if I am a bond holder of the said Treasury Bond, but I don't want to participate in a Treasury Bond switch auction?

Bond holders who are not willing to participate in the switch will continue to receive their periodic coupons whenever they fall due as well as the principal plus the final coupon at the time of maturity.

It should be emphasized that participation in the bond switch auction is **voluntary**. The bond switch auction will only be offered to eligible holders of the source bond. The holders will be invited to voluntarily exchange part or their entire bond holding for another bond (destination bond), issued by the government.

13. What else do I need to know about the Treasury Bond switch auction?

Further details regarding the Treasury Bond Switching are available with commercial banks. A willing investor who qualifies to participate should contact a commercial bank of their choice for more information.