Department of Financial Institutions and Markets
Bangladesh Bank
Head Office, Dhaka

DFIM Circular Letter No.- 02 **Date: February 27, 2020**

Managing Director/Chief Executive Officer
All Financial Institutions in Bangladesh.

Dear Sir

Guidelines on Commercial Paper for Financial Institutions

With reference to the Circular No.-06 dated May 29, 2016 the "Guidelines on Commercial Paper for Financial Institutions" has been revised to introduce some best practices and to set standards that will facilitate financial institutions to perform efficiently regarding CP in a more organized way.

Instructions of DFIM Circular No.-06 dated May 29, 2016 hereby superseded by this circular. The instructions of this guideline shall come into effect immediately.

Yours sincerely,

(Mohammad Ahmed Ali)
General Manager
Phone: 9530178

Guidelines on Commercial Paper

For

Financial Institutions

February 2020

Department of Financial Institutions and Markets

Bangladesh Bank

1. Introduction:

Financial Institutions (FIs) operating in Bangladesh have some distinctive features than commercial banks. They are not allowed to receive demand deposits as well as term deposits of less than 3 months. So they badly need short-term fund. To meet this challenge FIs depend on high-cost bank borrowings and call money market. To diversify sources of short-term fund, FIs can collect fund directly from fixed income seekers through issuing Commercial Paper (CP). Besides, FIs may also act as Investor and Issuing & Paying Agent (IPA) of CP.

Bangladesh Bank (BB) has the statutory task of regulating and supervising the financial system of Bangladesh. This guideline is issued to provide a regulatory framework for FIs dealing with CP. These guidelines also serve to clarify the regulatory expectations on the risk management issues related to commercial paper.

2. Definitions:

For the purpose of these guidelines, unless the context otherwise states:

2.1. Commercial Paper (CP) is usually an unsecured promissory note which has an original maturity between a minimum of thirty days and a maximum of one year;

2.2. Issuing and Paying Agent (IPA) means an FI of other entity that delivers CPs to the investors against the proof of payment and at maturity repays the investors after receiving funds from the issuer;

2.3. Investor means a person/institution that purchases CPs;

2.4. External Credit Assessment Institution (ECAI) is a credit rating agency recognized by Bangladesh Bank;

2.5. Any CP if not repaid at the maturity, CP will be treated as past due/over due from the following day of the maturity date;

2.6. Total capital means the sum of paid-up capital and reserves.

3. Permissible activities for FIs :

FIs may act as an issuer or investor or IPA of CPs in the manner set forth in this guideline. However, FIs shall not provide any guarantee for CPs.

4. Instructions for FIs while Issuing CPs:

4.1. FIs shall follow the instructions regarding all related prudential policies/circulars/ guidelines issued by Bangladesh Bank and other regulatory authorities (if applicable) from time to time;

4.2. The paid up capital of FIs shall be BDT 1000 million or more or as set by BB from time to time. Capital Adequacy Ratio, Tier-1 and Tier-2 capital must be maintained in accordance with the requirement of ‘Capital Adequacy and Market Discipline (CAMD) guideline for FIs;

4.3. The aggregate amount of CP issued by any FI shall not exceed 30% of its total capital;

4.4. Credit Rating of the FI issuing CPs shall not be lower than rating grade "2" or equivalent for both "Short" and "Long" term;

4.5. Net profit (after tax) of FI shall be positive for last three (3) consecutive years as per audited balance sheet;

4.6. The combined zonal position in stress testing report must be at least in "Yellow Zone";

4.7. Composite CAMELS rating will be at least 3 (three) for the last 3 (three) consecutive half yearly reports. FIs must take necessary actions to improve their CAMELS rating or take proper actions to maintain the existing one;

4.8. Classification rate of loans and leases must be “10% or below” for last 3 (three) consecutive quarters;

4.9. FIs shall obtain prior approval from BB before issuing CP. They shall also obtain no objection certificate (NOC) from other regulatory authorities, if applicable.

5. Instructions for FIs while Investing in CPs

5.1. The total investment in CP of any FI shall not exceed 20% of its total capital. Moreover, no FI shall invest more than 10% of its total capital in a single company's CP;

5.2. The equity of the company, in which FIs intend to invest, shall not be less than BDT 300 million;

5.3. The debt-equity ratio of the company (other than FIs), in which FIs intend to invest, must be maximum 70:30 as per latest audited balance sheet;

5.4. The current ratio of the company (other than FIs), in which FIs shall invest, must be at least 1:1 as per latest audited balance sheet;

5.5. Credit Rating of the CP issuing company shall not be lower than rating grade "2" or equivalent for both "Short" and "Long" term;

5.6. The current status shown in the CIB report of the issuer company shall be ‘standard’ and have no track record of classified status for last 1 (one) year;

5.7. Net profit (after tax) of CP issuing company shall be positive for last 3 (three) consecutive years as per audited balance sheet;

5.8. FIs shall obtain and examine the following documents from the intending CP issuers:

a) A written request indicating the nature of support required along with board resolution;

b) Detailed company profile;

c) Comprehensive financial information including a projected cash flow statement;

d) The value and outstanding of CP already issued by the issuing company;

e) Total short-term liabilities with other FIs.

5.9. Accounting and reporting of investment in CPs should be in line with applicable standards and guidelines;

5.10. FIs can “Rollover” a CP maximum one time. Prior approval of BB shall be obtained by

FIs before “Rollover”. Such approval will require complying with all the applicable clauses.

5.11. FI’s investment in CP shall be considered as a ‘funded exposure’ to the issuing company;

5.12. FI shall maintain provision against outstanding balance of the defaulted CPs at the following rates:

a) If it is past due/overdue for 03 (three) months or beyond but less than 06 (six) months, will be classified as SS, keep 20% provision,

b) If it is past due/overdue for 06 (six) months or beyond but less than 09(nine) months, will be classified as DF, keep 50% provision,

c) If it is past due/overdue for 09 months or beyond, will be classified as BL, keep 100% provision.

5.13. FIs shall report to CIB regularly.

6. Instructions for FIs while acting as IPA

6.1. IPA must keep all the certified copies of original documents;

6.2. In the offering document, IPA shall make it clear to the investors that the respective CP is subject to credit and other related risks;

6.3. In the offering document, it shall be clearly stated that the payment will be made to the investors provided that the CP issuing company has made the funds available to IPA;

6.4. IPA is required to inform the prospective investors that in case of default, it will not be held responsible for seeking recovery from the CP issuing company or initiating any action against the CP issuing company on its own or on behalf of the investors;

6.5. If the CP issuing company fails to pay, partially or in full, the IPA shall be held responsible to notify the matter of such default to the investors without any delay;

6.6. The IPA shall distribute the funds received from the CP issuing company to the investors as per terms and conditions mentioned in offering document of CP and the underlying agreements if the issuer makes the partial payment;

6.7. IPA shall ensure that the issuer qualifies the terms and conditions as stipulated by regulators and the amount mobilized through issuance of CP is within the amount as approved by its Board of Directors;

6.8. IPA shall maintain the KYC (Know Your Customer) of the investor;

6.9. IPA shall verify all the documents submitted by the issuer;

6.10. IPA shall ensure that the issuer qualifies the terms and conditions as stipulated by regulators and the amount mobilized through issuance of CP is within the amount as approved by its Board of Directors;

6.11. IPA shall not invest in the respective CP.

7. Form of the Instrument, Mode of Issuance and Redemption

7.1. CP shall be issued in denominations of BDT 1 Million and multiples thereof;

7.2. (a) CP shall be issued for maturities between a minimum of 30 (thirty) days and a maximum of 1 (one) year from the date of issue, (b) The validity of credit rating shall be a minimum of 45 days from the date of issuance;

7.3. The investor shall pay the discounted value or face value to the account of the issuer;

7.4. On maturity of CP, the investor of the CP shall present the instrument for payment to the IPA and upon receiving it; the issuer shall release money to the account of investor(s).

8. Restrictions on CP Holdings

FIs shall not invest in any CP issued by the organization in which its directors or their affiliates have interest.

9. Reporting Requirement

9.1. FIs shall report the position of issuance and investment in CP "Quarterly" to Department of Financial Institutions and Markets (DFIM), BB as specified in Annexure A & B within 10th of the next month;

9.2. FIs shall report immediately, on occurrence, full particulars of defaults in repayment to DFIM, BB as specified in Annexure C.

Reporting Format

Annexure A

Name of FI

Quarterly Statement of Commercial Paper-1

(Issuance)

As on ------------------------------------

SL No.	Amount Issued	Date of Issue (DD/MM/YYYY)	Date of Expiry (DD/MM/YYYY)	Total Capital	Issuance as % of FI's Total Capital	Remarks (If any)
1	2	3	5	6	7	8
1						
2.						
3.						
Total						

[Authorized Signature]

Name & Seal

[Authorized Signature]

Name & Seal

Annexure B

Name of FI

Quarterly Statement of Commercial Paper-2

(Investment & IPA)

As on -----------------------------------

SL No.	Issuing company details					Nature of support	Size of the issue (Face Value)	Rate of Interest (%)	Amount Invested by FI	Investment as % of FI's Total Capital
	Name	Current Ratio	Debt-Equity Ratio	Credit Rating (Long-term, Short-term)	Credit Rating Validity					
1	2	3	4	5	6	7	8	9	10	11
1										
2										
3										
Total										

SL No.	Date of Issue (DD/MM/YYYY)	Date of Maturity (DD/MM/YYYY)	Present Status of the issue	Classification Status of CP	Existing facilities to the CP issuer (if any)		Remarks (If any)
					Funded	Non Funded	
	12	13	14	15	16	17	18
1							
2							
3							
Total							

[Authorized Signature]
Name & Seal

[Authorized Signature]
Name & Seal

Notes:

Column 5: BB equivalent Credit rating of the issuer as per Risk Based Capital Adequacy

Column 7: Please indicate using the following Code: Invest - (IN), Issuing & Paying Agent-(IPA),

Column 8: Total Face value of the respective CP.

Column 9: The interest rate of respective CP.

Column 10: Please put the value of total amount subscribed/purchased by the FI

Column 14: Please indicate following status of the issue:

- Redeemed
- Not Matured
- Defaulted
- Rolled over

Column 15: Please indicate following status of the issue:

- STD (Standard)
- SS (Sub Standard)
- DF (Defaulted)
- BL (Bad and Loss)

Annexure C

Name of FI

Statement of Commercial Paper-3

(Defaults on Repayment)

As on ------------------------------------

SL No.	Name of the issuer	Date of issue (DD/MM/YYYY)	Amount	Due date of repayment (DD/MM/YYYY)	Classification Status	Remarks
1	2	3	4	5	6	7

[Authorized Signature]
Name & Seal

[Authorized Signature]
Name & Seal