

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

DFIM Circular No.- 06

Date: May 29, 2016

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

Dear Sir,

Guidelines on Commercial Paper for Financial Institutions

Now-a-days Commercial Paper (CP) is emerging as a new money market instrument to corporate houses in Bangladesh and subsequently Financial Institutions along with banks are getting involved in CP in different ways. Considering these diversified roles, it is inevitable to issue some directives regarding the activities of FIs concerning CP. The "[Guidelines on Commercial Paper for Financial Institutions](#)" has been issued to set some standards that will facilitate Financial Institutions to perform different roles regarding CP in an organized way.

The instructions of the guidelines shall come into effect immediately.

Yours sincerely,



(Md. Shah Alam)
General Manager
Phone: 9530178

Guidelines on Commercial Paper for Financial Institutions

May 2016



DEPARTMENT OF FINANCIAL INSTITUTIONS AND MARKETS

BANGLADESH BANK

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1. Background

Generally the fixed-income securities are divided into two main categories. One is capital market security with comparatively longer maturity period and the other is money market security which includes all fixed income instruments that mature relatively in shorter period of time (maximum one year). Commercial Paper (CP) falls into the latter category. It is typically issued by large corporations and financing institutions to cover short-term receivables and meet short-term financial obligations. This short-term instrument is a viable alternative to retail fixed-income investors who are looking for a better rate of return on their money. CP usually refers to an unsecured short-term debt instrument issued by corporate at a discount from face value that reflects prevailing market interest rates.

CP was introduced over 100 years ago, when New York merchants began to sell their short-term obligations to dealers that acted as middlemen. These dealers would purchase the notes at a discount from their par value and then pass them on to banks or other investors. The borrower would then repay the investor an amount equal to the par value of the note. Consequently the Federal Reserve Bank began trading CP along with treasury bills from that time until World War II to control the level of monetary reserves circulating among banks. After the war, CP began to be issued by a growing number of companies, and eventually it became the premier debt instrument in the money market. Nowadays CP is becoming popular as one of the major sources of short-term financing all over the world. Accordingly it is emerging as popular short term funding instrument in this subcontinent also. India has been exercising CP as short-term money market instrument since 1990. The Securities and Exchange Commission of Pakistan has approved Regulations regarding CP in 2013.

2. Commencing of CP in Bangladesh

CP is emerging as a new money market instrument to corporate houses in Bangladesh and subsequently Financial Institutions¹ (FIs) along with commercial banks are getting involved in CP in different ways. Since there are no regulations regarding CP, FIs are doing their business in a scattered way.

FIs operating in Bangladesh contain some distinctive characteristics other than commercial banks. They are not allowed to receive demand deposit like banks and

¹ Financial Institutions refers to the institutions licensed under the Financial Institutions Act, 1993.

are not permitted to receive term deposits of less than 3 months. For this, they face difficulties to meet short-term demand for fund frequently.

In order to meet this shortage of fund, FIs depends on bank borrowings and call money market. They can reduce this dependency by collecting fund directly from fixed income seekers through issuing CP. Besides the above, FIs may also act as investor, guarantor and issuing & paying agent of CP. Considering these diversified roles it is inevitable to issue some directives for FIs concerning CP.

3. Legal Framework and Scope

The guidelines have been issued under section 18(chha) of Financial Institutions Act, 1993 in order to provide the legal framework and procedure regarding CP.

The guidelines shall be applicable to all FIs operating in Bangladesh licensed under Financial Institutions Act, 1993.

4. Definition of Commercial Paper (CP)

For the purpose of the guidelines, CP refers to a promissory note with a maturity of not less than 30 days and not more than 1 (one) year that is sold at a fixed rate of interest or discount from face value. To ensure the interest of the investors CP may be backed by guarantee.

5. Purpose of Issuance of CP

CP provides a convenient financing method because it allows issuers to avoid the difficulties and expenses of business loans. Issuance of CP will help to develop and broaden money market and will widen the option for investments. The purposes of issuance of CP are as follows:

- i. Having fund at a lower cost alternative to loans from bank/FI;
- ii. Eliminating the short term mismatch of assets and liabilities;
- iii. Bridge financing until longer term securities are sold or until money is expected to be received;
- iv. Taking the advantage of short term interest fluctuations in the market.

6. Eligibilities of FIs as Investor, Issuer, Guarantor and Issuing & Paying Agent (IPA)

FIs may act as issuer, investor, guarantor and IPA of CP. FIs shall have to follow specific terms and conditions for such distinctive roles.

6.1 Investor

The FIs shall comply the following terms and conditions while investing in CP-

- a. The total investment in CP of any FI shall not exceed 30% of its total capital. But no FI shall invest more than 10% of its total capital in a single company's CP;
- b. The current ratio of the company (other than FIs and Bank Company²), in which FIs shall invest, must be at least 1:1 as per latest audited balance sheet;
- c. The debt-equity ratio of the company, in which FIs intend to invest, must be maximum 70:30 as per latest audited balance sheet;
- d. The equity of the company, in which FIs intend to invest, shall not be less than BDT 300 million;
- e. FIs shall have to obtain post-facto approval from Bangladesh Bank³(BB). FIs shall apply to BB for such approval within 10 days after investing in CP;
- f. Credit rating of the issuer must be at least 03 for both 'Short' and 'Long' term rating, as per BB rating grade [Please refer to Guidelines on Risk Based Capital Adequacy (Revised Regulatory Capital Framework for banks in line with Basel III) vide BRPD Circular No.18, dated: December 21, 2014 and any subsequent changes of the said guidelines];
- g. Credit Information Report of the company, in which FIs shall invest, must be clean for last six months.

6.2 Issuer

The FIs shall comply the following terms and conditions while issuing CP-

- a. 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 Banking Company refers to a company as defined in the Bank Company Act, 1991(amended till 2013).

³ Bangladesh Bank refers to the Bank established under Bangladesh Order, 1972 (P.O. No. 127 of 1972)

- 2 capital must be maintained in accordance with the requirement of 'Capital Adequacy and Market Discipline (CAMD) guideline for FIs';
- b. The combined zonal position in stress testing report must be at least in yellow zone;
- c. Classification rate of loans and leases will be 5% or below;
- d. Composite CAMELS rating will be at least 3 for the last 3 consecutive half yearly report;
- e. The aggregate amount of CP issued by any FI shall not exceed 30% of its total capital;
- f. Credit rating of the issuer must be at least 03 for both 'Short' and 'Long' term rating as per BB rating grade [Please refer to Guidelines on Risk Based Capital Adequacy (Revised Regulatory Capital Framework for banks in line with Basel III) vide BRPD Circular No.18, dated: December 21, 2014 and any subsequent changes of the said guidelines];
- g. FIs shall obtain prior approval from BB before issuing CP. They shall also obtain no objection certificate from other regulatory authority (such as Bangladesh Securities and Exchange Commission, The Registrar of Joint Stock Companies and Firms etc.), if applicable.

6.3 Guarantor

FIs shall comply the following terms and conditions while providing guarantee against CP-

- a. They shall apply to BB in order to obtain post-facto approval within 10 days after providing such guarantee;
- b. The credit rating of the guarantor shall be at least equal to the issuer;
- c. The guarantor shall disclose to issuer its net worth and list of the companies to which it has provided similar guarantees;
- d. The guarantee to a single party by any FI shall be maximum 30% of its total capital. But total amount of such guarantee shall not exceed 100% of its total capital;
- e. Guarantee and its conditions offered by the guarantor shall be irrevocable.

Besides the above, as guarantor, FIs shall ensure the followings of the issuer-

- i. Credit Information Report of the issuer must be clean for the last six months;

- ii. The current ratio of the issuing company (other than FIs and Banking Company) must be at least 1:1 and debt-equity ratio will be maximum 70:30;
- iii. The equity of the issuing company shall not be less than BDT 300 million;
- iv. Credit rating of the issuer must be minimum 03 for both 'Long' and 'Short' term as per BB rating grade [Please refer to Guidelines on Risk Based Capital Adequacy (Revised Regulatory Capital Framework for banks in line with Basel III) vide BRPD Circular No.18, dated: December 21, 2014 and any subsequent changes of the said guidelines].

6.4 Issuing & Paying Agent (IPA)

All the FIs operating in Bangladesh may act as IPA of CP. As IPA, FIs shall follow all the duties and responsibilities laid down in the guidelines.

7. Duties and Responsibilities of FIs as Issuer and IPA

7.1 Issuer

- a. Issuer must disclose its latest financial position as per the standard market practice to the potential investors.
- b. Every issuer must appoint an IPA for issuing CP.
- c. Issuer shall ensure that the procedures for issuance of CP are strictly adhered to.

7.2 Issuing & Paying Agent (IPA)

- a. 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.
- b. IPA shall certify the investors that it has valid agreement with the issuer as specified in **Annexure C**.
- c. IPA shall verify all the documents submitted by the issuer.
- d. Certified copies of all documents shall be held in the custody of IPA.
- e. IPA shall maintain the KYC (Know Your Customer) of the investor.

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

8.1 Form

CP shall be issued in the form of a promissory note as specified in **Annexure A** or **B**.

8.2 Size and Denomination

CP shall be issued in denominations of BDT. 10,00,000 and multiples thereof.

8.3 Tenor

- 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.

8.4 Payment by Investor

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

8.5 Redemption

On maturity of CP, the investor of the CP shall present the instrument for payment to the IPA and upon receipt it the issuer shall release money to the account of investor.

9. Restrictions on Holdings of CP

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

10. Reporting Requirement

- a. FIs shall report the position of investment, issuance and guarantee of CP quarterly to Department of Financial Institutions and Markets (DFIM), BB as specified in **Annexure D**;
- b. IPA shall report immediately, on occurrence, full particulars of defaults in repayment to DFIM, BB as specified in **Annexure E**.

Annexure A

Proforma of Interest Bearing CP

[To be stamped as per the applicable rate in force in Bangladesh]

(NAME OF THE ISSUING COMPANY/INSTITUTION)

SERIAL NO. -----

1. Issued at : (Place).

2. Date of Issue : _____.

3. Date of Maturity : _____.

(If such date happens to fall on a holiday, payment shall be made on the immediate preceding working day)

4. Date of interest payment: _____.

5. For value received:

- i. (Name of the Issuing Company/Institution) hereby promises to pay (Name of the Investor) the principal amount of BDT. (taka in words) on maturity date upon presentation and surrender of this CP to (Name of the IPA) on above mentioned maturity date.
- ii. (Name of the Issuing Company/Institution) also promises to pay interest @-----% of face value of CP to (Name of the Investor). The accrued interest will be paid on (monthly/quarterly/half yearly/yearly) basis and the amount of each payment is BDT. (taka in words).

For and on behalf of:

(Name of the Issuing Company/Institution)

(Authorised Signatory/Signatories)

All endorsements upon this commercial paper must be clean and distinct. Each endorsement should be written within the space allotted.

Annexure B

Proforma of Discounted CP

[To be stamped as per the applicable
rate in force in Bangladesh]

(NAME OF THE ISSUING COMPANY/INSTITUTION)

SERIAL NO.

1. Issued at : (Place)
2. Date of Issue : _____
3. Date of Maturity: _____.

(If such date happens to fall on a holiday, payment shall be made on the immediate preceding working day)

4. For value received:

(Name of the Issuing Company/Institution) hereby promises to pay (Name of the Investor) BDT. _____ (taka in words) upon presentation and surrender of this CP to (Name of the IPA) on above mentioned maturity date.

For and on behalf of:

(Name of the Issuing Company/Institution)

(Authorised Signatory/Signatories)

All endorsements upon this commercial paper must be clean and distinct. Each endorsement should be written within the space allotted.

Annexure C

Certificate of Issuing & Paying Agent (IPA)

1. We have a valid IPA agreement with the (Name of Issuing company/Institution)
2. We have verified the documents (board resolution, certificate issued by Credit Rating Agency, guarantor's certificate etc.) submitted by [Name of the Issuing Company/Institution] and certify that the documents are in order. Certified copies of all original documents are held in our custody.
3. We also hereby certify that the signatures of the executants of the attached Commercial Paper bearing Sr. No. _____ dated _____ for BDT. _____ (Taka in words) tally with the specimen signatures filed by [*Name of the issuing Company/Institution*].

(Authorized Signatory/Signatories)

(Name and address of Issuing & Paying Agent)

Place :

Date :

Annexure D

Reporting Format

a. Investment in Commercial Paper

SL No.	Name of Issuing Company	Date of Issue	Date of Expiry	Amount Invested (in BDT)	Total investment as % of Total Capital	Remarks
1.						
2.						
3.						

b. Issuance of Commercial Paper

SL No.	Amount Issued (in BDT)	Date of Issue	Date of Expiry	% of Total Capital	Total Issuance as % of Total Capital	Remarks
1.						
2.						
3.						

c. Guarantee against Commercial Paper

SL No.	Name of the Company against which Guarantee is Issued	Date of Issue	Date of Expiry	Guarantee as % of Total Capital	Total amount of Guarantee as % of Total Capital	Remarks
1.						
2.						
3.						

[Authorized Signatory/Signatories]

Annexure E

Details of Defaults on Repayment

Name of the issuer	Date of issue	Amount (in BDT.)	Due date of repayment	Whether the CP enjoyed a guarantee facility	If so, the name of the entity providing the facility indicated at Col. (5)	Whether the facility at Col (5) has been honored and payment made.	Remarks
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)

[Authorized Signatory/Signatories]