

Investment in Government Securities (MTBs/PIBs) Through PKR Roshan Digital Account (RDA)

Frequently Ask Questions (FAQs)

1. What are Government securities instruments?

Government of Pakistan (GoP) securities are PKR denominated securities wherein Principal as well as interest is guaranteed by Government of Pakistan. These securities are available with short and long term tenors. There is no limit on the maximum investment that can be made in them. These instruments pay investors periodic fixed/floating returns until their maturity date. At maturity, investors are repaid the principal amount (Face Value). These instruments are issued by GoP.

2. What fixed income (GoP) instruments does MCB Bank Limited offer to its RDA clients?

- Market Treasury Bills (MTBs)
- Pakistan Investment Bonds (PIBs) Fixed & Floating

3. Market Treasury Bills (MTBs)?

Market Treasury bills or T-Bills are zero coupon instruments issued by the GoP. Salient features are:

- Issued in tenors of 3, 6 and 12 months.
- Denominated in multiples of PKR 5,000.
- Scrip-less instrument.
- Issued at discounted price and mature at face value.
- Actively traded in secondary market.
- Redemption of the face value upon maturity is guaranteed by GoP.
- Auction conducted by SBP on a fortnightly basis.

4. Pakistan Investment Bonds (PIBs) Fixed & Floating?

PIBs are long-term bonds issued by the GoP. Salient features are:

- Issued in tenors of 2, 3, 5, 7, 10, 15, 20 years
- Denominated in multiples of PKR 100,000
- PIBs of different tenors bear different coupon rates which are payable semi-annually fixed/floating & quarterly floating
- Scrip less instrument
- Actively traded in secondary market
- Redemption of the face value upon maturity is guaranteed by GoP
- Auction schedule and targets for fresh PIBs issuance announced by SBP on a quarterly basis

5. Are these securities issued / guaranteed by MCB Bank Limited?

MCB Bank is the distributor of these products on behalf of SBP as a Primary Dealer.

6. Are there any risks in Investing in Government Securities?

Investment in Government Securities has one of the lowest levels or negligible risks if the investment is held to maturity. For example, there is no risk of loss of principal and interest if held to maturity; there is usually no liquidity risk because of the large size and depth of the secondary market in Government Securities (especially MTBs). For MTBs, the reinvestment risk is usually very low in normal conditions; and loss of purchasing power risks; (due to inflation) is relatively much lesser than in bank deposits. At the same time, it should be noted that the value of all fixed income securities, including Government Securities vary inversely with interest rates. Thus, if interest rates rise the value of the security will decline and if interest rate falls the value of the security will increase. While this is usually not a problem if the Government security is held up to its full-term/ maturity; it can become a risk if the government security is sold before maturity. This risk can occur especially on longer term bonds however, there are ways to mitigate / minimize such potential risks.

7. Why do government securities have low Credit Risk?

Government securities have low credit risk compared to securities issued by any other corporations/financial institutions because they are backed by the full faith and credit of the GoP.

8. What is Face Value/Par Value?

Face Value/Par Value is the amount of money a bondholder will get back on the maturity of the bond.

9. What is a coupon?

The amount the bond holder will receive as interest payments/ profit payments and is always calculated on Face Value/Par Value.

10. What is accrued interest/profit?

This is the holding period profit that accrues to the holder of the security for the time period of holding. In other words, this is the return (interest/profit) that is due to the holder of the security. In case of PIBs, accrued profit is paid by buyer to seller along with Price of security. Upon coupon claim/maturity SBP pays total period profit.

11. What is Yield to Maturity (YTM)?

Yield to Maturity (YTM) – Actual rate of return that an investor would receive on a security before deduction of withholding tax, if he/she bought it at a given price and held it to maturity. This is the internal rate of return on investment. Yield rate is different from coupon rate and takes into account premium / discount paid on security over/under its face value.

12. Is there a minimum investment amount for Pakistan Investment Bonds (PIBs), Market Treasury Bills (MTBs)?

- The minimum investment amount in T-Bill PKR 5,000/
- The minimum investment amount in PIB PKR 100,000/

13. How can I invest in the Government of Pakistan Securities?

In order to invest in Govt. securities, you should have a bank account in PKR with MCB Bank: RDA PKR account holders will be eligible to invest in MTBs and PIBs-Fixed/Floater.

14. What is an Investor Portfolio Securities (IPS) Account?

IPS Accounts are custodial accounts maintained for buying and digital holding of Government Securities (PIBs, T-Bills) or any other such security issued by State Bank of Pakistan from time to time on behalf of GoP. Individuals with a PKR denominated account with MCB Bank Limited are eligible to open an IPS account. All scrip-less securities are reflected as debit or credit to IPS account. In case of customer purchase, the security will reflect as a credit to the IPS account.

15. Can I get Government security in physical form?

No MTBs/PIBs are scrip-less securities and are reflected as credit to IPS account maintained with MCB Bank.

16. How can a customer open Investor Portfolio Securities (IPS) Account with MCB Bank?

Customers are required to digitally fill IPS account opening form “**Form A**” and submitting. The IPS account number or discrepancies if any will be communicated to you via email.

17. How can a customer purchase GoP securities?

Option 1 - Customers can participate in the scheduled SBP auction for T-Bills and PIBs through competitive bid (CB) / non-competitive bid (NCB) also known as the Primary Market. Participation is done by digitally filling and submitting “**Form B**” 2 days prior to the auction date. The result is announced by SBP post auction. If the bid is accepted by SBP (CB / NCB), MCB Bank will debit the customer’s relevant account. However the funds will be blocked 2 days prior to the issuance date i.e. on the bid submission date.

For reviewing SBP auctions calendar use below links:

MTBs: <https://www.sbp.org.pk/ecodata/auction-treasurybills.pdf>

PIBs: <https://www.sbp.org.pk/ecodata/Auction-Bond.pdf>

Option 2 - Customers can purchase the relevant GoP security at the prevailing rate (Market offer yield) up to PKR 25,000,000 (Twenty five million) also known as the Secondary Market. Indicative yields of relevant GoP securities are available on our web portal. Deals up to PKR 25,000,000 can be done by digitally filling and submitting “**Form C**” which may be done at the prevailing published rate if submitted by 2:00 pm (PST) on the same day. Request for Secondary Market deals with amounts higher than PKR 25,000,000 can be done by digitally filling and submitting “**Form C**”.

18. What would happen in case of death of a customer/ GoP securities holder?

In case of death of the customer, payment of principal amount and profit will be paid to the legal heirs of the deceased in accordance with a valid succession certificate or equivalent document issued in this regard.

19. What happens if there is any irregular activity/investment detected in the account or certificate?

In case the customer violates the rules and regulations, the investment in GoP securities will be redeemed immediately and any benefit already paid may be adjusted.

20. Can the GoP Securities be transferred or pledged?

The GoP securities can be transferred to IPS account of another customer within Pakistan only. It can also be pledged as an eligible security for raising financing in Pakistan subject to such conditions as may be prescribed by SBP / MCB Bank.

21. Are the GoP securities subject to Zakat deduction?

GoP securities are exempted from zakat deduction as per current rules.

22. For Non-Resident Pakistanis are there any taxes applicable on PIBs and MTBs?

The investment is subject to the deduction of withholding tax as per prevailing tax laws for Non-Resident Pakistanis.

Narration	Requirement	Current Applicable Withholding Tax Rates
Investment if made in Govt. Securities through RDA (saving/current) PKR Account only.	No requirement	10%

23. Withholding tax calculation on MTBs?

Withholding tax will be calculated between par value & SBP issuance price. If customers purchase MTBs from the secondary market, tax will be paid by a customer for that whole tenor instead of paying tax for only holding period.

24. Withholding tax calculation on PIBs Coupon?

Withholding tax will be calculated from last coupon date to next coupon date. If customer purchases PIBs from the secondary, tax will be paid by a customer for that coupon period instead of paying tax for only holding period.

25. What are the charges for purchasing fixed income instruments through MCB?

Please see the SOBCs for details of latest charges.

Glossary

Primary Market-Non Competitive Bids (NCB)

- Avenue to participate in the Primary auction for individual investors.
- NCB will be accepted at weighted average yield of that particular auction by SBP.
- Bids to be submitted to MCB two days prior to the auction date.
- Maximum size of non-competitive bids for an investor will be 0.50% of the pre-announced auction target or PKR 25.0M, whichever is higher (subject to availability of funds in PKR account with MCB Bank).
- Submission of multiple bids in a single tenor of one customer/entity would be treated as void.

Competitive Bidding

- Investors can participate in the Auction through Competitive Bids.
- Investors have the flexibility to decide the yield, where they would like to bid for the security.
- No limit on participation amount (subject to availability of funds in PKR account with MCB Bank).
- SBP can reject bids at their discretion and as a result customer's bid may not be accepted.

IPS Account Opening

Customer will digitally fill and submit IPS account opening **"Form A"**.

Pricing / Quotation

Bank will provide applicable rates on Web portal. These rates will be applicable for transactions on a business day up to 2 PM PST. After cut-off time these rates may be treated as tentative rates and MCB will communicate the actual rate with validity. The deal will be executed after the agreement of the rate between the customer and the bank.

Funds Arrangement

Customer must ensure that sufficient funds are available in account on day of deal in case of purchase with Bank (secondary market deal). In case of participation in non-competitive & competitive bidding funds must be available 2 days prior to Action date. Account will be debited on settlement date, next business day from auction date.

Purchase of Instrument

The investment amount will be debited from the customer account, and the instrument will be reflected in the customer's IPS account maintained with the MCB Bank Limited as credit entry to account.



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Key Features of the Market Treasury Bills (MTBs)

- Issuer: Government of Pakistan
- Issued in accordance with Public Debt Act 1944
- Denomination: Issued in multiples of PKR 5,000
- Tenors: 3, 6 and 12 months
- Issued at discount
- MTBs are issued in a scrip less (without physical) form
- Auction schedule: Regular auctions of MTBs are held on fortnightly basis. A quarterly schedule is published by SBP at the beginning of each quarter
- Income Tax: Income Tax will be deducted as per existing law
- Zakat: No compulsory deduction of Zakat at source
- Custodian: Ultimate custodian is the SBP, but banks maintain these securities in the Investor Portfolio of Securities (IPS) Accounts on behalf of their customers
- Investor can find out the latest auction yields of 3, 6 and 12-month tenors in the auction at <http://www.sbp.org.pk/ecodata/tb.pdf>

Investment Procedure

Investor Portfolio Securities (IPS) Account: The Investor Portfolio of Securities (IPS) account is necessary for investing in MTBs. Primary Dealers/Scheduled Banks hold MTBs in IPS accounts on behalf of their customers. Customer is the legal owner of the MTB held in the IPS account with banks in accordance with instructions of SBP.

How to Open an IPS Account: All Primary Dealers (PDs) of Government Securities, designated by State Bank of Pakistan for each financial year are required to offer these accounts to their customers. Any person or entity, which has PKR denominated account with a primary dealer or any scheduled bank offering this facility, is entitled to open an IPS account.

Investors are advised to contact the treasury department of their bank or their respective branch for the detailed guidelines for investments in the MTBs. IPS account opening branch will provide activity statements of IPS account to each investor on a quarterly basis. Charges levied by banks on IPS accounts, are explicitly mentioned in their respective schedule of charges.

How to buy MTBs: After opening the IPS account, investor can instruct its bank to buy the MTBs either from the primary market through “non-competitive bidding” process in regular auctions conducted by the SBP or from the secondary market.

Primary Market: The non-competitive bidding process allows investor to take part in the primary auction of the MTB through Primary Dealers. The quantum size of non-competitive bids for one investor is linked with auction target i.e. 0.25% of the pre-announced auction target or PKR 25 million, whichever is higher subject to a maximum of PKR 250 million. The non-competitive bids are sent to SBP separately from the normal bids before commencement of primary auction time with the name and amount of investors without quoting price. The bids of any investor can be rejected if the investor submits more than one bid for a single tenor. These bids are accepted at weighted average yield in each tenor as decided in the primary auction. In case of over subscription, non-competitive bids are accepted in order of lowest to highest amount or on pro-rata basis.

Secondary Market: The investors can also buy the MTBs through the secondary market by instructing

its bank to buy the MTB through the secondary market. The prices and yields of MTBs and other Government securities in the secondary market are available at <http://www.sbp.org.pk/ecodata/CumulativeTrdVol.pdf>

Redemption: MTBs are only redeemable at maturity. However, any investor can sell MTBs in secondary market through its bank. If an investor holds the MTB till maturity, the PKR value equivalent to face value of the MTB will be credited to the account of the investor through its bank on the maturity of MTB.

Investment by Non-Resident Investors: Like the local investors, foreign investors can invest in the MTBs by opening an IPS account. Foreign investors are also required to open a Special Convertible Rupee Account (SCRA) with any Authorized Dealer in Pakistan. The SCRA is opened by foreigners in Pakistani Rupee. The amounts are credited to these accounts after conversion of foreign currency into Pakistani Rupee, for the purpose of investment in Government Securities. Balance's in these accounts can be sent any time outside the country after conversion into foreign currency.

Benefits

- **Guaranteed Repayment:** The repayment of face value is guaranteed by the Government of Pakistan.
- **Investment for short term:** The MTBs are available in short-term maturity periods of 3, 6 and 12 months.
- **Higher Returns:** These securities provide higher returns to the investor, as compared to most bank deposits.
- **Accepted as Collateral:** MTBs are acceptable by the banks as collateral.
- **Liquidity:** Highly liquid and tradable in the secondary market.
- **Easy Process of Investment:** Local and foreign investors can easily invest in the MTBs by opening an IPS Account in any bank offering these services. In addition to IPS account, foreign investors also have to open a Special Convertible Rupee Account (SCRA) with any Authorized Dealer in Pakistan.

Primary Dealers

Scheduled banks, DFIs, Investment Banks and listed brokerage houses are eligible to become a Primary Dealer (PD) of Government Securities. Only PDs can participate in the auction of MTBs conducted by State Bank of Pakistan. For each financial year, State Bank of Pakistan designates the financial institutions to work as primary dealer of Government Securities. The list of primary dealers for FY2012-13 is as follows:

1.	JS Bank Limited http://www.jsbl.com/
2.	Habib Bank Limited http://www.hbl.com
3.	Faysal Bank Limited http://www.faysalbank.com/
4.	NIB Bank Limited http://www.nibpk.com/
5.	National Bank of Pakistan http://www.nbp.com.pk
6.	Bank Alfalah Limited http://www.bankalfalah.com/
7.	Pak Oman Investment Co. Ltd http://www.pakoman.com/
8.	United Bank Limited http://www.ubl.com.pk/
9.	Citibank NA http://www.citi.com/pakistan/
10.	MCB Bank Limited http://www.mcb.com.pk/
11.	Standard Chartered Bank (Pakistan) Limited http://www.standardchartered.com.pk/



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Key Features of the Pakistan Investment Bonds (PIBs)

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- Denomination: Issued in multiples of PKR 100,000
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- Auction schedule: Quarterly schedule published by SBP at the beginning of each quarter
- Income Tax: Income Tax will be deducted as per existing law
- Zakat: No compulsory deduction of Zakat at source
- Custodian: Ultimate custodian is the State Bank of Pakistan (SBP), but banks maintain these securities in the Investor Portfolio of Securities (IPS) Accounts on behalf of their customers
- Investor can find out the latest auction yields of 3, 5, 10 and 20 years PIBs at <http://www.sbp.org.pk/ecodata/Pakinvestbonds.pdf>

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securities in the secondary market are available at <http://www.sbp.org.pk/ecodata/CumulativeTrdVol.pdf>

Profit Payment: The profit on investment in PIBs is paid in the form of Coupon payments. The coupon payments are paid at a fixed rate of face value of PIBs on semi-annual basis. The amount of profit will be credited to the account of investor through its bank.

Redemption: PIBs are only redeemable at maturity. However, any investor can sell PIBs in secondary market through its bank. If an investor holds the PIB till maturity, the PKR value equivalent to face value of the PIB will be credited to the account of the investor through its bank on the maturity of PIB.

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4.	NIB Bank Limited http://www.nibpk.com/
5.	National Bank of Pakistan http://www.nbp.com.pk
6.	Bank Alfalah Limited http://www.bankalfalah.com/
7.	Pak Oman Investment Co. Ltd http://www.pakoman.com/
8.	United Bank Limited http://www.ubl.com.pk/
9.	Citibank NA http://www.citi.com/pakistan/
10.	MCB Bank Limited http://www.mcb.com.pk/
11.	Standard Chartered Bank (Pakistan) Limited http://www.standardchartered.com.pk/