

FREQUENTLY ASKED QUESTIONS

What are Treasury Bills?

Treasury Bills (T-Bills) are brief financial instruments issued by the Central Bank of a country, on behalf of the Federal Government, as a means of securing short-term funds from the public to address temporary budgetary shortfalls. In Nigeria, the Central Bank of Nigeria (CBN) is responsible for issuing T-Bills, and they carry the full guarantee and support of the Federal Government.

How do Treasury Bills work?

Treasury Bills (T-Bills) are termed discount instruments because investors receive their interest upfront. This implies that the interest committed to a T-Bill is paid on the day the investment begins. For example, if a T-Bill offers a 10.0% annual rate, and an investor decides to invest N100,000, they only need to pay N90,000 at the outset. However, upon maturity, the investor receives the full-face value of N100,000. In this context, the amount at maturity (N100,000) is known as the face value, while the initial investment amount (N90,000) is referred to as the discount value. This structure allows investors to realize their returns immediately, distinguishing T-Bills as a form of investment with upfront interest payment.

Primary and Secondary Market for Treasury Bills

A T-Bill can be purchased either in a primary or secondary market. The primary market is when the investor buys directly from the CBN through a public auction carried out every fortnight while in the secondary market, an investor buys from an existing holder of a T-Bill. Hence, T-bills in the primary market can be bought only every two weeks while in the secondary market it can be bought every other day. The minimum amount that can be bought in the primary market is >N50.0m while in the secondary market an investor can invest as low as N1,000,000

What is a Tenor?

T-Bills are issued for specific time period usually 91-day (3 months), 182-day (6 months) and 364-day (one year) tenors in the primary market. The rates on T-Bills are quoted annually; as a result, an investor gets the full rate only if the tenor is up to 364-day. For instance, if the rate on a 182-day T-Bills is quoted at 10%, the investor effectively gets 5%. However, in the secondary market, T-Bills can be bought at irregular tenors ranging from 1-363 days.

What is a Treasury Bill Auction?

In the primary market, the CBN conducts T-Bills auction usually every fortnight and requests investors to quote the rates they are willing to pay on the different tenors of T-bills usually 91-day, 182-day and 364-day instruments. At the auction, the maximum rate at which the CBN is willing to sell is called the stop rate. Any investor that quotes below or at that rate gets the

amount quoted and at the individual rate and any investor that quotes above the stop rate is bided out.

What do I Benefit for Investing in Treasury Bills?

Treasury bills in Nigeria are guaranteed by the full faith of the Federal Government; Their interest income is exempt from state and local income taxes. They are highly liquid They do not have any call provisions. In times of declining interest rates T-Bill investors have the peace of mind of knowing exactly how long they can hold their securities plus the fact that T-Bills certificate can be used as collateral for Bank loans.

Can I sell before Maturity?

Yes, you can sell T- Bills before maturity. However, the price at which you sell depends on the prevailing interest rate.

Can I rollover my Treasury Bills investment?

Yes, you can rollover. However, this is not done automatically. Your account officer will notify you few days to the maturity of your investment requesting you to state if you desire that your investment be rolled over or paid into the bank account registered with Gresham Asset Management Limited.

What are the other benefits of Treasury Bills?

- It is a risk-free investment as it carries the guarantee of the Federal Government of Nigeria
- T-Bills are highly liquid instruments and can be used as collateral
- Liquidity-active secondary market for ease of entry and exit (though at a cost)
- It is a good source of steady stream of income
- T-Bills are good investments for people who wish to save

What is the Minimum Investment in T-Bills with Gresham?

Minimum investment is N1m