5 Deposit & debt securities

5.1 Learning objectives

After studying this text the learner should / should be able to:

- Describe the characteristics of non-negotiable deposit securities.
- Describe the characteristics of negotiable deposit securities.
- Describe the characteristics of non-marketable debt securities.
- Describe the characteristics of marketable debt securities.

5.2 Introduction

The borrowers in the money market (issuers of short term securities) can be split into the categories ultimate borrowers and financial intermediaries. Both these groups and the securities they issue are visible in the depiction of the money market presented in Figure 1.

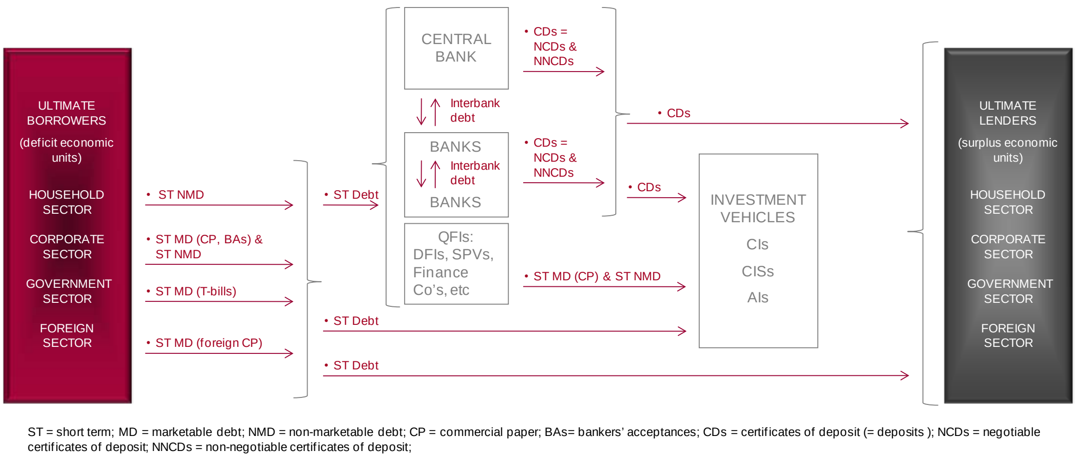


Figure 1: money market securities

The deposit-taking intermediaries are the central bank and the private sector banks. The latter finance their lending activities with capital, loans and deposits[39]. Deposits make up the vast majority of these three sources of funds. "Loans" are from other private sector banks and the central bank in the interbank market. The deposits taken in (= securities issued) by the banks are twofold:

- Deposits which are non-negotiable after issue, for which the depositors are issued non-negotiable certificates of deposit (NNCDs).
- Deposits which are negotiable after issue for which the depositors are issued negotiable certificates of deposit (NCDs).

Most central banks have liabilities in the form of:

- Bank notes and coins in circulation (i.e. in issue).
- Deposits (banks, government, foreign sector).
- Loans (foreign sector).
- Negotiable securities in issue.

Although these liabilities have different names, we refer to them all as deposit securities for the sake of convenience. The two that are of interest to us here because they are central to the money market are the first and the last. We refer to the last as *central bank securities.*

We discuss these and the private sector banks' deposit securities under the main heading *deposit securities*. The following is the order:

- Non-negotiable certificates of deposit (NNCDs).
- Negotiable certificates of deposit (NNCDs).
- Bank notes and coins in circulation.
- Central bank securities.

The ultimate borrowers borrow by the issue of short-term debt which is either marketable[40] debt (MD) or non-marketable debt (NMD). The household sector issues NMD only (such as an overdraft-facilitated loan from a bank). The corporate sector borrows in both forms, depending on size and/or rating by rating agencies. The different levels of government issue NMD (the smaller entities for example borrow from banks) and MD (the larger entities and the central governments) such as treasury bills.

In addition to the ultimate borrowers, there are a number of quasi-financial intermediaries (QFIs) that issue debt instruments. For example, finance companies and special purpose vehicles (SPVs – the vehicles created in securitisations) issue MD and NMD.

The foreign sector is able to borrow short-term in certain countries (that do not have exchange controls) by issuing foreign commercial paper (in the case of companies), i.e. marketable debt that is denominated in the currency of the foreign country. Debt instruments are covered here in the following order:

- Non-marketable debt.
- Bankers' acceptances.
- Promissory notes.
- Commercial paper.
- Foreign commercial paper.
- Treasury bills.

Before getting to the instruments of the money market, we need to say a little about money market interest rates.

5.3 Money market interest rates

As we have seen, interest rates have their genesis in the repo rate. This one-day or very short-term rate powerfully affects the one-day b2b IBM rate (because banks try and avoid central bank accommodation). The b2b IBM rate powerfully influences the one-day call money rate (the rate paid to depositors that have large one-day deposits). This rate in turn has a major impact on all other deposit rates.

Depositors with large (wholesale) deposits receive high rates relative to small (retail) depositors. The latter receive zero interest on certain bank products such as current accounts, and rates lower than wholesale depositors on other interest-bearing deposit accounts.

As we have seen, banks endeavour to maintain a healthy margin in order to maximise shareholder wealth (which is supposed to be tempered by competition between banks). Therefore bank lending rates are higher than deposit rates by some 2–4 percentage points in countries with efficient financial markets and higher in other more inefficient markets.

There is a major difference between NMD and MD in terms of the rate of interest paid. The benchmark money market rate that is applicable to NMD is the *prime overdraft rate* of the banks. As the name indicates the prime overdraft rate (usually shortened to *prime rate*) applies to prime clients, i.e. those clients that have an excellent record in terms of repaying bank loans. It is notable that quite often prime clients receive rates that are at, say, prime minus 2 percentage points.

The "exceptionally" prime clients are those clients that are able to issue marketable debt securities. These are the large corporations (that issue large-denomination marketable commercial paper, promissory notes and bankers' acceptances) and central government (that issues treasury bills). The rates on these instruments are substantially lower than prime rate and are related more to the repo rate and the b2b IBM rate.

5.4 Deposit securities

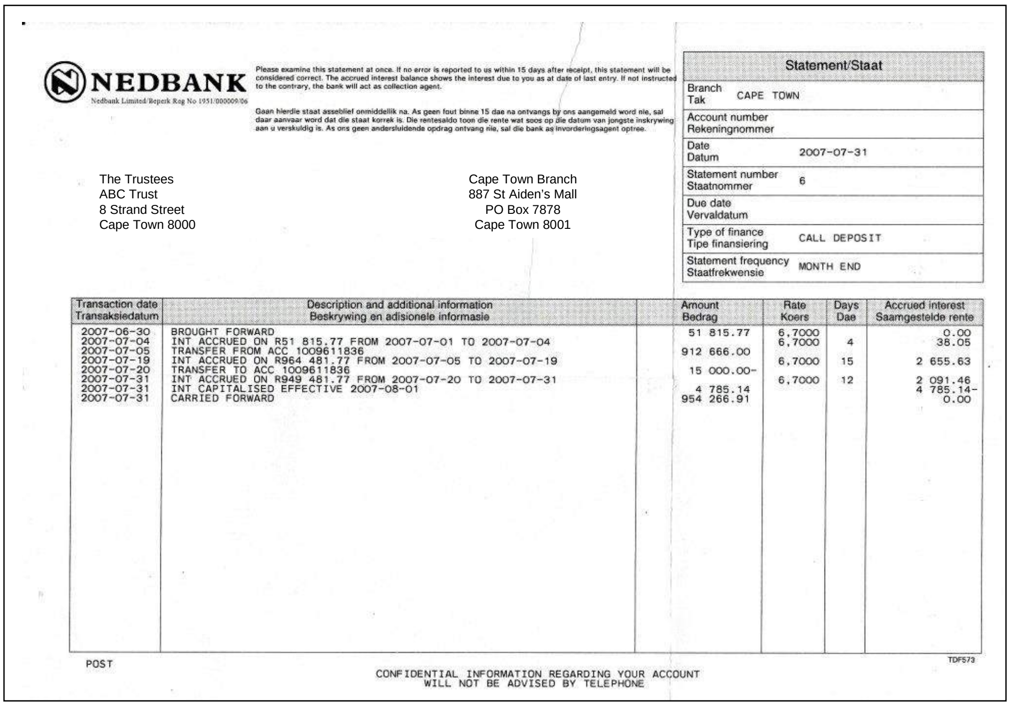
5.4.1 Non-negotiable certificates of deposit

As we have seen, banks take in deposits (borrow) and issue two categories of deposit certificates as evidence of these deposits: non-negotiable certificates of deposit (NNCDs) and negotiable certificates of deposit (NCDs). The former are in the majority by a large margin because most deposits are forthcoming from individuals or companies with small deposit balances.

A NNCD is thus a deposit receipt issued by a bank. The issuing bank undertakes to pay the amount of the deposit plus the interest on maturity date or at specified intervals (for example monthly).

A NNCD is (usually but does not have to be) a small-denomination deposit with a bank that is not negotiable, and there are many types of NNCDs, including:

- Current account deposits. These are deposits on accounts that are used for payments, i.e. the balances are withdrawable on demand by cheque or EFT[41]. In many countries banks do not pay interest on these accounts. In other countries these accounts earn interest if a certain minimum balance is maintained.
- Call deposits. These are one-day deposits that are rolled over at the behest of the depositor. These deposits are usually in large amounts and carry a relatively high rate of interest – that is related to the b2b IBM rate (see Box 1 for a South African example).
- Fixed-term deposits. These are usually smaller deposits that are fixed for certain periods chosen by the depositor. The rates on these deposits are usually fixed for the period.
- Notice deposits. These are also usually smaller deposits that are fixed for a term but are subject to a notice period of withdrawal. The rates on these deposits are usually fixed for the period.
- Savings deposits. These are usually small deposits that are withdrawable on demand. Because of this characteristic they usually earn a low interest rate.



NEDBANK
Nedbank Limited/Beperk Reg No 1951/000009/06

Please examine this statement at once. If no error is reported to us within 15 days after receipt, this statement will be considered correct. The accrued interest balance shows the interest due to you as at date of last entry. If not instructed to the contrary, the bank will act as collection agent.

Gaan hierdie staat asseblief onmiddellik na. As geen fout binne 15 dae na ontvangs by ons aangemeld word nie, sal daar aanvaar word dat die staat korrek is. Die rentesaldo toon die rente wat soos op die datum van jongste inskrywing aan u verskuldig is. As ons geen andersluidende opdrag ontvang nie, sal die bank as invorderingsagent optree.

The Trustees
ABC Trust
8 Strand Street
Cape Town 8000

Cape Town Branch
887 St Aiden's Mall
PO Box 7878
Cape Town 8001

Statement/Staat	
Branch / Tak	CAPE TOWN
Account number / Rekeningnommer	
Date / Datum	2007-07-31
Statement number / Staatnommer	6
Due date / Vervaldatum	
Type of finance / Tipe finansiering	CALL DEPOSIT
Statement frequency / Staatfrekwensie	MONTH END

Transaction date / Transaksiedatum	Description and additional information / Beskrywing en adisionele informasie	Amount / Bedrag	Rate / Koers	Days / Dae	Accrued interest / Saamgestelde rente
2007-06-30	BROUGHT FORWARD	51 815.77	6,7000		0.00
2007-07-04	INT ACCRUED ON R51 815.77 FROM 2007-07-01 TO 2007-07-04		6,7000	4	38.05
2007-07-05	TRANSFER FROM ACC 1009611836	912 666.00			
2007-07-19	INT ACCRUED ON R964 481.77 FROM 2007-07-05 TO 2007-07-19		6,7000	15	2 655.63
2007-07-20	TRANSFER TO ACC 1009611836	15 000.00-			
2007-07-31	INT ACCRUED ON R949 481.77 FROM 2007-07-20 TO 2007-07-31		6,7000	12	2 091.46
2007-07-31	INT CAPITALISED EFFECTIVE 2007-08-01	4 785.14			4 785.14-
2007-07-31	CARRIED FORWARD	954 266.91			0.00

POST TDF573

CONFIDENTIAL INFORMATION REGARDING YOUR ACCOUNT
WILL NOT BE ADVISED BY TELEPHONE

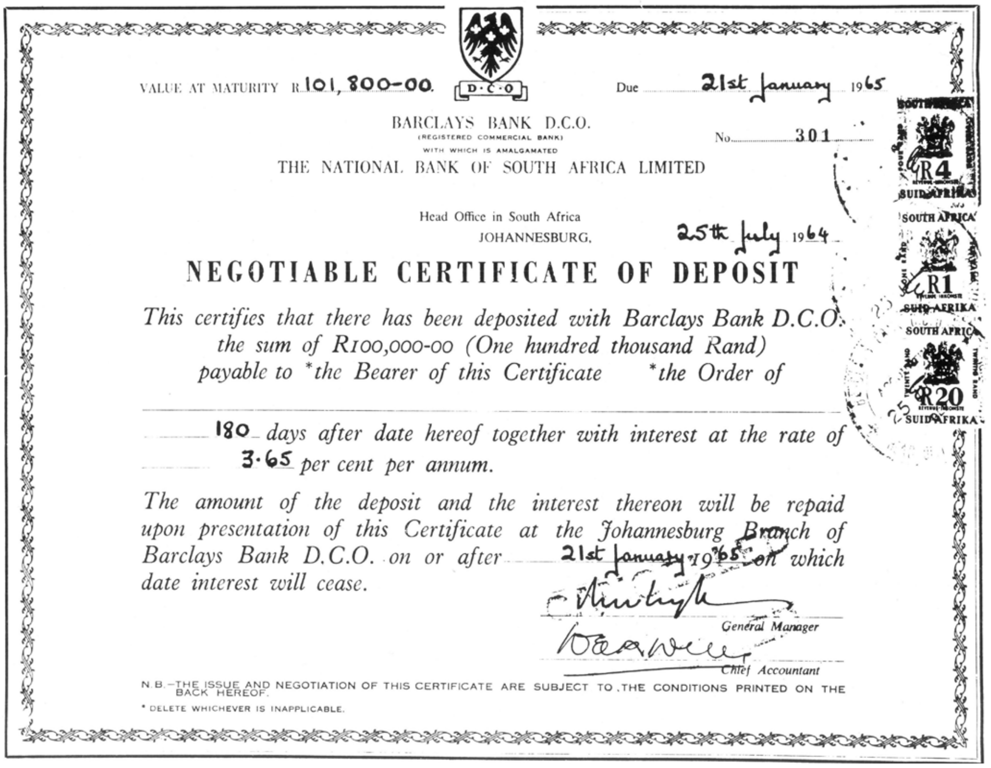
Box 1: example of a NNCDThe

An NNCD is usually evidenced by a physical certificate or monthly statement (which can be seen as a deposit certificate), such as the one in Box 1.

5.4.2 Negotiable certificates of deposit

A negotiable certificate of deposit (NCD) is a fixed deposit receipt issued by a bank that is negotiable in the secondary market that exists for such securities. The issuing bank undertakes to pay the amount of the deposit plus the interest on maturity date (in the case of short-term NCDs), or interest at specified intervals (usually six-monthly) in arrears and the deposit amount on maturity (in the case of long-term NCDs). An NCD certificate contains the following information:

- Name of issuing bank.
- Issue date.
- Maturity date.
- Amount of the deposit.
- Rate of interest per cent per annum.
- Maturity value (amount of the deposit plus interest) in the case of short-term NCDs.
- Interest dates (in the case of long-term NCDs).



VALUE AT MATURITY R 101,800-00. D·C·O Due 21st January 1965

BARCLAYS BANK D.C.O.
(REGISTERED COMMERCIAL BANK)
WITH WHICH IS AMALGAMATED
THE NATIONAL BANK OF SOUTH AFRICA LIMITED

No. 301

Head Office in South Africa
JOHANNESBURG. 25th July 1964

NEGOTIABLE CERTIFICATE OF DEPOSIT

*This certifies that there has been deposited with Barclays Bank D.C.O. the sum of R100,000-00 (One hundred thousand Rand) payable to *the Bearer of this Certificate *the Order of*

180 *days after date hereof together with interest at the rate of* 3·65 *per cent per annum.*

The amount of the deposit and the interest thereon will be repaid upon presentation of this Certificate at the Johannesburg Branch of Barclays Bank D.C.O. on or after 21st January 1965 *on which date interest will cease.*

General Manager

Chief Accountant

N.B.—THE ISSUE AND NEGOTIATION OF THIS CERTIFICATE ARE SUBJECT TO THE CONDITIONS PRINTED ON THE BACK HEREOF.
* DELETE WHICHEVER IS INAPPLICABLE.

Box 2: example of a NCD

NCDs are issued with the purpose of attracting large-denomination deposits. The attraction of the NCD lies therein that it is negotiable, a characteristic demanded by large depositors. Being negotiable, NCDs are issued at lower rates that equivalent term fixed deposits.

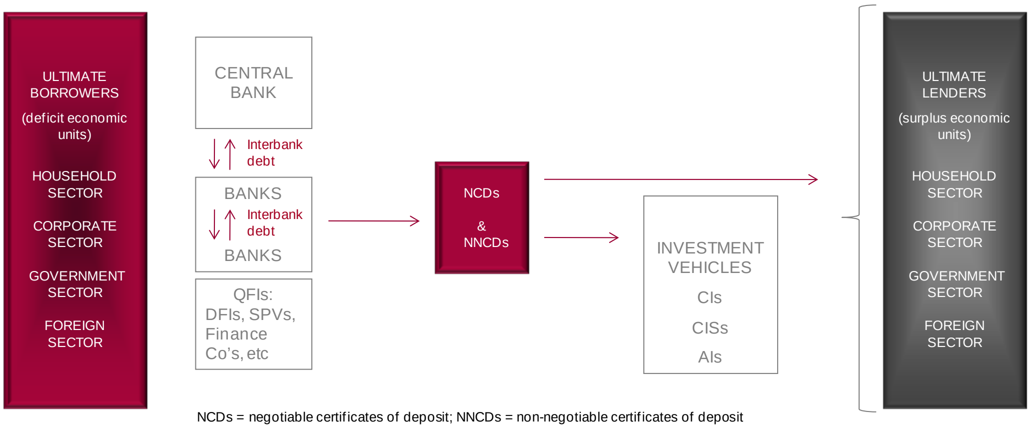


Figure 2: NNCDsand NCDsin the financial system

NCDs are usually issued for periods less than a year, but longer term NCDs are issued (up to 5 years in many countries). NCDs are usually issued in bearer form (i.e. not payable to any particular person), and only occasionally in the name of the depositor. In this case the endorsement of the investor is required for transfer.

The place of NNCDs and NCDs in the financial system is depicted in Figure 2. These instruments are mainly held by the investment vehicles and the ultimate lenders.

5.4.3 Bank notes and coins in circulation

Box 3: example of an bank note

The currency of each country is the *monetary unit* of that country. In most countries the monetary unit is established under the statute that governs the operations of the central bank. The central bank statute also usually determines the *legal tender* of the country. This is its bank notes and coins, which are usually issued by the central bank itself.

Bank notes and coins are also securities in that they represent claims on the issuer, the central bank (in most countries). Bank notes and coins (being marketable) can be exchanged for goods and services or for other securities such as NNCDs. Securities in the form of bank notes and coins do not pay interest. They are much like an interest free deposit – at the central bank.

The place of bank notes and coins in the financial system is depicted in Figure 3. These securities are mainly held by the banks (in ATMs and teller tills), and the household sector (for expenditure on consumables). They are also held by the foreign sector if the currency is in great demand (such as USD / EUR / GBP in inflation-plagued and unstable countries) or if the tourism sector is large.

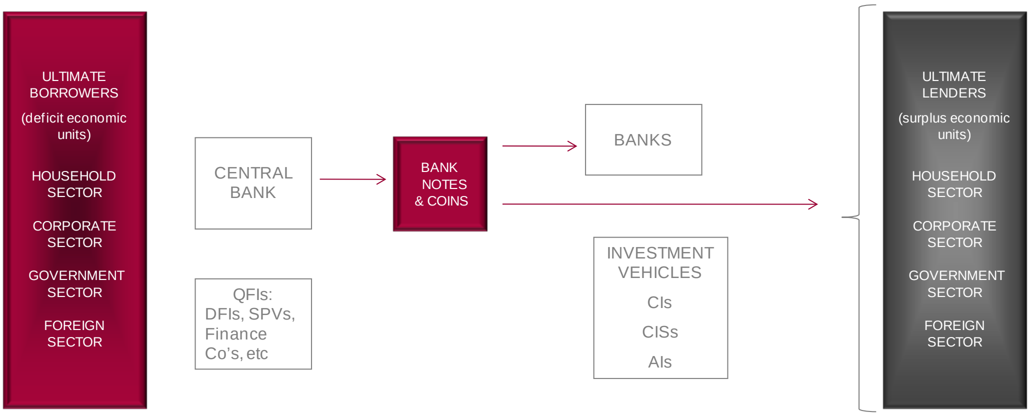


Figure 3: bank notes and coins in the financial system

The amount of legal tender in circulation differs vastly between countries. In countries with stable banks legal tender makes up 2–3% of the total money stock.

5.4.4 Central bank securities

Central bank securities are "deposit" securities issued by central banks solely for the purpose of the implementation of monetary policy. When a central bank issues LCC100 million, money market liquidity deteriorates by LCC100 million.

These securities are issued by most central banks, such as:

- Bank of Botswana: Bank of Botswana certificates (BOB certificates)
- South Africa: South African Reserve Bank debentures (SARB debentures)
- Malawi: Reserve Bank of Malawi bills (RBM bills)
- Ghana: Bank of Ghana bills (BOG bills).

They are usually issued on a discount basis, but some are of the interest add-on variety (as the example in Box 4). The term to maturity of these securities varies according to monetary policy requirements but they are usually of short duration (and always less than a year).


DEBENTURE

SOUTH AFRICAN RESERVE BANK

15509

Certificate Number

2001/02/14

Redemption Date

Issued in terms of section 10 (1)(f) of the South African Reserve Bank Act, 1989 (Act No. 90 of 1989)

R 5 039 583.56

This debenture is issued subject to the terms and conditions as stated on the reverse hereof which terms and conditions are deemed to form part of the certificate.

Interest accrues from 2001/01/17 at a rate of 10.32

THIS IS TO CERTIFY that this debenture has been issued to BAAMBOU BANK LTD

at a nominal value of R 5 000 000.00

Signed at Pretoria on the 17 day of JANUARY 2001

on behalf and by authority of the South African Reserve Bank.

CANCELLED GEKANSELLEER

AUTHORISED SIGNATORY

Box 4: example of a central bank security

The place of central bank securities in the financial system is depicted in Figure 4. These securities are usually held by the banks, retirement funds and specialist securities unit trusts (money market unit trusts).

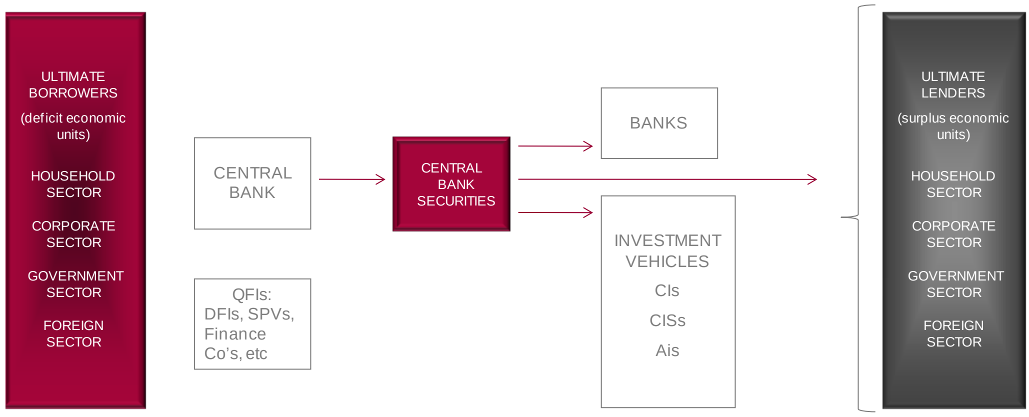


Figure 4: central bank securities in the financial system

5.4.5 Variations on the theme

There are a number of variations on the theme, such as the numerous quasi-financial institutions (QFIs) in existence in many countries that issue deposit-type securities. For example, in Ghana rural finance companies issued rural finance bills in the past. In South Africa the Development Bank of Southern Africa issues short-term bridging bonds from time to time. Similarly, the Land Bank in South Africa issues Land Bank bills, promissory notes and call bonds on a permanent basis.

5.5 Debt securities

5.5.1 Non-marketable debt

The ultimate borrowers that issue debt and the type of debt [non-marketable debt (NMD) and/or marketable debt (MD)] they issue are as follows:

- Household sector: NMD only.
- Corporate sector: MD and NMD, but mainly the latter.
- Government sector: central government: MD; other levels of government: MD and NMD, but mainly the latter.
- Foreign sector: MD only.

As indicated by the heading, here we cover only the NMD. There are a number of forms of non-marketable debt issued by the ultimate borrowers. The main ones are:

- utilised overdraft facilities (which we regard as short-term[42])
- utilised leasing finance facilities (if short-term)
- utilised instalment credit facilities (if short-term)
- utilised credit card facilities.

Note that these forms of debt are mainly available at banks, and while the banks may "issue" (or create them) on behalf of their customers, they are in reality debts issued by the ultimate borrowers and readily accepted by the banks. They are assets of banks and liabilities of the borrowers.

Another potentially confusing issue in this regard is the lack of a debt certificate, such as in the case of an utilised overdraft facility. The borrower does not issue a physical security stating that s/he owes the bank the amount of the overdraft utilised; rather the evidence of debt (= the asset of the bank) exits in the form of a debit balance on a bank current account statement.

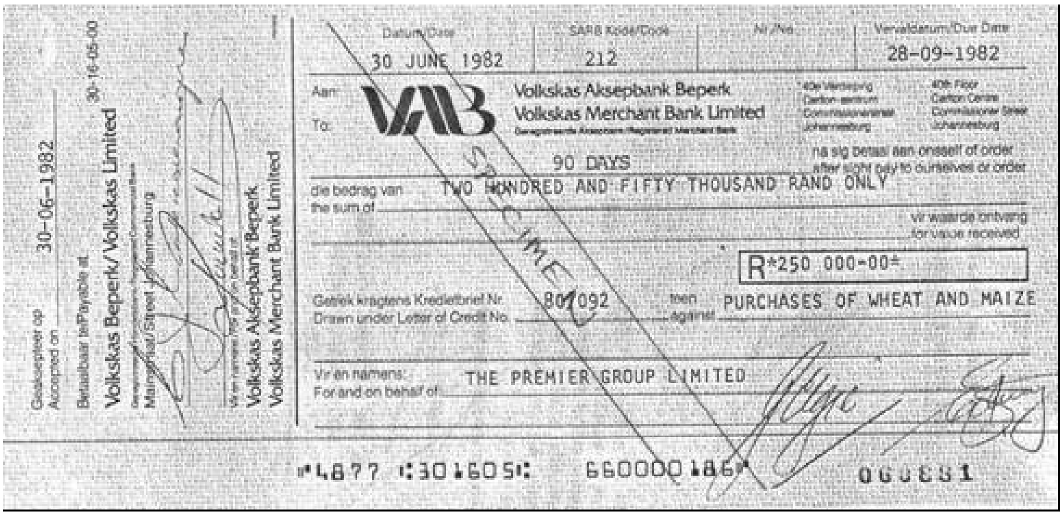
It is not only banks that create debt in the above NMD forms. There are QFIs in many different countries such as non-bank leasing companies, asset finance companies and securitsation vehicles that also provide finance to borrowers.

Of these forms of NMD, the utilised bank overdraft is the largest by a large margin. Mortgage advances (which fall into the long-term debt market) come in a close second, with the rest trailing behind. In some countries the utilised overdraft facilities and utilised mortgage finance facilities together occupy close on 50% of bank assets.[43]

5.5.2 Bankers' acceptances

A bank acceptance (BA) is a *bill of exchange* drawn on and accepted by a bank. A bill of exchange is usually defined in a statute, a summary of which follows (which breaks up the definition into comprehensible parts).

- A bill of exchange is
- an unconditional order in writing
- addressed by a company (requiring temporary finance) (the *drawer*) to a bank (the *drawee*)
- signed by the company (the *drawer*)
- requiring the bank to whom it is addressed (which then signs it and becomes the acceptor)
- to pay
- at a fixed or determinable future time
- a sum certain in money
- to, or to the order of, the company.


Datum/Date 30 JUNE 1982
SARB Kode/Code 212
Nr./No.
Vervaldatum/Due Date 28-09-1982
Aan/To: VAB Volkskas Aksepbank Beperk
Volkskas Merchant Bank Limited
90 DAYS
na sig betaal aan onsself of order
after sight pay to ourselves or order
die bedrag van / the sum of TWO HUNDRED AND FIFTY THOUSAND RAND ONLY
vir waarde ontvang / for value received
R*250 000-00*
Getrek kragtens Kredietbrief Nr. / Drawn under Letter of Credit No. 801092
teen / against PURCHASES OF WHEAT AND MAIZE
Vir en namens / For and on behalf of THE PREMIER GROUP LIMITED
SPECIMEN
Geaksepteer op / Accepted on 30-06-1982
Betaalbaar te/Payable at Volkskas Beperk/Volkskas Limited 30-16-05-00
Volkskas Aksepbank Beperk
Volkskas Merchant Bank Limited

Box 5: example of a bank acceptance

The BA is a complicated instrument but in essence it is a debt obligation of a company that is linked to its trading business. Underlying the BA is a specific business transaction, such as "purchases of wheat and maize" in the example provided in Box 5.

The bank provides the finance facility and draws up a BA, which is signed by the company. The bank also signs it, signifying "acceptance" of it and thereby guaranteeing that it will be paid should the company fail. This enables the BA to be sold to a third party. On the due date of the BA the company (which should have sold the goods financed by the BA by then) places the bank in funds, enabling the bank to pay the third party holder.

BAs are usually issued for short-term periods ranging from 90 days to 180 days, and occasionally for longer periods. In the example provided in Box 5, the BA is issued for 90 days.[44]

The bill of exchange is one of the oldest instruments of credit in the world, and its origins have been traced back to at least the fourth century BC. It was commonly in use in England at the time of the Norman Conquest, and is mentioned first in a Statute of 1379.[45]

Bills of exchange were originally created to enable sellers or exporters of goods to obtain funds as soon as possible after the dispatch of their goods, and to enable the buyers or importers of goods to delay payment until the goods reached them or until they had sold them.

The BA is falling into disuse. The main reason is that companies find it more convenient to borrow from the banks on the more flexible overdraft facility. Another reason is that larger companies, which are able to rely on their own name in terms of creditworthiness, prefer to issue commercial paper in order to avoid the bank commission payable on BA finance.

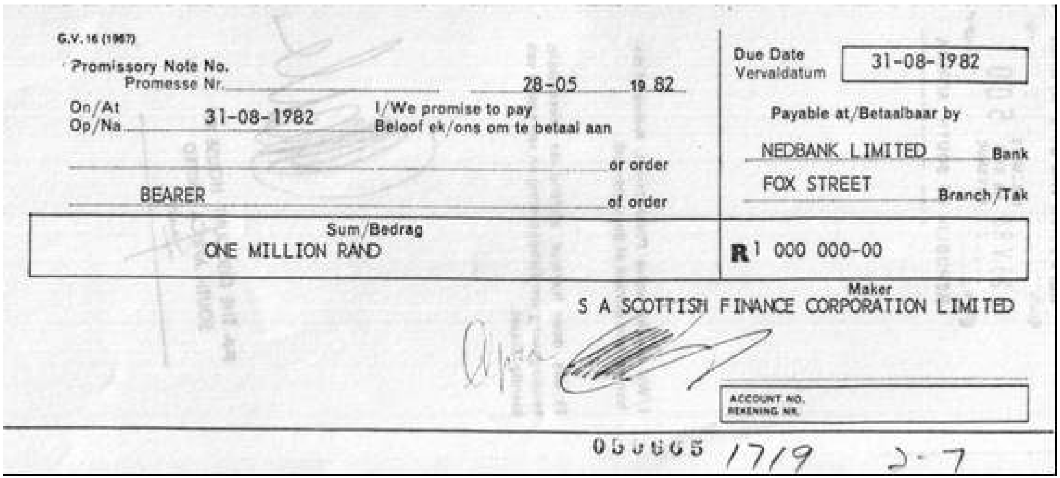
5.5.3 Promissory notes

The promissory note (PN) is usually also defined in a statute as "…an unconditional order in writing made by one person to another, signed by the maker, and engaging to pay on demand or at a fixed or determinable future time, a sum certain in money, to a specified person or his order, or to bearer."[46]

A promissory note therefore constitutes an evidence of debt of a borrower (usually a company) made and signed by the borrower in favour of the lender. Unlike BAs where the underlying transaction financed is trade, which is therefore self-liquidating, PNs are made by companies requiring temporary bridging finance.

A promissory note may be created in one of two ways. A company purchasing goods (for example) could give its supplier a promissory note, undertaking to pay the supplier a sum of money at a date specified in the future. The supplier could then endorse the note in blank, making it payable to bearer, and discount it with a bank. Clearly, the bank will purchase the PN only if it is satisfied with the creditworthiness of the maker. The bank would endorse the PN in blank if it wishes to sell the paper. Clearly, in this case, the bank becomes a liable party to the paper.

The alternative is for the purchasing company (or any other company wishing to obtain finance) to approach a bank directly and issue a PN in its favour. As in the former case, the bank would endorse the PN in blank (on the reverse of the certificate), rendering it marketable, if it wishes to onsell the paper. Clearly, the bank endorsement achieves two advantages: it makes it a bearer document and it becomes a high quality instrument (because the bank is liable if the company fails to pay on the due date).


G.V. 16 (1967)

Promissory Note No.
Promesse Nr. 28-05 19 82

Due Date
Vervaldatum 31-08-1982

On/At
Op/Na 31-08-1982 I/We promise to pay
Beloof ek/ons om te betaal aan

or order

BEARER of order

Payable at/Betaalbaar by

NEDBANK LIMITED Bank

FOX STREET Branch/Tak

Sum/Bedrag
ONE MILLION RAND

R1 000 000-00

Maker
S A SCOTTISH FINANCE CORPORATION LIMITED

ACCOUNT NO.
REKENING NR.

Box 6: example of a promissory note

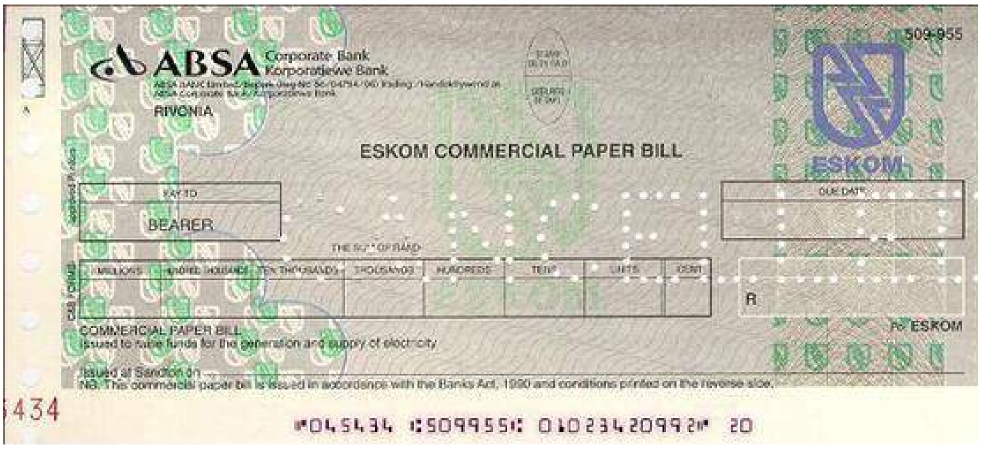
An example of the latter method of creation is presented in Box 6. Most PNs available in the money market are created by this method. PNs are created for any periods up to a year, but more usually for 90–180-day maturities.

The PN, like the bank acceptance, is one of the oldest instruments of the money market. The PN made by a borrower and payable by a bank, however, is not that antiquated. As in the case of the BA, the PN is also falling into disuse, and the reasons are similar.

5.5.4 Commercial paper

Commercial paper (CP) is short-term unsecured debt obligations of incorporated companies, usually commercial and industrial concerns. Commercial paper is therefore akin to a promissory note, i.e. a promise to pay a certain amount on a stipulated date in the future. However, while there are at least two parties involved with BA and PN instruments, with CP there is only one: the company.

It will be understood that it is only the large companies that do not require the standing of a bank to enhance the quality of their debt that are able to issue commercial paper. Public enterprises also issue this type of paper in many countries (sometimes with a guarantee issued by central government). An example of a commercial paper certificate of a public enterprise entity is shown in Box 7.



Box 7: example of a promissory note

The large corporations issue commercial paper for the purpose of obtaining short-term bridging finance. Such funding is usually required for one of three reasons:

- To fund short-term undertakings.
- To fund longer-term undertakings in the short-term market until more permanent funding can be arranged.
- To fund longer-term undertakings in the short-term market on a temporary short-term basis, because of an expected fall in interest rates.

In many countries the issue of CP is governed by a dedicated statute. The statute usually stipulates that issuers are obliged to issue a placing document which must include the reason for the issue of commercial paper (not for onlending), a statement that the company is a going concern, auditors' statement, and so on.

There are active commercial paper markets in most industrialised countries. The oldest is generally accepted to be the United States market (which goes back to the colonial days), while the sterling market is relatively young, having emerged officially[47] only in May 1986. In addition to these two, there are commercial paper markets in some ten other industrialised countries. With the exception of the Canadian market, they all emerged in the 1980s.

Next to the treasury bill and NCD markets around the world, the CP markets are the largest markets. The place of the BA, the PN and the CP in the financial system is depicted in Figure 5. Obviously the corporate sector issues the paper which is mostly found in the portfolios of the banks and the investment vehicles (mainly the retirement funds).

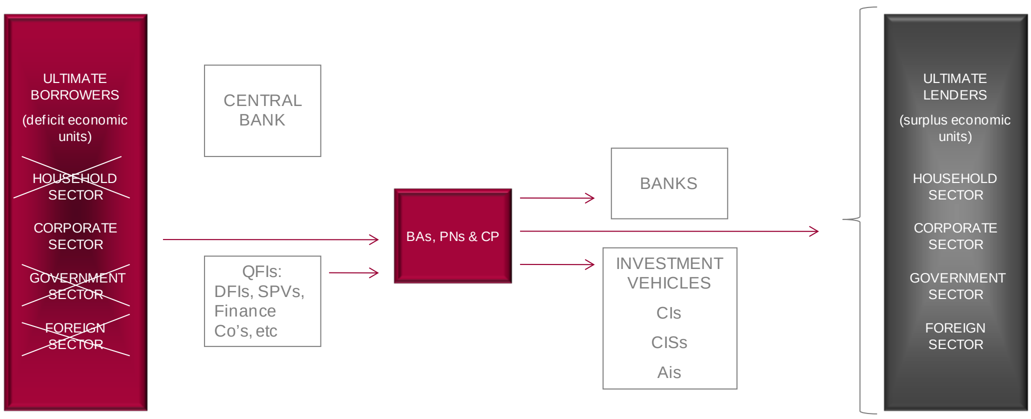


Figure 5: BAs, PNsand CP in the financial system

CP is not only issued by the ultimate borrowers; a number of the QFIs issue CP, for example special purpose vehicles (SPVs) and finance companies.

5.5.5 Foreign commercial paper

In certain counties the issue by foreign entities of securities is permitted (i.e. generally those without the burden of exchange controls). Foreign entities issue equity, bonds and CP. The latter is called foreign CP.

5.5.6 Treasury bills

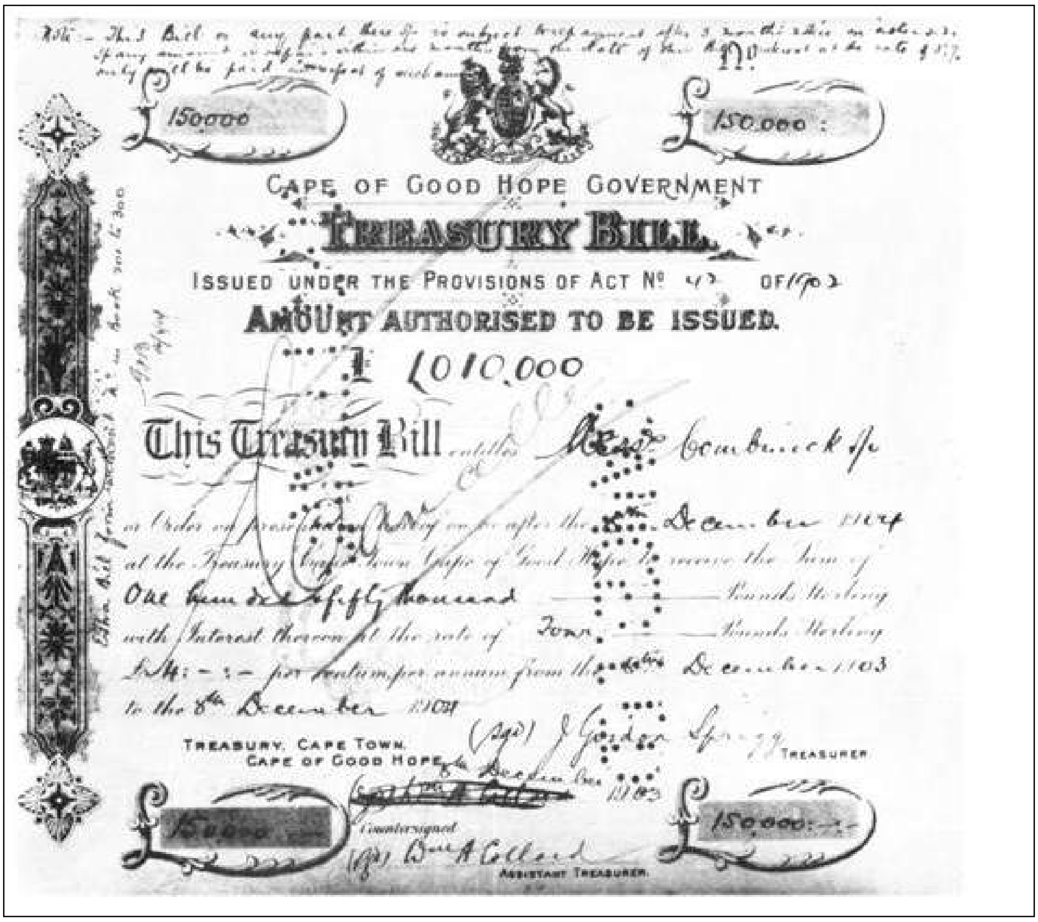
The trade bill (which gave birth to the bank acceptance) and the PN are the oldest money market instruments. They are followed closely by the treasury bill (TB or T-bill). TBs are short-term debt obligations of central government.

A TB is much like a CP in that it is "one name" paper, but it has the advantage that it represents a charge on the revenues and assets of the country. Thus the TB is called a *risk-free security* and the rate on the TB is called the *risk-free rate*.[48] It also resembles a bank note with the main difference being that it is a note payable not at sight, but on a certain date in the future.

The simplicity of the treasury bill is suggested on the face[49] of the bill; it contains the following information:

- Issue date.
- Maturity date.
- Nominal (face) value, which is the amount payable to the holder on maturity date.

An example of an old TB is presented in Box 8.



Box 8: example of a treasury bill

TBs are issued for two main reasons: to fund part of the government budget deficit and for monetary policy purposes (in that they are the main instrument used by the banks to acquire accommodation from the central bank) in terms of the repo (or discount) system.

Central banks market TBs on behalf of the government, and they generally do so in two ways:

- by weekly tender (for terms of 91 days and/or 182 days and/or 273 days and/or 364 days)
- by "special" tender of bills of other terms to maturity, usually for monetary policy purposes.

The TB is the preferred instrument for the open market operations of central banks, and for providing access to accommodation (i.e. it ranks as an asset that is eligible for central bank assistance). The method of central bank accommodation has changed on many occasions in the history of central banking: TBs (and other assets) have been discounted with the central bank, provided as collateral against overnight loans, and sold under repurchase agreement (repo) to the central bank (which is the case now in most countries).

Many countries also have a liquid asset requirement apart from the cash reserve requirement. TBs always rank as liquid assets for the banks. The place of TBs in the financial system is depicted in Figure 6.

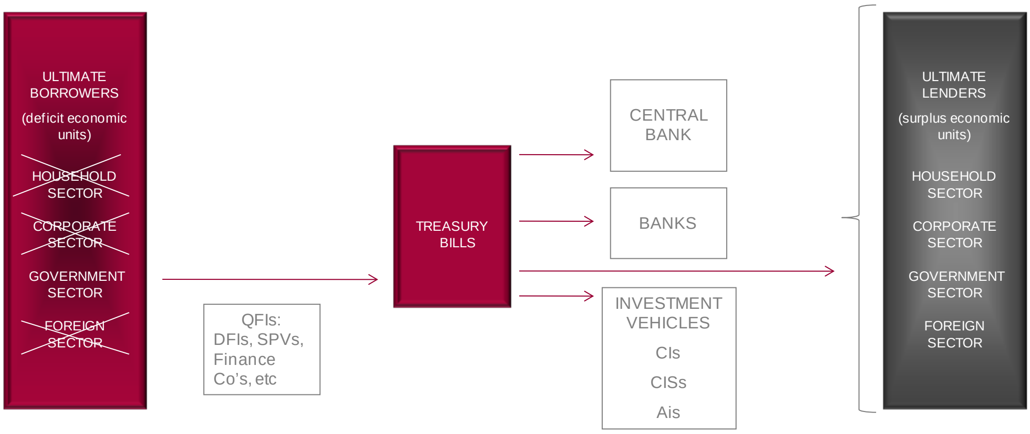


Figure 6: treasury bills in the financial system

TBs are held predominately by the central bank, the banks and the investment vehicles (particularly the retirement funds and securities unit trusts).

5.5.7 Variations on the theme

Treasury bills generally are called treasury bills and have the same characteristics. However, CP exists in many variations. In Malawi, for example, CP is termed negotiable promissory notes (NPNs). In Ghana the mineral bills, cocoa bills, grain bills and cotton bills are variations of CP. Similarly, in Zimbabwe the electricity bill is to be found.

5.6 Summary

Money market securities are issued by ultimate borrowers and certain of the financial intermediaries: the central bank, the banks and certain of the QFIs. The majority of money market securities is in the form of NMD (e.g. utilised overdraft facilities).

There are major differences in the interest rates that pertain to the various money market instruments, but all reflect the repo rate of the central bank and the margin of the banks.

The marketable instruments of the money market are:

- Negotiable certificates of deposit.
- Bank notes and coins in circulation.
- Central bank securities.
- Bankers' acceptances.
- Promissory notes.
- Commercial paper.
- Foreign commercial paper.
- Treasury bills.

5.7 Bibliography

Faure, AP, 2007. **The money market**. Cape Town: Quoin Institute (Pty) Limited.