TREASURY BILLS OR TBILLS

بـورصـة قطـر
Qatar Exchange

Qatar Exchange is listing Qatar Central Bank issued short term debt instruments, commonly referred to as Treasury Bills, or TBills. TBills are public debt instruments (Securities) which are issued by Qatar Central Bank at a discount to the face value. On the maturity date the full par value is paid by the issuer to the investor.

Why invest in TBills?

TBills provide investors with the opportunity to benefit from a guaranteed return over a short period. The issuer, Qatar Central Bank, issues TBills to the market at a discount to their par value, meaning that the investors pay less than the par value for owning the security. On the maturity date, Qatar Central Bank repays the par value of the TBill to the investor. The difference between the price paid and the par value received represents the return to the investor.

Characteristics

A TBill has three principal characteristics which determine its value to an investor. They are:

Discount Yield

The Discount Yield is a function of the price paid and represents the rate of return on the Treasury Bill on an annualized basis. The calculation for the discount yield is shown below. The higher the discount yield (the lower the price paid), the greater the return to the investor.

Maturity Date

This is the date when the issuer repays the par value to the holder of the TBill. All TBills are short term, as they are issued with a maturity date that is equal to or less than one year from the issue date. They are usually issued with maturity periods of three months, six months and nine months.

Principal Amount (Par Value)

The Par Value is the amount of money the holder of the TBill will receive from the Qatar Central Bank at maturity. The TBills traded at Qatar Exchange will all have a Par Value of QAR 10,000. The Par Value is not to be confused with the price.

Price and Yield

The price of a TBill is a measure of the discount to par value that the investor will pay, and as with all other traded securities, will fluctuate depending on wider market factors. The discount yield represents the annualised return, in percentage terms, that an investor can expect to receive if the TBill investment is held until the maturity date, on which date the face value is repaid by the Qatar Central Bank to the investor.

Example

If you buy 1 lot of a 6 month TBills at a price of 9,905.00 (Par Value of QAR 10,000), where the actual number of days remaining to maturity is 179, the discount yield will be:

$$\text{Discount Yield} = \frac{10{,}000 - 9{,}905}{10{,}000} \times \frac{365}{179} = 1.937\%$$

If the price of the TBill goes down to QAR 9,904.00, the yield goes up to 1.958%. Conversely, if the price of the TBill goes up to 9,906.00, the yield will be 1.917%.

As the TBill approaches the maturity date, the price will always rise towards 10,000.00. This is because the full par value of each TBill, QAR 10,000.00, is repaid to the investor on the maturity date and this means that the price on the maturity date will always be 10,000.00. If we assume the discount yield of 1.937% remains the same, this means that, excluding any change in the price which may result from other factors, the price will increase by QAR 10.61 over twenty days (159 days to maturity).

Linking Price and Yield

When prevailing market interest rates rise, the prices of outstanding TBills will generally fall. When prevailing interest rates fall, prices of outstanding TBills will generally rise. A TBill's price and its discount yield are inversely correlated, in that as the price rises, the yield falls and vice versa.

Linking Price and Maturity

The greater the length of time between the issue or settlement date and the maturity date, the higher the risks associated with price volatility. A yield curve (which plots the yield of securities of varying maturity terms against time to maturity) gives insight into the market's perception of how prevailing rates will change over time. The price of a TBill can be affected by market expectations of numerous factors, but particularly those of prevailing interest rates.

Trading on QE

QE will begin TBill trading with the introduction of a number of TBills, all of which have been issued by Qatar Central Bank to the primary market.

There are a few important aspects in which trading in TBills differs from trading in equities and bonds:

1) Prices of TBills are quoted on a per lot basis for blocks or lots of 10,000 QAR. This means that the minimum quantity that can be purchased or sold is always 10,000 QAR or multiples thereof. Therefore, if you wish to purchase TBills with a value of 100,000 QAR, you will purchase 10 lots.

2) Price quotes and trade executions for TBills on QE are on a discounted basis, meaning that the price is always less than or equal to 10,000.00. The price can never be greater than 10,000.00.

3) The settlement value of a TBill trade is determined as follows: Price

If the price is 9,915.00 and the number of TBills traded is 8 (Par Value QAR 80,000), the settlement amount of the transaction is QAR 79,320.00.

TBills and Equities Compared

Equities	TBills
A shareholder becomes a part owner of the company in which shares are held	The bill holder is a lender
High volatility	Low volatility
Dividend income is dependent on the performance of the company	Income is fixed if held to maturity
In bankruptcy proceedings, shareholders rank below creditors	In bankruptcy, bill holders, as creditors, rank above shareholders
Shares in the profits/losses of the company	Receives only the par value

Remember: Only invest after seeking guidance from a professional financial services firm which is licensed by the Qatar Financial Markets Authority to give advice. Investors are urged to include the commissions payable to the broker when calculating the potential or actual returns on these instruments. It should be understood that an investor will receive only the par value at maturity, and as such, when the purchase price is known, the total net return can be calculated, inclusive of commission. Investors should not trade in these instruments unless they are fully aware of their attributes and potential returns. The value of investments can go down as well as up.

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