BHARAT SCHOOL OF BANKING

TREASURY BILLS, CASH MANAGEMENT BILLS, DATED SECURITIES, GILT-EDGED SECURITIES

Instruments of Money Market

Now, its time to learn about the several **instruments** that work in **Money Market**. Note that the **tenure** of the money market is **overnight (1 day)** to **1 year (365 days)**. So, all the **instruments** here works within this tenure. Though there is no such restriction, or no such obvious line of distinction.

Government Instruments

1. Treasury Bills (91 - 364 days)

Treasury Bills or **T-Bills** are the most important and used mean for the **government** to acquire money from the **market**, to maintain its **money requirements**. On behalf of the **government**, **RBI** issues **T-Bills** to public as **auction** on some fixed date.

These are the **least risky** money market instrument and have 3 **maturity** periods - **91 days, 182 days, 364 days** (meaning you can claim for your return only after these term periods). Note that **Treasury Bill** is a type of **debenture** (*already discussed in the article - **Equity & Debt***), hence doesn't require any **collateral** as security. You only buy a **T-Bill,** because you know that **government** will never default on your payment.

Treasury Bills are issued on **discount basis** and can be **redeemed at par**, and it doesn't bear any **interest**. Let clear with an **example** -

Suppose you want to buy a **T-Bill** of **Rs. 10,000** with **91 days** maturity. RBI may tell you that the **discount** rate is **1.5 %**. So you can **redeem** a **discount** of = 10,000 x 1.5/100 = **Rs. 150.**
This means you can **buy** the **treasury bill** in Rs 10,000 - 150 = **Rs. 9,850** (your **profit** will be **Rs. 150,** which you can redeem as discount). After **91 days** (the maturity), you go to **RBI** to get the **return**, and RBI will give you **Rs. 10,000.**
Summary - You **buy** the **T-Bill** in **Rs. 9,850** and get in return **Rs. 10,000 (face value)**. Note that, there is no **interest** involved in T-Bill.

2. Cash Management Bill (CMB) (< 91 days)

Government can take **loans** from **RBI** as **Ways and Means Advances (WMA;** will discuss in later posts). But there is a **limit** on **WMA** advances, and the **loans** above the **limit** bears **extra interest**. Therefore, it is better for the **government** to acquire **money** from the general **public**. **Cash Management Bill (CMB)** is such instrument that helps **government** to maintain its **temporary cash** requirements for less than **90 days**.

Note that, **T-Bills** can not be used for the **temporary** (upto **90 days**) or **urgent requirements**. **CMB** comes handy for this purpose, instead of **high interest loans**.

Features of **CMB** is almost similar to that **T-Bills** including **auction** process, **discount** to the **face value**, etc.

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3. Dated Securities

Though definition-wise this doesn't come under **Money Market**. But it is better to discuss it here in **government security** section.

Dated Securities are **long-term** securities that helps **government** to take money from public for more than **1 years**. Here **government** issues **securities** that bear a **date** of a **distant future,** which could help in long-term development projects, or otherwise.

It is important to mention here, that **state governments** cannot issue **T-Bills** to public. So state governments can issue only **Dated Securities** for a long term. These are known as **State Development Loans (SDL**).

Gilt-edged Security - All the **government** securities are collectively called **gilt-edged securities,** or **government securities**.