

Govt announces switching two G-Secs to six floating rate bonds

Conversion will take place through an auction scheduled for October 18

OUR BUREAU

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The government on Wednesday announced the conversion or switch of two government securities (G-Secs), both maturing in 2022 and aggregating ₹36,000 crore (face value) into six floating rate bonds (FRBs) maturing between 2028 and 2034.

Thus, the government does not have to redeem them on their maturity dates. Mar-

zban Irani, CIO - Fixed Income, LIC Mutual Fund, said, "There are two reasons for going in for the conversion or switch of the two G-Secs into FRBs. First, market participants have shown an appetite for this instrument as they expect interest rates to reverse (go up).

"Second, this move postpones the maturity of the G-Secs, thereby lessening the redemption burden on the

government." RBI, in a statement, said the conversion or switch will take place through a multiple-price based auction, which has been scheduled on October 18.

In this auction, successful bids will be accepted at their respective quoted prices for the source and destination securities.

RBI started conducting auctions for the conversion of G-Secs on the third Monday of every month from April 22, 2019.

Bidding in the auction im-

plies that the market participants agree to sell the source security/ies to the government, and simultaneously agree to buy the destination security from the Govt at their respective quoted prices.

Online portal

Market participants are required to place their bids through the Kuber portal, giving the amount of the source security and the price of the source and destination security expressed up to two decimal places.

The price of the source security quoted must be equal to the FBIL (Financial Benchmarks India) closing price of the source security as on the previous working day.

Bond price

Price of the 10-year benchmark G-Sec carrying 6.10 per cent coupon rate moved up about 8 paise to close at ₹98.445. Yield of this security thawed about a basis point to 6.3145 per cent.

Bond price and yield are inversely correlated and move in opposite directions.