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An Overview on Treasury Bills in Iranian Islamic Capital Market

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Abstract

Treasury bill is short-term debt obligation backed by the U.S. government with a maturity of less than one year. T-bills are sold in denominations of \$1,000 up to a maximum purchase of \$5 million and commonly have maturities of one month (four weeks), three months (13 weeks) or six months (26 weeks). T-bills are issued through a competitive bidding process at a discount from par, which means that rather than paying fixed interest payments like conventional bonds, the appreciation of the bond provides the return to the holder. (<http://www.investopedia.com/terms/t/treasurybill.asp>)

Iranian capital market after Islamic revolution experienced issuance of treasury bills for a maturity of 5.5 months in September 2015. The issuance value was 10 billion Iranian Rial and traded in the market on the basis of discounting in Iranian Islamic capital market.

Key Words

Treasury bills; Islamic Contracts; Sale; Islamic capital market; Shariah Board

Introduction

Treasury securities are the debt financing instruments and they are often referred to simply as Treasuries. There are four types of marketable treasury securities:

- Treasury Bills,
- Treasury Notes,
- Treasury Bonds,
- Treasury Inflation Protected Securities (TIPS).

All of the marketable Treasury securities are very liquid and are heavily traded on the secondary market. The non-marketable securities (such as savings bonds) are issued to subscribers and cannot be transferred through market sales.

Benefits of Treasury Bills Issuance

Main benefits of issuing treasury bonds include:

1. It is a suitable financial instrument for Treasury Department of finance Ministry in order to settle its accumulated debts. It is also a favorable financial discipline for more efficient financial performance of the government.

2. As a result of expansion in financial status of banks and, issuing treasury bills will facilitate fund circulation in the economy and decline transaction costs.

Shariah board of SEO Approved Issuing Treasury Bonds for Specific Debts

During three sessions, Shariah board of SEO has discussed the fiqh aspects of this instrument and reached to following results:

1. Government debts are different and any of them has different fiqh perspective.
 - 1.1. Issuance of treasury bills for government debts to contractors, companies, banks and private insurances, has no problem.
 - 1.2. Issuance of treasury bills for government debts to state banks has no problem only if loans given to the state are from non-state deposits.
 - 1.3. Issuance of treasury bills for government debts to banks whose shares are owned by state and non-state institutions has no problem only if the loans given to the government are from non-governmental deposits.
 - 1.4. Issuance of treasury bills for government debts to non-governmental public sector such as Social Security's Organization and municipalities has no problem.
 - 1.5. Issuance of treasury bills for government debts to the Central Bank, state-owned companies and state-owned insurances is prohibited. Since here there is no real debt; because the real property of the government and these institutions are not segregated. Therefore, when the government gives a document to the Central Bank or state company or insurance and they sell it in the market. In fact it borrows from people with a stipulation of supernumerary which is regarded as Riba.

For matured debts, it is not possible to add to the debt value since it is Riba.

First Islamic Treasury Bills in Iranian Financial System after Islamic Revolution

Anyway, there was a relatively long debate for fund raising through Islamic treasury bills in the Iranian Ministry of Economic Affairs and Finance. Finally in 30th of September 2015, first treasury bills in Iranian capital market after the Islamic revolution were issued. Face value of each bill equals one million Iranian Rial (IRR) and in the first trading day, each bill was discounted at 900,500 IRR. Maturity date of the treasury bills is 13th of March 2016 which means that these bills shall have a maturity period of 5.5 months .

Iranian Farabourse Company was the financial market for trading treasury bills in Iran. According to the announcements "the discounted debt in treasury bills was the state's debt to road contractors which the state officially had approved its debt to them". Total amount of registered treasury bills in Iran Farabourse Company reached to the amount of 10,000 billion IRR and in the first trading day, more than 400,000 bills were traded .

Currently these bills are traded in Iran Farabourse Company. As it is common for treasury bills in financial markets, there is no coupon payments for these instruments and investors may gain from the different prices on what they pay and what they receive when they want to sell. This is on the basis of discounting structure.

Sources:

1. **First Islamic Treasury bills in Iranian Financial System after Islamic Revolution Issued**; Majid Pireh; Islamic finance news; December 2015
2. <http://www.investopedia.com/terms/t/treasurybill.asp>

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