

CAYMAN ISLANDS



Supplement No. 3 published with Gazette No. 16 of 1976.

THE PUBLIC LOANS LAW
(Law 10 of 1976)

MEMORANDUM OF OBJECTS AND REASONS

The finances of the Cayman Islands have now reached a stage when it is no longer practicable to administer them as a private businessman manages his bank account, alternating between overdrafts and surpluses without much chance of exercising control over day to day fluctuations.

In order to keep permanently in credit the Treasury would have to pile up disproportionate surpluses at those periods of the year when revenue flows in and would also have to levy unnecessary taxation in order to ensure that even at the leanest periods of the financial year there was always something in the kitty. The alternative is a succession of expensive overdrafts and unusable surpluses in current account.

To provide the necessary flexibility to iron out these fluctuations in the Islands' finances it is sought to empower the Governor in Council to issue Government Treasury Bills from time to time at the current rate of interest, such bills being redeemable within 180 days of issue or a lesser period. The value of bills so issued would be limited to a quarter of one year's revenue. The method of paying interest on bills is to issue them at a discount — thus, if the current rate of interest is ten per cent per annum a \$100 bill redeemable in 180 days (roughly half a year) would be issued at \$95. Flexibility is achieved by the power of Government to buy back its own bills before they reach maturity. Thus if there were a sudden windfall of revenue by reason of a large stamp duty payment of, say, \$200,000, instead of looking round for a means of investing this money, Government would merely use it to buy back its own bills before maturity and thus save interest. A 180-day bill issued at \$95 could be bought back at \$97.50 after 90 days.

Another problem, altogether distinct from the ironing out of intermittent current revenue and expenses is that of financing capital projects. There are, it seems people in the Islands who appear to believe that any Government borrowing is in some way improvident.

If, without borrowing, these people wished to build, say, a new main road, they would require extra taxation to be collected and accumulated over a period of, say, ten years and, when all the money has been collected they would start building.

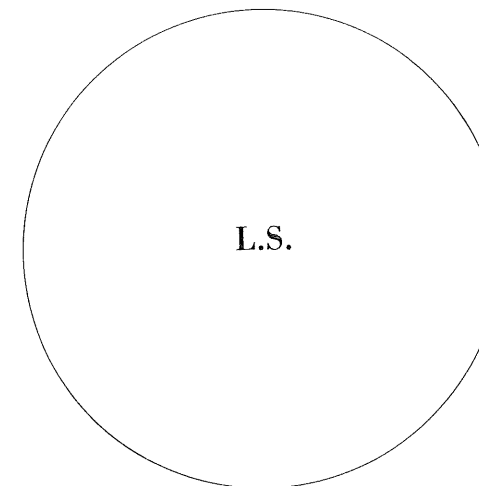
But borrowing for a capital project is not improvident at all in that, like a house, the value produced by the borrowed money is still there and remains of value long after the loan has been paid off and, meanwhile, represents security for the loan. Furthermore you can put the work in hand straight away and have the benefit of it during the repayment period.

To meet financing of this type it is proposed to introduce a system of Government borrowing by means of the issue to the public of Government Bonds repayable within periods of up to twenty years. These bonds would be issued at the lowest rate of interest attractive to the public and the interest thereon would be a charge on the general revenue of the Islands. There would also be provided a fund called a "sinking fund" for the purpose of repaying the bond holders when the bonds reach maturity. However there is no need to wait until the last moment to redeem such bonds. The money in the sinking fund can be used from time to time to re-purchase the bonds from the holders before they reach maturity, thus cutting out interest from the date of purchase since the bonds purchased by Government would be cancelled from that date, that is to say the date of purchase.

It is therefore sought to confer upon the Government two separate and distinct powers, firstly the power to issue and deal in Cayman Government Treasury Bills for a maximum term of 180 days and secondly to issue and deal in Cayman Government Bonds for a maximum term of 20 years, the first for the purpose of keeping day to day revenue and expenditure on an even keel without waste of time and money, and the second to enable the Government to finance capital projects approved by the Legislative Assembly without having to go through a special procedure on every occasion when such financing becomes necessary as, for instance, resort to a consortium of banks and having to accept such terms as the banks care to offer upon such conditions as they may decide to impose.

CAYMAN ISLANDS

Law 10 of 1976.



I assent

T. RUSSELL

Governor.

15th July, 1976

A Law to make provision for and regulate the raising and management of Government loans by way of Treasury Bills and Bonds.

ENACTED by the Legislature of the Cayman Islands.

Short title and commencement.

1. This Law may be cited as the Public Loans Law and shall come into operation on a day to be appointed by the Governor by Notice published in Gazette.

Interpretation.

2. In this Law unless the context otherwise requires —

“Department” means the Department of Finance and Development;

“Governor” means the Governor in Council;

“Government” means the Government of the Cayman Islands;

“government bond” means a bond representing part of a public loan issued by or on behalf of the Government, bearing interest, transferable by delivery or by registration, redeemable after a period not exceeding twenty years from the date of issue;

“government securities” means bonds or bills issued by the Government under this Law;

“issue” with respect to any security means —

(a) to allot in response to an offer to subscribe thereto;

(b) to “place” by private treaty; and

(c) to sell in the open market;

“public loan” means a liability in money to be met by the Government in respect of funds lent to the Government in accordance with this Law;

“redemption” means the discharge of the Government’s obligation in respect of a public loan either by repayment thereof or by purchase thereof by or on behalf of the Government followed by cancellation;

“sinking fund” means a fund accumulated by the Government to be applied in redemption of government bonds;

“treasury bill” means a promissory note representing part of a public loan issued by or on behalf of the Government, transferable by delivery, and redeemable within 180 days or less from the date of issue.

Power to borrow.

3. The Governor may raise funds for the Government by borrowing from time to time from the public such amounts of money as he deems expedient on such terms as he decides against the issue of government securities in accordance with this Law.

Limitations on borrowing.

4. The aggregate amount of public loans outstanding may not at any given time exceed —

- (a) \$10,000,000 upon the security of government bonds;
- (b) a figure based upon 25% of the average annual government revenue receipts over the past three completed financial years prior to the issue thereof upon the security of treasury bills.

Principal and interest to be charged on Government revenues.

5. The liability for payment of principal, interest and expenses incurred by the issue of public loans is a charge upon the general revenues of the Government and is redeemable thereout.

Exemptions from stamp duty etc.

6. The issue of and transactions in public loans are exempt from stamp duty.

Denomination in Cayman Island dollars.

7. Each public loan shall be denominated and expressed in the currency of the Islands unless specifically determined otherwise by the Governor.

Mode of issuing public loans.

8. The terms and conditions of public loans including the payment of interest and the manner of repayment, together with the denominations, text and other specifications of government bonds and treasury bills, shall be determined by the Governor and be published in the Gazette.

Holders of “B” licences may apply. Law 8 of 1966

9. (a) Notwithstanding section 4 of the Banks and Trust Companies Regulation Law 1966, a holder of a “B” licence thereunder may subscribe for and deal in government bonds and treasury bills.

(b) Exempt and non-resident companies and trusts may hold government bonds and treasury bills.

Appropriation of proceeds of an issue.

10. The proceeds of the issue of public loans shall be paid to the Department and subject to section 5, be appropriated for the purposes of the Government for which they were raised.

Sinking fund.

11. The Governor may establish a sinking fund in respect of any outstanding public loans, to which may be made transfers of money or securities in contribution towards the redemption thereof.

Cancellation of Government Bonds and Treasury Bills.

12. Upon repayment of the principal together with outstanding interest due on

any public loan the relevant bonds or bills shall be surrendered by the holders to the Department and ipso facto cancelled.

Government Savings Bank as broker.

13. The Governor may appoint the Government Savings Bank as its official broker for the issue and management of public loans and as manager of the sinking fund and the Bank as broker may issue and purchase Government securities in the open market.

Government not prevented from borrowing otherwise than under this Law.

14. Nothing in this Law prevents the Government from borrowing otherwise than by invitation for subscriptions from the public.

Regulations

15. The Governor may make Regulations for administering this Law and in particular for —

- (a) the preparation, form, advertisement, issue, interest payments, registration, transfer, repayment, and cancellation of government securities;
- (b) replacement of destroyed defaced and lost scrip;
- (c) procedures to prevent the counterfeiting of, or fraud in respect of government securities;
- (d) the management of any sinking fund;
- (e) payment of commission and other expenses involved in the issue and management of Government securities.

Repeal of Cap. 33.

16. The Debentures (Local) Law is hereby repealed.

Passed by the Legislative Assembly this 25th day of June, 1976.

T. RUSSELL
President

SYBIL McLAUGHLIN
Clerk of the Legislative Assembly.