

**GUIDELINES FOR REPURCHASE AGREEMENTS “REPOS”**



**TRINIDAD AND TOBAGO SECURITIES AND EXCHANGE COMMISSION**

*Repurchase Agreements Guidelines*

**April, 2012**

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## **Section I - Interpretation**

1. These Guidelines may be cited as the Repo Guidelines.
2. (1) In these Guidelines unless the context otherwise requires -

**“the Act”** means the Securities Industries Act, 1995 as amended from time to time together with its related By-Laws and Fee Schedules;

**“Business Day”** means any day, other than a Saturday or Sunday or any other day on which there is declared a public holiday in the Republic of Trinidad and Tobago;

**“Buyer”** refers to the party who is buying securities under the first leg of a Repo;

**“Collateral”** refers to securities, financial instruments or deposits of the currency that are delivered by the Seller to the Buyer to support a Repo transaction;

**“Coupon”** refers to a fixed interest payment;

**“the Commission”** means the Trinidad and Tobago Securities and Exchange Commission, established under **section 4** of the Act;

**“the Exchange”** means the Trinidad and Tobago Stock Exchange Limited;

**“FIA”** means the Financial Institutions Act, 2008 as revised or amended;

**“Financial Assets”** means cash, securities, or any contract of insurance, or deposit or evidence thereof that is not a security for the purposes of the Act.

**“Government Entity”** means the Government of Trinidad and Tobago, the Tobago House of Assembly, the Central Bank of Trinidad and Tobago and municipal corporations; **(subject to Board approval. See Board paper for explanation)**

**“Haircut”** means Initial Margin, usually expressed as a percentage of the market price;

**“Initial Margin”** is the excess of cash over securities or securities over cash in Repo transactions;



**“Institutional Investor”** means –

- (a) a bank licensed under the FIA;
- (b) a financial institution licensed under the FIA;
- (c) an insurance company registered under the Insurance Act;
- (d) development banks, trust companies, or mortgage companies which are registered and/or licensed under the laws of Trinidad & Tobago;
- (e) a Securities Company which is registered under the Act;
- (f) a Dealer or Underwriter that is incorporated or continued under the Companies Act and which is registered under the Act;
- (g) a Government Entity;
- (h) a body corporate that is incorporated or continued under the Companies Act and that has net Financial Assets of no less than TT\$10 million or such higher amounts as may be determined by the Commission from time to time;
- (i) an incorporated body of persons that is formed under the laws of a country other than Trinidad & Tobago and that has net Financial Assets of no less than TT\$10 million dollars or such higher amounts as may be determined by the Commission from time to time; or
- (j) a Collective Investment Scheme which is registered under the Act.

**“Maintenance of Margin”** see **“Re-Pricing”**;

**“Margin”** is the amount by which the value of the Collateral exceeds the amount delivered under a Repo transaction;

**“Margin Call”** is a request by one counterpart for the Initial Margin to be reinstated or to restore the original cash/securities ratio to parity;

**“Mark-to-Market”** means the act or process whereby a value is assigned to a financial instrument based on the current market price of that instrument. This is normally done to ensure that the Margin requirements for a particular security are being observed;

**“Modified Following Business Day Convention”** means modified following business day convention described in Clause 8 of these Guidelines.

**“Non-Institutional Investor”** means Buyers or Purchasers other than Institutional Investors defined above;

**“Purchaser”** see **“Buyer”**;



**“Repo”** means a **“Repurchase Agreement”** which is the sale of a security with a commitment by the Seller to buy the same or equivalent security back from the Purchaser at a specified price and at a designated date in the future;

**“Re-Pricing”** occurs when the market value of a security in a Repo changes and the parties to the transaction adjust the amount of Collateral in the transaction to the correct Margin level;

**“Reverse Repo”** is the purchase of a security with a commitment by the Buyer to re-sell the security to the Seller at a future date at a fixed price;

**“Seller”** refers to the party who is selling the securities under the first leg of the Repo;

**“Substitution”** is the ability of a lender of securities to recall them from the borrower and replace them with other securities

3. (1) These Guidelines are not intended to regulate Repos issued between institutions licensed under the FIA and the Central Bank of Trinidad and Tobago or between banks licensed under the FIA.  
  
(2) The requirements set out in these Guidelines apply in addition to any other requirements contained in the Act, By-Laws or any other Guidelines.

## ***Section II – Conduct of Business***

4. (1) Participants in the Repo market shall at all times conduct their business in such a manner so as not to bring the Repo market into disrepute.  
  
(2) No participant shall under any circumstances enter into Repo transactions specifically to limit the availability of any securities with the intention of creating a false or distorted market in that security.

## ***Section III – Registration***

5. (1) No person shall carry on the business of being a Repo Seller unless registered with the Commission as a Securities Company authorized to do business as a Broker and/or Dealer under the Act. Such securities company must have at least TT\$15 million in capital.



(2) All persons presently carrying on business of being a Repo Seller shall, within one (1) year, comply with the requirements of this Guideline and upon failure to do so shall cease to carry on business of being a Repo Seller, but shall be entitled to apply for registration whenever he is able to meet those requirements.

#### **Section IV – Business Hours**

6. Unless the parties to the trade otherwise agree all trades, except overnight and open trades, done 30 minutes before the close of business on the Exchange are assumed to be cash trades and all trades, except overnight and open trades done after this time are assumed to be next day settlement trades.

#### **Section V - Collateral Securities**

7. (1) All Collateral securities that are the subject of repurchase agreements must either be registered with the Commission or registered in accordance with the securities laws or regulations of the capital markets in another jurisdiction.

(2) Repos to Buyers other than Institutional Investors should be restricted to the following:

- a) Treasury Bills and Treasury Notes issued by the Government of Trinidad and Tobago (“GORTT”);
- b) Bonds issued or guaranteed by GORTT provided that those bonds were issued in Trinidad and Tobago; and
- c) Corporate bonds listed on the Exchange.

(3) Collateral securities must not be used to cover short sales.

(4) Collateral securities must not be subject to margin purchases where these are held by other brokers.

(5) Collateral securities must not be otherwise pledged or used as collateral.

#### **Section VI – Business Day Convention**

8. All market participants shall use the Modified Following Business Day Convention, where if the maturity date of a Repo falls on a day that is not a Business Day the maturity date shall be the first following day that is a Business Day, unless that day falls in the next calendar month, in which case the maturity date will be the first preceding day that is a Business Day. Market participants are



encouraged to both inquire and to specify the exact maturity dates for transactions prior to maturity.

### **Section VII – Repo Cost**

9. Unless otherwise agreed by the parties, calculation of Repo cost is on the basis of 365 days per year.

### **Section VIII – Purchase Price**

10. Unless otherwise agreed between the Buyer and the Seller, the purchase price shall include the accrued interest. The prevailing market prices shall be used as a guide when determining the purchase price of the securities.

### **Section IX – Substitutions**

11. (1) Substitution should be allowed only where specified in an agreement between the Buyer and the Seller, and the agreement will include specification of the securities that may be substituted, records to be kept and requirements for disclosure to the investor.  
  
(2) Collateral securities shall not be sold without first assigning another suitable asset in its place. The process must be in place with the required controls to effect the assignment.  
  
(3) Substitution of assets should only be permitted by the Buyer where the Collateral to be substituted is of equal or greater value than the original asset. Where Collateral securities are sold the assigned security must be of equal or greater value than the security that was sold.

### **Section X – Custody and Custodian**

12. (1) Custody arrangements should provide for all Buyers to have a perfected interest in the Collateral security in accordance with the rules and procedures of the custodian.  
  
(2) All repurchase transactions must involve a third party custodian.  
  
(3) All securities that are used to collateralize Repos sold to Non-Institutional Investors shall be held under the custodianship of the Trinidad and Tobago



Central Depository (“TTCD”) or any other custodian approved by the Commission.

(4) Where a Repo, which is sold to an Institutional Investor, is collateralised by a security issued outside of Trinidad and Tobago, the securities used to collateralise the Repo must be held under the custodianship of an entity that is registered and/or regulated by a securities regulator or banking regulator approved by the Commission. A list of approved jurisdictions is contained in Appendix 1 of these Guidelines. This Guideline does not change the discretionary authority of the Commission and the list in Appendix A may be amended or modified from time to time.

13. (1) A Buyer’s interest in securities shall be evidenced by an assignment in the books of the TTCD or such other custodian as approved by the Commission.

(2) For the purpose of these guidelines the pledging of securities by the Seller with the TTCD, or such other custodian as may be approved by the Commission, shall represent an assignment of the said securities in favour of the Buyer. In the event of default in relation to either the Buyer or the Seller, the custodian will take the necessary steps as directed by the non-defaulting party in accordance with the master repurchase agreement (“MRA”) and the custodian’s operating rules.

14. (1) The custodian shall maintain adequate and separate records in respect of Collateral securities including-

- (i) movements, that is sales and purchases, in the assigned pool of Repo securities; and
- (ii) physical custody or location.

(2) The custodian in carrying out its duties in respect of the safekeeping of and dealing with the Collateral securities shall exercise the degree of care, diligence and skill that a reasonably prudent custodian would exercise in the circumstances.

(3) A sale and repurchase agreement shall not relieve the custodian from liability to a Buyer for losses arising out of the failure of a custodian to exercise the standard of care, diligence and skill imposed by this Part.



## **Section XI – Confidentiality and Integrity**

15. (1) Participants in the Repo market shall at all times treat the names and identities of parties to transactions as confidential to the parties involved except where required by law.
- (2) Dealers involved in a dealer-to-dealer principal trade shall only disclose certain information regarding the trade, as described in paragraph 15(4) below.
- (3) The identity of parties to a transaction shall only be disclosed-
- (i) when a broker to the trade has disclosed that it is acting solely as agent (i.e. name give-up or non-blind brokered trades); and
  - (ii) after the trade is completed (i.e. after the bid is hit or the offer is lifted); and then
  - (iii) the relevant identities shall only be disclosed to the counterparties to the trade.

This is appropriate to enable member firms to follow sound credit procedures.

(4) When discussing completed trades, brokers and dealers shall only communicate to the parties to the trade the security description, Repo rate, size and time of the relevant trade and the number of Sellers and Buyers involved in the trade.

## **Section XII – Legal Agreement**

16. (1) Repo transactions shall be subject to a Master Repurchase Agreement between the two parties. The agreement should at a minimum:-
- (i) be written in plain English;
  - (ii) include a description of the nature of the security and the risk;
  - (iii) provide for the perfection of the interests in the security;
  - (iv) specify the custody arrangements regarding the Collateral;
  - (v) specify the rights and obligations of the Buyer and the Seller;
  - (vi) provide for quarterly Mark-to-Market of transactions;
  - (vii) provide for appropriate Initial Margin and for Maintenance of Margin, or Re-Pricing, whenever Mark-to-Market reveals a material change in value;
  - (viii) specify clearly the events of default and the consequential rights and obligations of the counterparties;
  - (ix) provide, in the event of default, for full set-off of claims between the parties;



- (x) make provisions clarifying the rights of the parties regarding the substitution of capital and treatment of Coupon and interest payments including, for example, the timing of any payments;
- (xi) include provisions pertaining to the resolution of disputes which may include, but which are not limited to, resolution of the dispute in the High Court of Trinidad and Tobago and/or arbitration.

(2) The Master Repurchase Agreement shall not contain provisions that conflict with these Guidelines, the Act or By-Laws.

### **Section XIII – Margin**

17. (1) A Haircut Margin shall be applied at the time the Repo transaction is entered. The recommended minimum Margins are contained in Parts A and B in Appendix 2 of these Guidelines. This Guideline does not change the discretionary authority of the Commission and the recommended minimum Margin requirements in Appendix 2 may be amended or modified from time to time.

(2) Repo transactions shall be Mark-to-Market at minimum on a quarterly basis. The goal of the Commission is to recommend that Repo transactions be Mark-to-Market in the most timely and efficient manner and this Guideline may therefore be amended or modified by the Commission from time to time.

(3) Unless the parties to the trade otherwise agree, Margin Calls in all Repo transactions shall be met with transfers of Collateral or cash, or a Re-Pricing of the existing transaction. In the event that the Seller chooses to meet its Margin Calls with cash, such cash should not be used to change the substance of the trade, but it will bear interest at a rate to be determined between the Buyer and Seller. In the event that the party being marked chooses to meet its Margin Call with Collateral, this will be met with transfers of Collateral which are of equal or greater value than the Collateral being used in the Repo transaction reasonably acceptable to the Buyer and applied on a reasonable basis.

(4) A party wishing to Mark-to-Market its counterparties shall do so by 1:00 pm of the same day but need not specify which issue is being marked. Such specifications, once agreed by both parties, should be made within one hour of initial notification. Collateral for Margin shall be allocated and notified by the counterparty prior to 3:00 pm of the same day.

(5) Unless otherwise agreed all Margin obligations shall be settled no later than at T+5. The goal of the Commission is to recommend that Margins be settled in the most timely and efficient manner with the final goal of real time Margin.



## **Section XIV – Confirmation of Deals**

18. (1) Parties in repurchase transactions shall ensure that a written or electronic confirmation of both legs of the Repo transaction is issued on the day on which the transaction takes place. This confirmation shall include -

- (i) the nominal amount of the security sold and the price at which the transaction was effected, Coupon interest, if any, and the total proceeds of the transaction;
- (ii) the type of Collateral;
- (iii) the value date, that is, the date on which securities are first transferred by the Seller to the Custodian;
- (iv) the transaction date;
- (v) the purchase price, the price at which securities are first transferred by the Seller to the Custodian; and
- (vi) the repurchase date, the date on which the Seller is to repurchase the purchased securities from the Buyer,

and the counterparties shall exchange the maximum information relating to the economically known components of the transaction.

(2) Electronic confirmation shall only be accepted by a party, where the receipt by electronic message is automatically generated on the date on which the transaction took place.

(3) A party shall ensure that any confirmations that he receives are checked on the day of receipt and that any queries on the terms are immediately conveyed by the party to the custodian.

## **Section XV – Obligation to Make Coupon Payment**

19. A Seller is entitled to receive all interest and other income on securities subject to repurchase transactions to the same extent it would have been entitled to receive such interest and other income had it not entered into repurchase transactions on the securities.

## **Section XVI – Settlement**

20. (1) Unless mutually agreed between the Buyer and Seller, settlement shall be on the basis of payment against delivery of the security transacted.

(2) All transactions shall be settled no later than at T+3.



(3) Where the Seller has caused any delay in settlement, the counterparty shall have the right to claim from the Seller the loss of interest, if any, on the net amount of the transactions calculated in accordance with the terms of the Master Repurchase Agreement.

### **Section XVII – Default and Close-Out**

21. In the event of a default, the procedures contained in the Master Repurchase Agreement shall be followed. Once a default has been declared:-
- (i) the non-defaulting party shall do everything within its power to ensure that the default market values used in the close-out calculations are and can be shown to be fair; and
  - (ii) if the non-defaulting party decides to buy or sell securities consequent to close-out, it shall make every effort to do so without unnecessarily disrupting the market.
22. Before the Repo Seller enters into a Repo transaction with a Non-Institutional Investor, the Repo Seller must disclose to the Non-Institutional Investor that in the event of a default by the Repo Seller, the Non-Institutional Investor may be required to perform the calculations described in guideline 21(i) above.

### **Section XVIII– Disclosure and Reporting**

23. The Seller shall comply with the provisions for continuous disclosure required by the Act and any related By-Laws.
24. (1) The Seller engaged in Repo transactions shall –
- (i) submit to the Commission the following, including up-dates or revisions as they occur-
    - (a) the disclosure statement;
    - (b) policies and procedures for the Repo operations;
    - (c) a copy of their standard form MRA;
    - (d) the form of all other transaction documents, e.g. confirmations;
    - (e) marketing material; and
    - (f) the term sheet containing a summary of the MRA
  - (ii) Prepare and submit to the Commission a quarterly report containing-
    - (a) total investments and total Repos;



- (b) number of Repo clients categorized according to Institutional and Non Institutional clients;
  - (c) the total outstanding obligations to such clients under Repos;
  - (d) a declaration of compliance with the Guidelines signed by the Chief Executive Officer and two Directors.
- (iii) Prepare and submit to the Commission a quarterly report that discloses-
- (a) a list of assets sold under the Repurchase Agreements at current values and the total of such assets;
  - (b) total 'sales' of each asset and current Margin on the asset.
- (2) The Financial Statements shall be made available to all clients and the Commission for inspection. For the purpose of these guidelines, financial statements include –
- (i) Interim Financial Statements which must be prepared on a quarterly basis and filed in within 60 days of the quarter end;
  - (ii) Audited Comparative Financial Statements which must be filed within 90 days of the end of the financial year; and
  - (iii) Annual Reports which must be filed within four months of the end the company's financial year.
- (3) The marketing material shall –
- (i) identify the transactions as Repos;
  - (ii) state that the funds invested are not deposits and not covered by the Deposit Insurance Corporation;
  - (iii) describe the significant risks, e.g. the residual exposure to the credit risk of the company;
  - (iv) include a summary of the rights and obligations of both the Buyer and the Seller; and
  - (v) include a glossary of all technical terms related to repurchase transactions.



## **Section XIX - Operational Requirements**

25. (1) The Seller shall develop and implement documented policies and procedures for Repo operations, monitor compliance and maintain a compliance log.
- (2) The Seller should ensure that there are-
- (i) operational systems for transactional valuation and financial reporting; and
  - (ii) adequate human, financial and operational resources.
- (3) The Seller shall maintain records of the following –
- i) Repo securities and the specific assignment of each to Repo transactions; and
  - ii) all agreements and communications with clients.
26. The total value of Repos outstanding shall not exceed 60% of the Sellers' total assets.
27. The Commission shall be entitled to inspect and/or request copies of all records and compliance logs including but not limited to those records kept by the TTCD, or any other custodian as approved by the Commission, and the Seller as stipulated under these Guidelines.

## **Section XX – Reclassification of Non-Institutional Investors**

28. A Non-Institutional Investor may be treated as an Institutional Investor on request provided that the conditions contained in Appendix 3 are satisfied.



## Appendix 1

Albania	Italy	Sweden
Alberta	Jamaica	Switzerland
Antigua and Barbuda	Japan	Syrian Arab Republic
Australia	Jersey	Chinese Taipei
Austria	Jordan	Tanzania
Bahamas, The	Kenya	Thailand
Bahrain, Kingdom of	Korea, Republic of	Tunisia
Barbados	Liechtenstein	Turkey
Belgium	Lithuania	United Kingdom
Belize	Luxembourg	United States of America
Bermuda	Malaysia	Uruguay
Brazil	Maldives	West African Monetary Union
British Columbia	Malta	
Bermuda	Mexico	
British Virgin Islands	Monsterrat	
Bulgaria	Montenegro	
Cayman Islands	Morocco	
China	Netherlands, The	
Croatia, Republic of	New Zealand	
Cyprus, Republic of	Nigeria	
Czech Republic	Norway	
Denmark	Ontario	
Dominica	Pakistan	
Dubai	Poland	
Estonia	Portugal	
Finland	Quebec	
Former Yugoslav Republic of Macedonia	Romania	
France	Saint Lucia	
Germany	Saudi Arabia	
Greece	Serbia, Republic of	
Grenada	Singapore	
Guernsey	Slovak Republic	
Guyana	Slovenia	
Haiti	South Africa	
Hong Kong	Spain	
Hungary	Sri Lanka	
Iceland	Srpska, Republic of	
India	St. Kitts and Nevis	
Isle of Man	St. Vincent and the Grenadines	
Israel	Suriname	



## Appendix 2

### PART A

#### Minimum Margin Requirements for Non-Institutional Investors

Residual Maturity	Margins	
	Sovereign issues (%)	Other issues (%)
Up to 1 yr	1	2
Over 1 yr to 3 yrs	3	3
Over 3 yrs to 5 yrs	4	7
Over 7 yrs to 11 yrs	4.5	7.5
Over 11 yrs	4.5-6.0	7.5-9.0

### PART B

#### Minimum Margin Requirements for Institutional Investors

For all issues, both sovereign and corporate, Institutional Investors must adhere to a minimum Margin requirement of 2%.



### **Appendix 3**

A Non-Institutional Investor may be treated as an Institutional Investor on request provided the relevant criteria and procedure contained in this Appendix are fulfilled. These Non-Institutional Investors should not, however, be presumed to possess market knowledge and experience comparable to that of the Institutional Investors.

The Repo Seller must be given reasonable assurance in writing that, in light of the nature of the transactions or services envisaged, the Non-Institutional Investor is capable of making his own investment decisions and understands the risks involved. In the course of the assessment, the Non-Institutional Investor must show that he has net Financial Assets of no less than TT\$10 million dollars or such higher amounts as may be determined by the Commission from time to time.

The Non-Institutional Investor may be treated as an Institutional Investor only where the following procedure is followed:

1. He must state in writing to the Repo Seller that he wishes to be treated as an Institutional Investor;
2. He must also state in writing that he is aware of the consequences of being treated as an Institutional Investor; and
3. The Repo Seller must give the Non-Institutional Investor a clear written warning of the protections that he may lose.

Before deciding to treat the Non-Institutional Investor as an Institutional Investor, the Repo Seller is required to take all reasonable steps to ensure that the Non-Institutional Investor meets the relevant requirements stated above.

Should the repo Seller become aware that the Non-Institutional Investor no longer fulfils the initial conditions above the Repo Seller must take appropriate action which may include, but not be limited to, informing the relevant investor that he no longer meets the requirements under these Guidelines to be treated as an institutional investor and that in future transactions he will be treated as a Non-Institutional Investor until such time as he meets the requirements to be treated as an Institutional Investor.