



Repo Guidelines: How Do They Affect the Investing Public? – Part 1

The first question you may be asking yourself is, “What is repo or a repurchase agreement? It sounds similar to taking out hire purchase.” Actually, they are quite dissimilar in nature. Repurchase agreements are referred to as repos or buy/sell backs. In such agreements, according to the International Capital Markets Association, one party (“the seller”) sells an asset (usually fixed-income securities, *which are investments which pay investors fixed interest or dividend payments until its maturity date when the invested amount is repaid to the investor*) to another party (“the buyer”) at one price. The seller then commits to repurchase the same or another part of the asset from the buyer at a slightly higher price; at an agreed upon future date, or on demand (in the case of an open repo). If the seller is unable to fulfil their obligation to repurchase the asset at any stage of the agreement, the buyer (as the new owner) can sell the asset to a third party to offset his loss. The underlying asset itself therefore acts as collateral and mitigates the credit risk if the seller is unable to repurchase the asset.

Figure 1 - Illustrative example of a repurchase agreement



The agreement between the buyer and seller constitutes an investment contract, which falls under the regulatory ambit of the TTSEC and Repo Guidelines <https://ttsec.org.tt/wp-content/uploads/Amended-Repurchase-Agreements-Guidelines-July-2018.pdf>) exist to govern the market.

What are the Repurchase Agreement or Repo Guidelines?

There have been two (2) iterations of the Repo Guidelines issued by the TTSEC. The first version of the Guidelines was issued on April 1, 2012 with the later amendment being published on July 18, 2018. Both versions have 20 Sections which provide market guidance to local repo dealers. All 20 Sections of the current Guidelines are listed below:

1. Section I – **Interpretation**
2. Section II – **Conduct of Business**
3. Section III – **Registration**
4. Section IV – **Business Hours**
5. Section V – **Collateral Securities**
6. Section VI – **Business Day Convention**
7. Section VII – **Repo Rate**
8. Section VIII – **Repurchase Rate**
9. Section IX – **Substitutions**
10. Section X – **Custody and Custodian**
11. Section XI – **Confidentiality**
12. Section XII – **Legal Agreement**
13. Section XIII – **Margins**
14. Section XIV – **Confirmation of Deals**
15. Section XV – **Obligation to Make Coupon Payment**
16. Section XVI – **Settlement**
17. Section XVII – **Default and Close-Out**
18. Section XVIII – **Disclosure and Reporting**
19. Section XIX – **Operational Requirements**
20. Section XX – **Non-Institutional Investors**

We shall focus on the first four (4) Sections from the list above.

1. **Interpretation:** Section I states:
 - a. Definitions of the prominent terms used throughout the Guidelines.
 - b. The Guidelines are not to be used to regulate repos issued between institutions licensed under the Financial Institutions Act and the Central Bank of Trinidad and Tobago.
 - c. The Guidelines apply to all repos where there is no outright transfer of legal ownership from the seller to the buyer.
 - d. The requirements in the Guidelines apply in addition to any other requirements contained in any legislation by the TTSEC.
2. **Conduct of Business:** Section II states:

- a. The minimum value for repo transactions denominated in Trinidad and Tobago dollars is TTD 60,000 or the equivalent of USD 10,000 for transactions denominated in any other currency.
 - b. Market participants must conduct their business in such a manner so as not to bring the repo market into disrepute.
 - c. No participant shall enter into any repo transaction with the intention of limiting the availability of any securities; thereby creating a false or distorted market in that security.
3. **Registration:** Section III states:
- a. No person shall carry on the business of a Repo Seller unless they are registered with the TTSEC as a broker-dealer.
 - b. All broker-dealers engaged in the business of a Repo Seller will have to maintain the capital levels prescribed in the Securities Act, 2012, the Securities (General) By-Laws, 2015 or any other capital requirement as prescribed by the TTSEC.
 - c. All broker-dealers presently carrying on the business of a Repo Seller must comply with the requirements of these Guidelines. Failure to do same will result in the entity having to cease operations as a Repo Seller.
 - d. Compliance with the requirements of these Guidelines does not prevent the TTSEC from initiating any applicable enforcement action permitted under the Securities Act, 2012.
4. **Business Hours:** Section IV states:
- a. Unless otherwise agreed between the parties involved, all trades, except overnight and open trades, done 30 minutes before the close of business on the Trinidad and Tobago Stock Exchange are assumed to be cash trades. Those done after this time are assumed to be next day settlement trades.

In next week's article, the TTSEC will continue to discuss the Repurchase Agreement Guidelines with a detailed look at more of the Sections.

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