

**GUIDELINES FOR REPURCHASE AGREEMENTS “REPOS”**



**TRINIDAD AND TOBAGO SECURITIES AND EXCHANGE COMMISSION**

***Repurchase Agreements Guidelines***

**March 19, 2010**

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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 the Trinidad and Tobago Stock Exchange Limited is authorized or obliged by law or regulation to close in 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 borrower to the lender to support a loan transaction;

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

**“the Commission”** means the Trinidad and Tobago Securities and Exchange Commission, a body corporate 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;

**“hair cut”** 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;

**“maintenance of margin”** see **“re-pricing”**;

**“margin”** is the amount by which the value of the collateral exceeds the amount loaned 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;

**“purchaser”** see **“buyer”**;

**“repo”** or **“repurchase agreement”** or **“sale and repurchase agreement”** is the sale of a security with a commitment by the seller to buy the same 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 securities or collateral in the transaction to the correct margin level;

**“retail investors”** means buyers or purchasers other than sophisticated purchasers defined below;

**“reverse repo”** is the purchase of a security with a commitment by the purchaser 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;

**“sophisticated purchaser”** means the person defined in section 67(2) of the Act;

**“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 – Business Hours**

5. 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 IV - Collateral Securities**

6. (1) Repos to buyers other than sophisticated purchasers should be restricted to the following:
  - a) Treasury Bills and Treasury Notes issued by the Government of Trinidad and Tobago;
  - b) Bonds issued or guaranteed by the Government of the Republic of Trinidad and Tobago (“GORTT”) provided that those bonds were issued in Trinidad and Tobago; and
  - c) Corporate bonds listed on a recognized exchange in Trinidad and Tobago.
- (2) Collateral securities must not be used to cover short sales.
- (3) Collateral Securities must not be subject to margin purchases where these are held by other brokers.
- (4) Collateral securities must not be otherwise pledged or used as collateral.

## **Section V – Business Day Convention**

7. 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 VI – Repo Cost**

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

### **Section VII – Purchase Price**

9. 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 VIII – Substitutions**

10. (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 will 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 IX – Custody and Custodian**

11. (1) Custody arrangements should provide for all buyers to have a perfected interest in the collateral security.  
  
(2) All securities that are used to collateralize repos sold to purchasers other than sophisticated purchasers shall be held under the custodianship of the Trinidad and



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

(3) Where a repo is collateralized by a security issued outside of Trinidad and Tobago, the securities used to collateralize 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.

12. (1) A buyer’s interest in securities shall be secured by 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 with the TTCD or such other custodian as approved by the Commission by the seller shall represent an assignment of the said securities in favour of the buyer. In the event of default or other event as outlined in the Master Agreement, the Custodian will take the necessary steps as directed by the buyer.

13. (1) The Custodian shall maintain adequate and separate records in respect of collateral securities including-

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

(2) The Custodian in carrying out its duties concerning the safekeeping of and dealing with the collateral securities, shall exercise-

- (i) the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances; and
- (ii) at least the same degree of care as it exercises with respect to its own property of a similar kind, if this is a higher degree of care than the degree of care referred to in paragraph 13(2)(i) above.

(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 or diligence imposed by this Part.

## **Section X – Confidentiality and Integrity**

14. (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 14(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 XI – Legal Agreement**

15. (1) Repo transactions shall be subject to a Master Repurchase Agreement between the two participants concerned, a specimen of which has been placed on our website. The agreement should enable the participants to comply with any requirements to which they are subject and at a minimum, shall include:-

- (i) the principle of plain English;
- (ii) a description of the nature of the security and the risk;
- (iii) provide for monthly mark-to-market of transactions;
- (iv) provide for appropriate initial margin and for maintenance of margin, or re-pricing, whenever mark-to-market reveals a material change in value;
- (v) specify clearly the events of default and the consequential rights and obligations of the counterparties;
- (vi) provide, in the event of default, for full set-off of claims between the parties;
- (vii) make provisions clarifying the rights of the parties regarding the substitution of collateral and the treatment of coupon and interest payments including, for example, the timing of any payments.

(2) The Master Repurchase Agreement entered into by the parties shall be void if it contains provisions that conflict with these Guidelines or the Act.





## **Section XII – Margin**

16. (1) A haircut margin shall be applied at the time of issuance to all repo transactions that these Guidelines are intended to regulate. The recommended margins are contained in Appendix 1 of these Guidelines.
- (2) Repo transactions shall be marked to market at minimum on a monthly basis.
- (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 with characteristics similar to or better 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, if agreed to be required 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 on a next day basis. It is designed to provide flexibility for current settlement agent deadlines, however; 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 XIII – Confirmation of Deals**

17. (1) A participant as defined under section 3 of the Act shall ensure that a written or electronic confirmation of both legs of the repo transaction is issued on the day on which the trade 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 (the purchased securities);
- (vi) the repurchase date, the date on which the seller is to repurchase the purchased securities from the buyer; and
- (vii) whether there are rights of substitution,

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

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

(3) A Participant 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 Participant to the Custodian.

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

18. A seller is entitled to receive all interest and other income (“Income”) on securities subject to repurchase transactions to the same extent it would have been entitled to receive such income had it not entered into repurchase transactions on the securities.

#### ***Section XV – Settlement***

19. (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 XVI – Default and Close-Out***

20. 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.

## **Section XVII – Registration**

- 21. No person shall carry on the business of issuing, proposing to issue, offering or distributing repos to the public unless registered with the Commission as a reporting issuer or is registered as a securities company authorized to do business under the Act. Such reporting issuer or securities company must have at least TT\$15 million in capital.
- 22. No repurchase agreement shall be offered to the public unless it is registered with the Commission.
- 23. (i) A repurchase agreement may be registered with the Commission by filing a completed registration statement on Form No. 4 of Schedule 2 of the Securities Industry By-Laws, 1997.  
  
(ii) The application must be accompanied by the following documents:
  - (a) a copy of the proposed prospectus for the distribution of the repos;
  - (b) the accompanying fee as set out in the said Securities Industry By-Laws, 1997; and
  - (c) a copy of the Master Repurchase Agreement and any other documents that the Commission may require.  
(iii) A repo issued by a seller in accordance with the terms of a prospectus for which a receipt has been issued by the Commission, is deemed to be registered with the Commission.
- 24. The Commission may issue a receipt for a prospectus covering the offering or distribution of repos to a person subject to such conditions as-
  - (i) it may impose in the public interest; or
  - (ii) may seem to it necessary, advisable or appropriate to ensure orderly growth and development of the repo market.



## **Section XIIX – Disclosure and Reporting**

25. The seller shall comply with the provisions for continuous disclosure required by the Act and the Securities Industry By-Laws, 1997.

26. (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 prospectus on the repo products;
- (b) policies and procedures for the repo operations;
- (c) the Master Repurchase Agreement;
- (e) the form of all other transaction documents, e.g. confirmations;
- (f) marketing material.

(ii) prepare and submit to the Commission a quarterly report containing-

- (a) total investments, total repos and computation of the specific asset and capital ratios;
- (b) number of repo clients that are not sophisticated purchasers;
- (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 of the seller 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 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.

## **Section XIX - Operational Requirements**

27. (1) The seller shall develop and implement documented policies and procedures for repo operations and monitor compliance.
- (2) The seller should ensure that there are-
- (i) operational systems for transactional valuation and financial reporting;
  - (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;
  - (ii) substitutions;
  - (iii) all agreements and communications with clients.
28. The total value of repos outstanding to total assets shall not exceed 60% of the sellers' total assets.
29. The Commission shall be entitled to inspect and/or request copies of all records, including but not limited to those records kept by the TTCD and the seller as stipulated under these Guidelines.



## APPENDIX I

### Margin Requirements

Security	Residual Maturity	Recommended
<b>Investment Grade - Sovereign</b>	Up to 1 yr	<b>1%</b>
	Over 1yr to 3yrs	<b>3%</b>
	Over 3 yrs to 7 yrs	<b>4%</b>
	Over 7 yrs to 11 yrs	<b>5%</b>
	Over 11 yrs	<b>6%</b>
<b>Investment Grade - Corporate</b>	Up to 1 yr	<b>2%</b>
	Over 1yr to 3yrs	<b>4%</b>
	Over 3 yrs to 7 yrs	<b>7%</b>
	Over 7 yrs to 11 yrs	<b>8%</b>
	Over 11 yrs	<b>9%</b>
<b>Non – Investment Grade (rated above C)</b>	Up to 1 yr	<b>15%</b>
	Over 1yr to 3yrs	<b>15%</b>
	Over 3 yrs to 7 yrs	<b>15%</b>
	Over 7 yrs to 11 yrs	<b>15%</b>
	Over 11 yrs	<b>15%</b>
<b>Other Securities</b>	Flat Rate	<b>50%</b>
<b>Un-rated Securities</b>	Flat Rate	<b>50%</b>