



Repurchase Agreement Guidelines

Launch of AML/CFT & Repo Guidelines
April 23, 2012- Belmont Salon, Trinidad Hilton
By Kavena Ramsoobhag, Financial Research Officer

Outline

- Definition
- Key Terms to Note
- Purpose
- Overview of the Local Repo Market
- Scope of the Guidelines
- Key Features of the Guidelines
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What is a Repurchase Agreement Transaction?

- *A Repurchase Agreement or 'Repo' 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 at a designated date in the future" ~ Securities lending and repurchase agreements by Fabozzi, F.*

Key Terms to Note

- **Collateral securities/underlying securities** – Assets upon which the Repo transaction is based.
- **Margin** – the amount of cash or securities that must be set aside by the seller before he enters into the repo transaction.
- **Mark to Market** – the process of valuing the underlying securities based on current market prices.

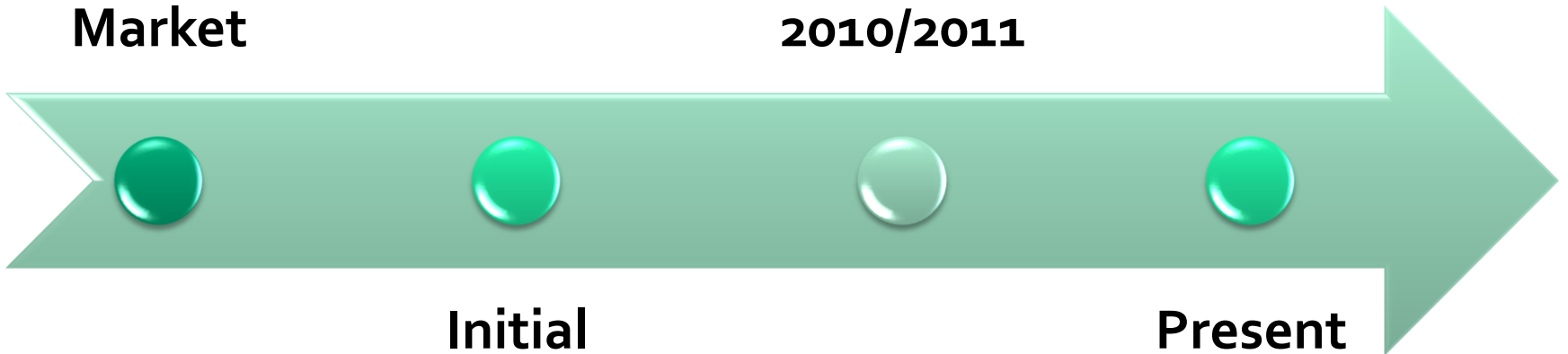
Background

2006 -
Study of
Repo
Market

Discussions
held with
SDATT –
2010/2011

Initial
Guidelines
approved
and released
– May 2010

Present

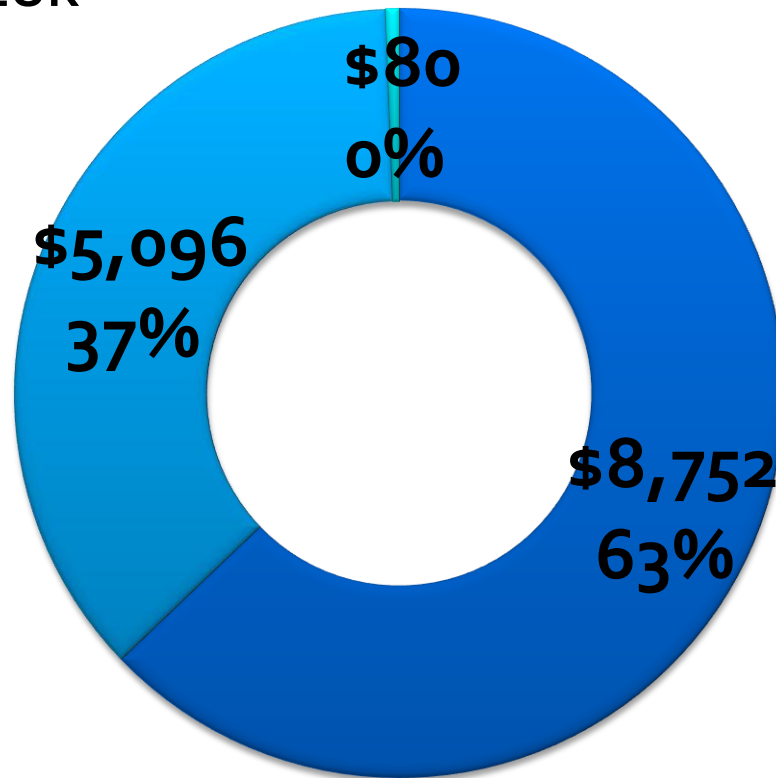


Purpose of the Guidelines

- To provide a regulatory framework for the Repo industry.
- To assist the Commission in ensuring orderly, fair and equitable dealings in the Repo market.
- To foster investor confidence and to promote growth and development in the market.

Value of Repo Transactions in Millions of TT\$ by Currency: July 1, 2010 - June 30, 2011

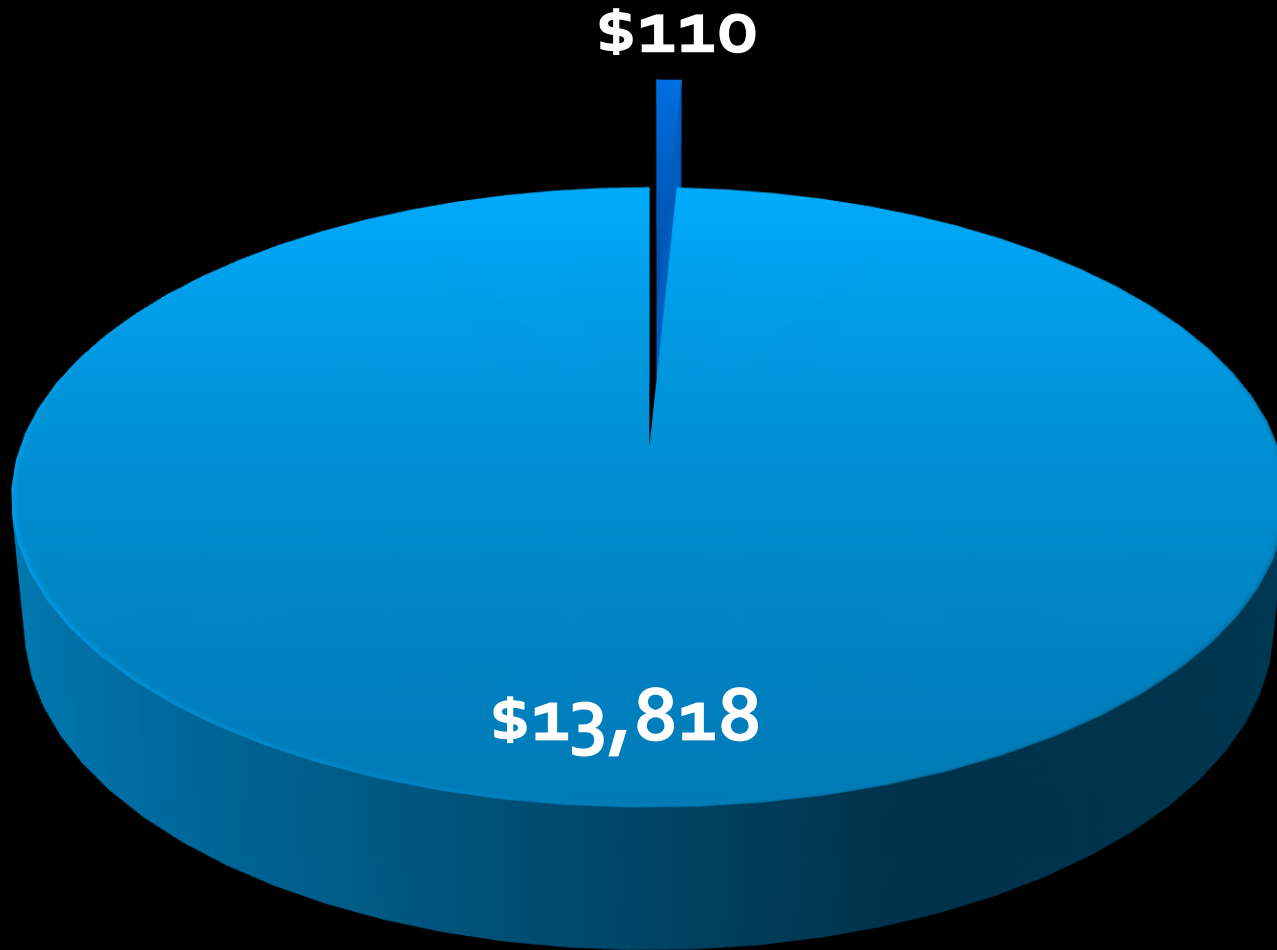
■ TTD ■ USD ■ EUR



Source: Trinidad and Tobago Stock Exchange

Value of Repo Transactions in Millions of TT\$ by Investor: July 1, 2010 – June 30, 2011

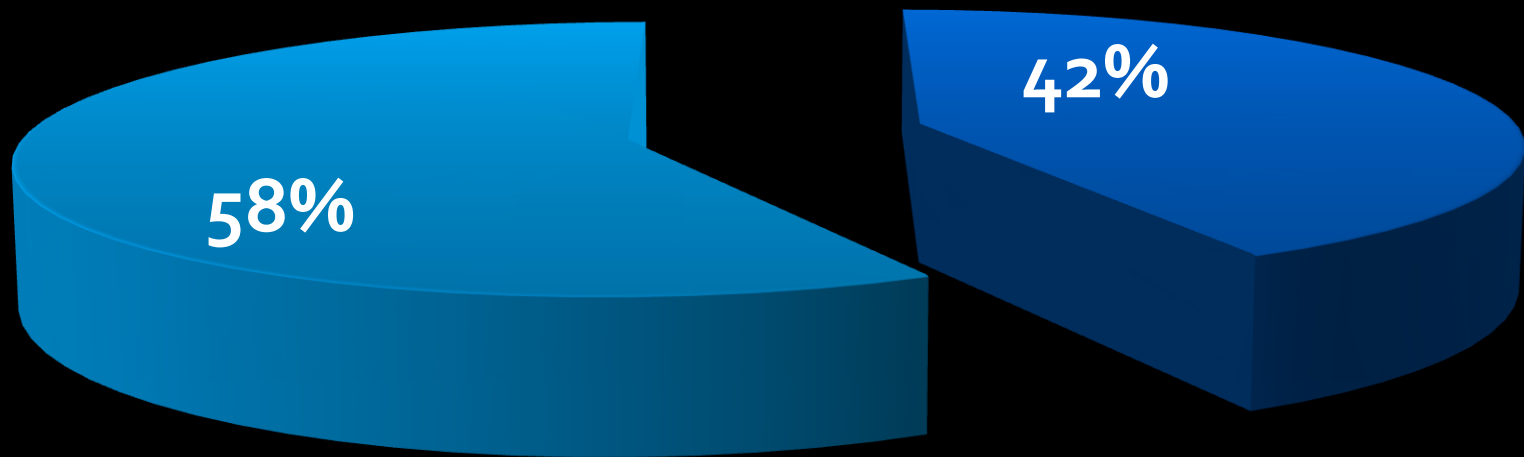
■ Non-Institutional ■ Institutional



Source: Trinidad and Tobago Stock Exchange

Number of Repo Transactions: July 1, 2010-June 30th 2011

■ Non-Institutional ■ Institutional



Scope of the Guidelines

- Drafted to regulate Repo transactions excluding those Repo transactions that occur between the CBTT and licensed financial institutions.
- Guidelines do not apply to Repo transactions conducted outside of Trinidad & Tobago.
- The Guidelines recognize two (2) categories of investors:
 1. Institutional Investors
 2. Non Institutional Investors

Institutional Investors

- Banks, Non-Bank Financial Institutions, Insurance companies, Development banks, trust companies, or mortgage companies;
- Securities Companies, Dealers, Underwriters, Registered Mutual Funds;
- Government entities; and
- Companies with at least TT\$10 million of Net Financial Assets

Non Institutional Investors

- Repo buyers or Repo sellers other than Institutional Investors.
- The Guidelines provide a greater level of protection for Non Institutional Investors in terms of the following:
 - Collateral Securities
 - Custodial Arrangements
 - Margin Requirements
 - Disclosure Requirements

Non Institutional Investors (Cont'd)

- Can choose to be treated as Institutional Investors.
- This requires meeting certain criteria:
 - Providing assurance to the Repo seller, in writing, that he is capable of making his own investment decisions;
 - Proving that he has net Financial Assets of no less than TT\$10 million;
 - The Repo Seller giving the Non-Institutional Investor a clear warning of the protections that they may lose; and
 - Stating in writing to the Repo Seller that he is aware of the consequences of being treated as an Institutional Investor.

Collateral Securities

- Non Institutional Investors
 - GORTT Treasury Bills and Notes
 - Bonds issued or Guaranteed by GORTT (local issues)
 - Corporate Bonds listed on the TTSE
- Institutional Investors .
- All collateral securities used in Repo Transactions must NOW be registered with the TTSEC .

Registration

- Securities Companies wishing to carry on the business as a Repo Seller must have at least TT\$15 million in capital
 - One (1) year grace period for existing Repo Sellers
- Each Repo transaction no longer needs to be registered with the TTSEC.
- Repo sellers are no longer required to submit a prospectus for each Repo transaction to the TTSEC.

Custody and Custodian

- All Repo transactions are NOW required to involve a third party custodian.
- TTCD is identified as the Custodian of choice for Non Institutional Investors.
- Foreign securities used in Repo Transactions must be held under the custodianship of an entity that is regulated by securities/banking regulator.
- A list of approved foreign jurisdictions is NOW included in the Guidelines.

Margin

- Margin requirements must be applied to all Repo transactions.
- Repo Transactions with Institutional Investors are now subject to a minimum margin requirement of 2%.
- Repo transactions are now required to be marked to market at MINIMUM on a quarterly basis.
- Margin call obligations are now required to be settled no later than T+5 days.

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%

Master Repurchase Agreement

- Repos must be constituted by an MRA.
- Guidelines identify the minimum areas that the MRA must address. E.g:
 - Description of the nature of the security and the risk;
 - Provision for quarterly Mark to market of transactions;
 - Provision for appropriate Initial Margin and for Maintenance of the Margin;
 - Specification of the custody arrangements regarding the collateral;
 - Specification of the rights and obligations of the Buyer and Seller.

Reporting Requirements for Repo Sellers

- Includes the submission of Quarterly Reports containing:
 - Total investments and total Repos;
 - Number of Repo clients categorized according to Institutional and Non Institutional Investors;
 - Declaration of compliance with the Guidelines signed by the CEO and two (2) directors; and
 - A list of assets sold under the Repo Agreements at current values and the total of such assets;
- Submission of a disclosure statement, policies and procedures for Repo operations, term sheet and marketing material.

Guidance on Marketing Material

- Marketing Material used in Repo transactions should:
 - Clearly state that the transaction is a Repo transaction;
 - Clearly state that the funds invested in the transaction are not deposits and are not covered by the DIC;
 - Include a description of the significant risks involved in the transactions;
 - Include a summary of the rights and obligations of both the Repo Buyer and Seller; and
 - Include a glossary of all technical terms related to Repo transactions.

Operational Requirements

- Operational Requirements of Repo Sellers include:
 - Development and Implementation of documented policies and procedures for Repo operations;
 - Monitoring compliance and maintenance of a compliance log;
 - Maintenance of adequate records of Repo securities and the specific assignment of each Repo transaction.

Overview of Repo Transaction as per Guidelines

Repo Seller registers with TTSEC

1. Ongoing reporting requirements on Repo activity
2. Ongoing disclosure obligations to the Commission and Investors

Repo Seller:

1. Draft MRA
2. Ensure eligible Collateral
 - a. registered with TTSEC
 - b. Lodged with Custodian

Enter into transaction with Investors

Custodian places hold on Collateral for Benefit of Investors

Margin Calls settled (if necessary)

At Maturity:

1. Repo Seller pays investor
2. Repo Seller sends confirmation to Custodian
3. Custodian releases hold on collateral

Future Developments

- Effective Date of the Guidelines - three (3) months from the date of issuance of the Guidelines;
- Implementation period of three (3) months from the date of issuance is provided to Repo Sellers to comply with the Guidelines
 - Capital Requirements – one (1) year from the issuance of the Guidelines
- Framework to facilitate local custodians other than the TTCD;
- Risk Based Capital Requirement; and
- Review of Guidelines periodically

The End

Thank you for your attention
Questions

