



Central Bank of Seychelles

Circular on Repurchase (Repo) and Reverse Repurchase (Reverse Repo) Transactions with Commercial Banks

In line with section 43 of the Central Bank Amended Act (2004), this circular set out the Bank's guiding principles of the newly introduced instrument as part of its Open Market Operations in the form of collateralised lending/borrowing to banks.

The Bank has adopted repos/reverse repos as an instrument in liquidity management for greater flexibility and as a contribution to market development.

The instrument which has two sides is referred to as

1. Repo: meaning transactions in which the Bank will provide liquidity to commercial banks;
2. Reverse repo: meaning transactions in which liquidity will be absorbed.

The Bank reserves the rights to amend any of the provisions in the documents including the borrowing or lending limits and haircuts pertaining to the two instruments, on the basis of its monetary policy stance and/or to reflect market conditions. Banks will be notified of any change in advance.

This instrument became effective, retrospectively, as of June 2009.

I. INTRODUCTION

In line with Section 43 of the Central Bank of Seychelles Act of 2004, the Central Bank of Seychelles (hereafter referred to as the Bank) may undertake Repurchase Agreements (Repo) and Reverse Repurchase Agreements (Reverse Repo) with banks in the conduct of its monetary policy operations.

In this document, the term “repo” will be understood to mean transactions in which the Bank will provide liquidity to banks, while in “reverse repo” transactions liquidity will be absorbed. The use of ‘liquidity providing repos’ and ‘liquidity absorbing reverse repos’ is primarily for managing short-term liquidity fluctuations in the banking system and forms part of the Bank’s Open Market Operations. The underlying aspect of such transactions is the transfer of legal ownership to the party providing the cash while the owner retains beneficial ownership during the life of the agreement.

The agreements to simultaneously purchase and/or sell securities were developed as an efficient mechanism for secured borrowing and lending. To work effectively, it requires a Master Repurchase Agreement (MRA) that allows such transactions and recognises the separation of legal and beneficial ownership. The Bank will work with the banks and other participants in the financial sector for establishing such a framework based on international standards.¹

The essential issue in repo transactions is the separation of legal from beneficial ownerships. Under this arrangement one entity may have legal right to a security (legal ownership) but a separate entity may still carry the risks and rewards of ownership (beneficial ownership). The legal title is defined in the law but the beneficial ownership will not be transferred until a default on the part of the party borrowing the cash.

The transferor retains the economic risks and rewards of the security (beneficial ownership) and because of this; the International Financial Reporting System (IFRS) requires the retention of the asset on its balance sheet. The transferee (party receiving legal ownership - but not the economic benefits – and providing the cash) must just record the lending transaction as a receivable (“due from other banks”) asset.

¹ The Bank has decided to proceed with the introduction of “repo transactions” with the intention to introduce a Master Repurchase Agreement (MRA). This is principally attributed to the fact that the financial market in Seychelles will benefit from the use of this mechanism and an MRA will be needed when the market is more fully developed.

Repo and reverse repo transactions will be conducted between the Bank and banks licensed to conduct domestic banking business in Seychelles.

Participation of the banks is entirely on a voluntary basis.

II. DEFINITION AND INTERPRETATION

Repo Transaction

A ‘liquidity providing’ repo transaction is when the Bank buys securities² from banks at a particular price, with an understanding to sell back the same securities³ to its original owner at the original buying price at a specified future date, under a formal legal agreement (Repurchase Agreement). **The Bank** as the **repo buyer** (or the **cash provider**), earns a rate of interest (repo rate) for the money lent. A repo transaction implies a transfer of legal ownership of the securities to the repo buyer (the Bank) from the cash takers (the banks), for the duration of the Agreement.

Reverse Repo Transaction

A ‘liquidity absorbing’ reverse repo transaction is the mirror image of a repo transaction whereby the Bank sells securities⁴ to banks at a specific price, with an understanding to repurchase the same securities at the original selling price at a particular future date, under a formal legal agreement (Reverse Repurchase Agreement). The Bank as the **repo seller** (or the cash taker), pays interest (reverse repo rate) for the funds received. Such a repo transaction implies the transfer of legal ownership of the securities from the repo seller (the Bank) to the cash providers (the banks), for the duration of the Agreement.

Repo and Reverse Repo Rates

The repo (or reverse repo) rate is the annualised interest rate paid by the repo seller (or cash taker) for the funds transferred by the repo buyer (or cash provider). The interest payment will be based on the duration of the repo and the principal amount involved.

² Limited to Government securities such as Treasury bills and bonds.

³ Some countries allow for the repurchase of equivalent though not same securities, but substitution of securities will not be allowed for the time being.

⁴ Government securities in the Bank’s portfolio.

III. PROCEDURES FOR REPO AND REVERSE REPO

The repo and reverse repo rate will usually be determined through an auction process.⁵

a. Announcement

The Bank will issue an announcement, via email or facsimile on the day of the auction specifying the terms and conditions of the auction as follow:

- A reference number of the Auction, *for example RA20091021 or RRA20091021*;
- Date of the Auction, *for example October 21, 2009*;
- Auction Format, *for example Marginal rate or Multiple rate*⁶;
- Maturity period (days): *for example forty-two (42 days)*;
- Bid Amount⁷: *for example R350,000*;
- Auction Window Start Time: *for example 09:00 hours*;
- Auction Window Closing Time: *for example 10:00 hours*.

b. Bidding

Participants will be provided with a Repo or Reverse Repo Bid table, which should be completed for submission of bids. This will require the following information:

- Two authorised signatories and official stamp details;
- Bid offer amount (in whole numbers and need to state the collateral where relevant);
- Bid Rate (expressed as an annual percentage rate to two decimal points).

Bids should be submitted within the set auction window timeframe on the auction date. In the case of a repo, successful bidders will be advised to submit the collaterals being pledged.

Submission may be by facsimile, email or hand delivered, together with the collateral where applicable. Only authorised signatories as provided by the banks to Banking Services Division will be accepted as designated guarantors. In the event of a submission via email, only requests with the bank's email extensions will be accepted and furthermore, requests must be confirmed via telephone. The Bank will only accept hand delivered bids which are officially stamped and have at least one authorised signature at the bottom. Only bids submitted by the auction window deadline and meeting the information requirements for submission will be accepted.

⁵ The Bank may also decide in special circumstances to conduct repo and reverse repo transaction through a fixed interest rate auction.

⁶ A single price auction is where the bids are awarded at one single rate to all successful bidders, determined by the marginal rate at which the available amount is fully allocated. A multiple price auction is where the allotment rate is equal to the individual bid rate of successful bidders.

⁷ On the basis of liquidity analysis and forecasting.

c. Auction Awards and Notification

Once the repo or reverse repo auction window is closed, the Monetary Operations Committee (MOC) will meet to review and assess the bids for allotment. Only bids that meet all of the terms and conditions of the auction will be considered in the allocation process.

In the event of liquidity-withdrawal (reverse repo), under a multiple rate tender, the bids from banks (in terms of interest rates) shall be listed in increasing order. During the allotment process, priority shall be given to the lowest bids whereby highest bids are rejected or pro-rated in order to ensure the achievement of the desired amount.

When there is a liquidity-injection (repo), under a multiple rate tender, the bids from banks (in terms of interest rates) shall be listed in decreasing order. During the allotment process, priority shall be given to the highest bids whereby the lowest bids are rejected or pro-rated in order to ensure the achievement of the desired amount.

Notification of approved and rejected bids will be sent to participants instantly following allotment via email and/or fax. Once approved the notification shall state the amount, the applicable interest rate, the commencement and maturity dates.

The Bank reserves the right to accept or reject any or all bids and is not required to provide any reason for doing so.

IV. MANAGEMENT

As the Bank is introducing Repos (for injecting liquidity) and Reverse Repos (for absorbing liquidity) with banks as part of its open market operations, the use of the two instruments will be managed by the (MOC). Decision to enter into such agreements will thus be initiated solely by the Bank, guided by a thorough assessment of the liquidity situation, carried out by the Monetary Analysis and Statistics Division (MASD).

V. TERMS OF REPO AND REVERSE REPO TRANSACTIONS**a. Type of Repo and Reverse Repo Transactions**

The Bank will undertake repo and reverse repo transactions with the following features:

- transfer of legal ownership of the securities through sale and purchase;
- initial owner (repo seller or cash taker) retains the right to any coupon payment;
- a margin to be applied on the repoed security;

- the security repoed may **not** be substituted for another security of the same value for the time being; and
- the transaction is accompanied by a Repurchase or Reverse Repurchase Agreement.

b. Pricing and Margins – Calculation of Proceeds

- First leg Proceeds
 - = The principal amount determined in the auction and equal to the current market value of the security less a haircut⁸
- Repo Interest
 - $\text{Repo Rate (\%)} \times \text{Proceeds in 1}^{\text{st}} \text{ part} \times \frac{\text{no. of days to maturity}}{365}$
- Second leg Proceeds
 - = first leg proceeds (or principal amount) + repo interest

c. Permitted Securities

Securities that are eligible as collateral to be repoed with the Bank are those taken from the Bank's portfolio of securities (in the case of a reverse repo) and those listed under Category 1 in the document entitled '*Determining Collateral Haircuts and Market Value*' (in the case of a repo).

The term to maturity of the securities used in a repo must not be shorter than the duration of the Agreement. Either one or multiple securities may be used in conducting repo transactions.

VI. ACCOUNTING PROCEDURES

From the Bank's perspective, the accounting treatment for repo and reverse repo transactions will be the same as for collateralised lending and borrowing, respectively.

a. Repo transaction

In a repo transaction, as the Bank will be lending to a bank, the accounting entries will be to debit repurchase agreement receivable account ("due from other banks") which is a summary account of all repurchase transactions and credit the account of the bank.⁹

⁸ Applicable haircuts for specific security are specified in the document entitled '*Determining Market Value and Collateral Haircuts*'.

The amount will be for the face value of the transaction and not the value of the securities that the bank has pledged to the Bank as there may be a margin (haircut) requirement.

As such, the securities received as collaterals will not be recorded in the balance sheet of the Bank. The IFRS requires the retention of the securities on the banks' balance sheets given that banks still retain the economic risks and rewards of the security as they have beneficial ownership. In such cases, the transferee, that is the party (here the Bank) receiving legal ownership but not the economic benefits, may just record the lending transaction as repo receivable.

b. Reverse repo transactions

In a reverse repo transaction (as defined in this document), the Bank will be the repo seller and borrower from the banks. The accounting entries will be debit to the account of the bank and credit to repurchase agreement payable ("due to banks").¹⁰

For the purpose of this instrument the Bank will provide collaterals, in the form of government securities in its portfolio, to the banks in return for funds. Such a transaction will be done with a further agreement for the Bank to repurchase the same security from the banks at a predetermined date and price.

The securities pledged as collateral are already recorded in the balance sheet of the Bank (the transferor), and will remain so but are reclassified. The acquiring bank (the transferee) has the right to pledge or on sell the security.¹¹

Therefore, on maturity, the Bank pays the face value of the reverse repo agreement which is inclusive of interest payments, which will be recorded as an interest expense deducted from the charges account and reverses the classification of the pledge securities.

VII. SETTLEMENT AND CONCLUSION OF AGREEMENTS

a. Agreement

To fulfill a repo and a reverse repo transaction, banks which bids have been accepted will enter into an Agreement with the Bank, to primarily safeguard the interests of both the Bank and banks against non-performance of obligations. In other words, the repo and reverse repo

⁹ The specific transactions will be recorded in a subsidiary system

¹⁰ The specific transactions will also be recorded in a subsidiary system.

¹¹ This will also apply in a repo transaction when the Bank is the transferee (receiver) of securities.

transactions are subject to legal written Agreements between the Bank and each of the banks concerned. The Agreements will specify all the terms and conditions of the transaction of both parties and protect relevant interests under all contingencies. These should include but not limited to the following:

- Purchase and repurchase/termination dates;
- Purchase and repurchase prices (or the principle amount);
- Securities to be repoed;
- Provisions for the absolute transfer of legal title of the securities being repoed;
- Provisions for events of default and the contractual rights and obligations of the counterparties;
- Provisions clarifying the rights of the parties regarding the treatment of coupon and interest payments in respect of securities subject to it;
- The Agreement will be subject to the respective laws of Seychelles;
- A sample copy of the approved repo and reverse repo agreements are attached in Appendices 1 and 2¹².

The Governor/Deputy Governor or any other Officer delegated by the Governor will have the right to conclude a Repo or a Reverse Repo Agreements in the name of the Bank with any of the banks. Banks will be represented by their Managing Directors (MD) or any designated Officer, in the absence of the MD. All agreements should have the official stamps of the respective banks.

b. Initiating the Transaction and Settlement

The deal will be done directly between the Bank and the banks. On the date the Agreement is signed (the date it takes effect) the Bank will initiate the transaction. Simultaneously, funds will move to or from the Bank's account, accordingly.

c. Termination of Agreement and Repayment

Upon maturity, transactions undertaken on the settlement date will be reversed. The transferee will return the security to its owner at the original buying price and in return receives an interest for the money it loaned to the repo seller or cash taker.

Should the agreement terminate on a non-working day then the transactions will be conducted on the next working day.

¹² As approved by the CBS Board dated June 26, 2009.

VIII. PENALTIES

It will be the responsibility of each bank to ensure that the required cash is available on its account on the maturity date and that the security unencumbered. In the event that this is not the case, the Central Bank will permanently retain the collaterals in the case of a repo or permanently retain the funds in the case of a reverse repo.



P. Laporte

Governor

APPENDIX 1

REPURCHASE AGREEMENT

BETWEEN

.....
(hereinafter referred to as “.....”)

AND

THE CENTRAL BANK OF SEYCHELLES
(hereinafter referred to as “CBS”)

.....and the CBS hereinafter referred to collectively as “the Parties” have entered into this Agreement whereby CBS purchases from..... the Securities on the condition that CBS resell the same to subject to the terms and conditions specified in this Agreement.

1. Interpretation

Unless otherwise specified herein the following terms shall mean:

“Purchase Date” means the date of commencement of a Repurchase Agreement as specified in Annex 1;

“Purchase Price” means the amount paid by.....on the Purchase Date, in respect of this Repurchase Agreement as specified in Annex 1

“Repurchase Date” means the date on which the Securities subject to this Repurchase Agreement are sold back against payment by as specified in Annex 1;

“Repurchase Price” means the amount paid by the on the Repurchase Date, in respect this Repurchase Agreement, against the delivery of the relevant Securities by CBS as specified in Annex 1

“Securities” means the Treasury Bills specified in Annex 1:

“Termination Date” means the Repurchase Date applicable as specified in Annex 1 provided that all obligations of the Parties have been fulfilled.

2. Representations

The Parties represent and warrant at the time of entering into this Agreement:

2.1 that it has been properly incorporated and is conducting its business in accordance with the laws, regulations and articles of association (or other instruments of incorporation) that are applicable to it;

2.2 that it has full authority and capacity to enter into this Agreement and any Repurchase Agreement relating thereto, and that this Agreement and any such Repurchase Transaction

have been duly and properly authorised by its management bodies or any other duly authorised body.

2.3 that the Securities shall not be subject to any charge or pledge for the duration of this Repurchase Agreement, which will preclude the vesting of title in either Party.

3. Sale and Repurchase of Securities

3.1 On the Purchase Date,.....will deliver or have delivered to CBS the Securities against payment of the Purchase Price by CBS.

3.1.1will thereafter sign the transfer form as shown in Annex 2, in order to vest full title to the Securities to CBS for the duration of this Repurchase Agreement.

3.2 On the Repurchase Date, CBS will deliver or have delivered to..... the Securities against payment of the Repurchase Price by

3.2.1 Upon payment of the Repurchase price by the..... CBS shall cause the title to the Securities to return to.....

4. Term of Agreement

This Repurchase Agreement shall commence on the date of signature of the Parties and shall terminate upon the Termination date.

5. Governing Law

5.1 This Agreement is governed by the law of the Republic of Seychelles.

5.2 Any dispute will be subject to the jurisdiction of the courts within the Republic of Seychelles.

This Agreement is signed on the _____, 2009.

Central Bank of Seychelles

By: _____

Post: _____

ANNEX 1**PARTICULARS OF REPURCHASE TRANSACTIONS**

TRANCHE	SECURITIES	VALUE OF PURCHASE (SR)	PURCHASE DATE	PURCHASE PRICE	REPURCHASE DATE	REPURCHASE PRICE
1						
2						
3						

ANNEX 2

TRANSFER FORM

Government Backed Securities

We (Transferor) in consideration of the sum of R..... paid to me by CBS (Transferee) DO HEREBY TRANSFER to the Transferee the above Government Backed Security registered at the Central Bank of Seychelles as Number for a total nominal value of Rupeesonly to hold unto the Transferee, subject to the several conditions on which we, the Transferor(s) held the same immediately before the execution hereof and we the Transferee, do hereby agree to accept and take the said Government Backed Securities subject to the conditions aforesaid.

IN WITNESS whereof the said parties hereto have hereunto set their hands or seals this day of of

In the presence of: (Full name of witness)
..... (Signature of witness)
.....(Occupation of witness)

Transferor(s):

Transferee :

Note:

- (1) The signing of this transfer should be witnessed by a Member of Legislative Assembly, Magistrate, Attorney, Minister of Religion, senior public official or bank manager.
(2) When this transfer form is duly completed, it must be delivered together with relevant Government Backed Securities Certificate(s) for registration at the Central Bank of Seychelles.
(3) The Register at the Central Bank of Seychelles will be closed for preparation of interest warrants during a period of 14 days immediately preceding the date of each payment of interest. During such period, registrations of transfers will be made only to the holder of Government Backed Securities then on the Register.
(4) No stamp duty or registration fee is payable in respect of any transfer.

For use of Central Bank of Seychelles

New Holder's Details:

Address:

Bank:

Account No:

Phone No:

Transfer registered on.....

APPENDIX 2

REVERSE REPURCHASE AGREEMENT

BETWEEN

.....
(hereinafter referred to as “.....”)

AND

THE CENTRAL BANK OF SEYCHELLES
(hereinafter referred to as “CBS”)

.....and the CBS hereinafter referred to collectively as “the Parties” have entered into this Agreement wherebypurchases from CBS the Securities on the condition that CBS repurchases the same from subject to the terms and conditions specified in this Agreement.

1. Interpretation

Unless otherwise specified herein the following terms shall mean:

“Purchase Date” means the date of commencement of a Reverse Repurchase Agreement as specified in Annex 1;

“Purchase Price” means the amount paid by.....on the Purchase Date, in respect of this Reverse Repurchase Agreement as specified in Annex 1

“Repurchase Date” means the date on which the Securities subject to this Reverse Repurchase Agreement are sold back against payment by the CBS as specified in Annex 1;

“Repurchase Price” means the amount paid by the CBS on the Repurchase Date, in respect this Reverse Repurchase Agreement, against the delivery of the relevant Securities byas specified in Annex 1

“Securities” means the Treasury Bills specified in Annex 1:

“Termination Date” means the Repurchase Date applicable to Tranche X as specified in Annex 1 provided that all obligations of the Parties have been fulfilled.

2. Representations

The Parties represent and warrant at the time of entering into this Agreement:

2.1 that it has been properly incorporated and is conducting its business in accordance with the laws, regulations and articles of association (or other instruments of incorporation) that are applicable to it;

2.2 that it has full authority and capacity to enter into this Agreement and any Repurchase Agreement relating thereto, and that this Agreement and any such Repurchase Transaction have been duly and properly authorised by its management bodies or any other duly authorised body.

2.3 that the Securities are not subject to any charge or pledge upon the commencement of this reverse Repurchase Agreement or at the termination date, which will preclude the vesting of title in either Party. For the avoidance of doubt the Parties shall be able to deal with the Securities, provided the Securities are with a clean title at both the beginning and the end of this Agreement.

3. Sale and Repurchase of Securities

3.1 On the Purchase Date, CBS will deliver to the Securities against payment of the Purchase Price by.....

3.1.1 The CBS will thereafter complete the transfer form as shown in Annex 2, in order to vest full title to the Securities to....., subject to paragraph 3.2.1.

3.2 On the Repurchase Datewill deliver to the CBS the Securities against payment of the Repurchase Price by the CBS.

3.2.1 Upon payment of the Repurchase price by the CBS.....shall cause the title to the Securities to return to the CBS.

4. Term of Agreement

This Reverse Repurchase Agreement shall commence on the date of signature of the Parties and shall terminate upon the Termination date.

5. Governing Law

5.1 This Agreement is governed by the law of the Republic of Seychelles.

5.2 Any dispute will be subject to the jurisdiction of the courts within the Republic of Seychelles.

This Agreement is signed on the _____, 2009.

Central Bank of Seychelles

By: _____

Post: _____

ANNEX 1

PARTICULARS OF REVERSE REPURCHASE TRANSACTIONS

TRANCHE	SECURITIES	PURCHASE PRICE	PURCHASE DATE	REPURCHASE DATE	REPURCHASE PRICE

ANNEX 2

TRANSFER FORM

Government Backed Securities

We Central Bank of Seychelles (Transferor) in consideration of the sum of R..... paid to me by (Transferee) **DO HEREBY TRANSFER** to the Transferee the above Government Treasury Bill registered at the Central Bank of Seychelles as Number for a total nominal value of **Rupees** to hold unto the Transferee, subject to the several conditions on which we, the Transferor(s) held the same immediately before the execution hereof and we the Transferee, do hereby agree to accept and take the said Government Backed Securities subject to the conditions aforesaid.

IN WITNESS whereof the said parties hereto have hereunto set their hands or seals this **day** of of

In the presence of: (Full name of witness)
 (Signature of witness)
(Occupation of witness)

Transferor(s):

Transferee :

Note:

- (1) *The signing of this transfer should be witnessed by a Member of Legislative Assembly, Magistrate, Attorney, Minister of Religion, senior public official or bank manager.*
- (2) *When this transfer form is duly completed, it must be delivered together with relevant Government Backed Securities Certificate(s) for registration at the Central Bank of Seychelles.*
- (3) *The Register at the Central Bank of Seychelles will be closed for preparation of interest warrants during a period of 14 days immediately preceding the date of each payment of interest. During such period, registrations of transfers will be made only to the holder of Government Backed Securities then on the Register.*
- (4) *No stamp duty or registration fee is payable in respect of any transfer.*

For use of Central Bank of Seychelles
New Holder's Details:

Address:

Bank:

Account No:

Phone No:

Transfer registered on.....