



**Notice governing operational
and administrative issues
pertaining to repurchase
transactions entered into by the
Corporation for Public Deposits
("CPD Operational Notice")**

Financial Markets Department
Money Market Operations

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1. Background

- 1.1. This CPD Operational Notice applies to the Master Repurchase Agreement entered into between the Corporation for Public Deposits (CPD) and its counterparties and the 2011 Global Master Repurchase Agreement to be entered into between the CPD and its counterparties, as amended from time to time (“each respectively referred to as the Agreement”). The transactions will be conducted by the Financial Markets Department (FMD) of the South African Reserve Bank (the SARB), which, in terms of an arrangement approved by the board of the CPD, is responsible for the investment of CPD funds and the subsequent transactions to this effect. In the event of any conflict between this CPD Operational Notice and the Agreement, this CPD Operational Notice shall prevail in respect of the specific transaction or transactions. All capitalised terms used in this CPD Operational Notice and not defined will have the meaning given to them in the Agreement.
- 1.2. The CPD’s investment guidelines provide for funds to be invested on a repurchase basis while the vast majority of transactions referred to as “repos” in the domestic market are in reality buy/sell-backs (or carries), the repurchase agreements entered into between the CPD and the Counterparties will be conducted and booked on the basis of buy/sell-backs, where the buyer of the securities obtains the right to any coupon payments.
- 1.3. In order to participate in repo transactions with the CPD, counterparty must obtain approval from the FMD of the SARB. The counterparty must be registered with the Financial Sector Conduct Authority (FSCA), STRATE and be a member of a reputable locally registered stock exchange. Counterparties must comply with all relevant laws, rules and regulations applicable to the transactions.
- 1.4. The CPD may amend this CPD Operational Notice from time to time. The CPD will endeavour to give reasonable notice of any amendments, but reserves the right to introduce any amendment with immediate effect, if necessary. The CPD may also vary the operational timetable or vary or omit any of the procedures described on any particular day, if deemed necessary.

2. Repurchase transactions

- 2.1. The CPD, as part of its range of investment alternatives, conducts repo transactions on a buy/sell basis for maturities up to 91 days.
- 2.2. Holders of the Securities defined in Appendix I of this CPD Operational Notice should have full title of the Securities offered for the repo transaction. Securities offered for repo should not mature on or before the maturity date of the specific repo transaction. Furthermore, functionality for the collateral substitution system will be introduced whereby counterparties will be allowed to replace or substitute assets lodged as collateral for the main repo auction during the life of the repo transaction. Furthermore, collateral substitution will take place between 10h00 and 15h00 every day except at the start and maturity date of the repo transaction. However, the CPD will only allow collateral substitution to be done by counterparties who have concluded the Global Master Repurchase Agreement with the CPD.
- 2.3. However, manual intervention will be required should counterparties experience technical challenges. In such instances, the CPD will have to conduct the substitution on behalf of the counterparties. Details of Securities to be changed in respect of the collateral substitution should be sent by email to FMD-DomesticSettle@resbank.co.za, within the time stipulated for collateral substitution. The counterparty will be required to complete a collateral substitution form (Annexure III) and send it to Domestic Trade Settlements (DTS). Thereafter, DTS will carry out the manual substitution on behalf of the counterparty.
- 2.4. The SARB will at 12:00 provide yields on its wire services pages for the valuation of Securities acceptable in the repo transactions.
- 2.5. Coupon payments received on Securities that are sold in terms of a repo agreement would be paid over to the seller of the Securities (cash taker) on the interest payment date. Failure to pass on the coupon payments to the cash taker on the payment date will constitute an Event of Default (as contemplated in the Agreement).

3. Valuation of Securities and calculation of haircut

- 3.1. The repo transactions will be conducted on a bilateral basis and can be entered into on either the CPD's or the counterparty's initiative. The rates will not be published to the market.
- 3.2. Bonds are valued at the yields published at approximately 12:00 by the S A R B on its wire services pages.
- 3.3. Treasury bills are valued at the previous Friday's auction's discount rates. (The C P D retains the right to adjust the valuation rates in the event of substantial rate fluctuations.) There are four maturity bands with corresponding rates.

1 – 91 days:

Previous Friday's auction for 91-day Treasury bills average discount rate

92 – 182 days:

Previous Friday's auction for 182-day Treasury bills average discount rate

183 – 273 days:

Previous Friday's auction for 273-day Treasury bills average discount rate

274 – 364 days:

Previous Friday's auction for 364-day Treasury bills average discount rate

- 3.4. SARB debentures are valued at the average yield determined at the most recently held SARB debenture auction. If a relevant debenture rate is not available, the applicable prevailing Treasury bill yield will be used.

4. Maturity of repurchase transactions

- 4.1. The repo date is set on the day that the Securities are bought (or sold) by the CPD. Should the repo date be declared a public holiday after the transaction took place, the second leg of the transaction will be shifted to the working day following the public holiday without any adjustment to the original interest amount.

5. Details of underlying Securities

- 5.1. The counterparty should confirm the details of the transaction with the CPD within 30 minutes after the conclusion of the transaction via an email to FMD-InterestRate@resbank.co.za

6. Delivery confirmation

- 6.1. Final details of securities to be delivered in respect of each transaction should also be sent to the SARB by email to FMD-DomesticSettle@resbank.co.za, within one hour after the conclusion of the transaction.
- 6.2. Failure to accurately disclose and deliver the underlying Securities will constitute an Event of Default (as contemplated in the Agreement) and can result in a penalty of up to R100 000 (One Hundred Thousand rand) and the cancellation of the transaction by the CPD.

7. Emergency procedures

- 7.1. If the aforementioned procedures cannot be followed for whatever reason, the CPD reserves the right to change the procedures as deemed necessary. The market would be informed accordingly via telephone or email as the transaction is a bilateral agreement between the CPD and counterparties.

8. Delivery and settlement of Securities

8.1 Delivery

- 8.1.1 With the dematerialisation of the money market Securities the Financial Instrument Register (FIR) was replaced with the CBMS. Counterparties must have a Securities Owner Register account with Strate (SOR) that will allow them to pledge assets for Liquid Assets Requirement (LAR).
- 8.1.2 All Securities to be used for repo transactions should be transferred to the CPD's safe custody accounts in the Central Securities Depository. All the Securities received by the CPD as collateral will be recorded in the CBMS. The daily

statements reflecting the Securities held in the CBMS will be made available on the MMIS.

8.2 Settlement

8.2.1 Provided that sufficient collateral has been secured in the Central Securities Depository and recorded in the CBMS, the CPD and the counterparty will transfer the funds within one hour via the SAMOS System. Counterparties that do not participate in the SAMOS system must settle through their settlement banks.

8.2.2 All transfers done through the Central Securities Depository will be done during the first settlement run on the day of settlement.

8.3 Repurchase of Securities

8.3.1 When a repo transaction matures, counterparties should purchase Securities from the CPD equivalent in value to those that it has sold to the CPD in the first leg of the transaction. On or after receiving payment (via SAMOS), the CPD will deliver to the counterparty Securities equivalent to those sold to it.

9. Margin maintenance

9.1 Calculation of margin deficit

9.1.1 In order to cover against potential losses, the CPD uses a daily mark-to-market revaluation of securities which is due to be delivered on the sell-back leg of outstanding repos and of equivalent margin securities. The CPD marks-to-market each counterparty's repo portfolio on a daily basis. The adjusted market value of Securities provided as collateral in all the outstanding repo transactions of each counterparty is compared with the repo price of these transactions. The CPD calls for margin if the market value falls below the total repo price by an amount equal to or greater than R5 million. The CPD may change this call-trigger amount at its discretion. Margin calls can be settled in Margin Securities or Cash Margin, which are considered in subsequent mark-to-market valuations.

Example:

Margin deficit when total market value is less than the total repo price

Purchase price (repurchase tender allotment)	R350 000 000	
Interest (at repurchase tender rate)	+R 142 000	
Total repo price (sell-back cash consideration)	<hr/>	
	R350 142 000	(A)
Adjusted value of bonds sold to the CPD	R201 336 488	
Adjusted value of Treasury bills sold to the CPD	+R143 424 081	
Total adjusted market value	R344 760 569	(B)
 <i>Thus, margin deficit is:</i>		
Total adjusted market value (B)	R344 760 569	
Total repo price (sell-back price) (A)	-R350 142 000	
	<hr/>	
Margin deficit (B) – (A)	-R 5 381 431	

9.1.2 In the above example, the CPD requires Margin Securities or Cash Margin with a total market value of at least R5 381 431.

9.1.3 The CPD will advise counterparties before 09:30 of the exact amount of any margin transfers to be made, based on the official JSE Ltd bond closing rates for value the previous day.

9.1.4 If the CPD exercises a margin call, details of the Margin Securities or Cash Margin to be delivered to the CPD should be confirmed by email to FMD-TAU-DOMESTIC@resbank.co.za before 10:30 on the day of the call. Margin Securities

should be delivered before 11:00. Cash Margin should also be paid before 11:00 via SAMOS to the CPD.

- 9.1.5 Interest on Cash Margin will be calculated at the South African Benchmark Overnight Rate (Sabor) on a daily basis and paid to the counterparty on the first Business Day of the next month. The same principle will apply when the CPD is called for Cash Margin.

9.2 Repayment of excess margin

- 9.2.1 If the total adjusted value of Securities exceeds the total repo price for all repurchase transactions outstanding with a counterparty by an amount equal to or greater than R5 million, the CPD will, at the request of the counterparty, transfer the excess margin. Counterparties should request the CPD before 09:30 for such transfers.

9.3 Margin Transfer

- 9.3.1 Where Securities are provided as margin, the maturity dates of such Securities must exceed the maturity date of the longest outstanding repo transaction with that counterparty.

APPENDIX I

LIST OF ELIGIBLE COLLATERAL

The list of eligible Securities for use as collateral consists of

- Government bonds (Rand denominated)
- Separate Trading of Registered Interest and Principal of Securities (STRIPS)
- SARB debentures
- Treasury bills

DESCRIPTIONS

- **Government bonds** are fixed-interest and variable-interest bearing securities issued by the central government under the Public Finance Management Act (No. 1 of 1999) (PFMA) and constitute evidence of debt of the Republic of South Africa and therefore represent a charge on the revenues and assets of the Republic. PFMA provides the Minister of Finance with the authority to borrow money and to convert such loans into any loan with the concurrence of the lender.
- **Separate Trading of Registered Interest and Principal of Securities (STRIPS)**, issued in terms of the PFMA which provides the Minister of Finance with the authority to borrow money and to convert such loans into any loan with the concurrence of the lender. These STRIPS trade as zero-coupon instruments.
- **SARB debentures** are issued by the SARB in terms of the South African Reserve Bank Act (No. 90 of 1989) for liquidity management purposes. The yield on debentures is calculated on an interest add-on basis and subsequently the maturity value includes interest. The SARB has the discretion to change the maturities, offer amounts or redeem the debentures prior to maturity.
- **Treasury bills** are short-term debt obligations of the central government and represent a charge on the revenues and assets of the Republic of South Africa. The issuing of Treasury bills is governed by the PFMA. Treasury bills are issued at a discount to their face value.

APPENDIX II

MARGIN TRANSFER FORM

Contact name: Contact no: Email:

MARGIN TRANSFER TO THE CORPORATION FOR PUBLIC DEPOSITS

FROM: _____

PARTICULARS OF SECURITIES TO BE TRANSFERRED TO THE CPD

ELIGIBLE BONDS				
Type	Nominal	YTM	VALUE	
Total A				
TREASURY BILLS				
Type	Nominal	Days to Maturity	Discount Rate	Value
Total B				
SARB DEBENTURES				
Nominal	Maturity value	Days to Maturity	Yield	Value
Total C				
CASH				
Total D				
Total A + B + C + D				

AUTHORISED SIGNATURE 1

AUTHORISED SIGNATURE 2

APPENDIX III

COLLATERAL SUBSTITUTION FORM

Name of the counterparty:

Contact no:

Email:

PARTICULARS OF COLLATERAL TO BE SUBSTITUTED

Current			Replace with		
FI*	Nominal	ISIN	FI*	Nominal	ISIN

* Financial Instruments

NB: FI may only be used once for substitution