



## **Repos Guidelines: How Do They Affect the Investing Public? Part III.**

\\Trinidad and Tobago Securities and Exchange Commission

We conclude our discussion on Repo Guidelines by highlighting **Sections XIV to XX** of the **Sales and Repurchase Agreement Guidelines**. We will also provide data on the current size of the local repo market, as at June 30<sup>th</sup>, 2020.

After a repo transaction takes place, a written or electronic confirmation of the transaction should be issued two business days, following the day on which it takes place. **Section XIV** states that this confirmation shall include;

- a. description of the collateral securities, including the type, the name of the issuer, the maturity date, the coupon rate, the nominal amount and the market price of the securities;
- b. purchase price, the price at which the collateral securities are bought by the buyer;
- c. transaction date, the date on which the buyer and seller agree to enter into the repo transaction;
- d. repurchase price; and
- e. repurchase date, the date on which the seller is to repurchase the collateral securities from the buyer.

Counterparties shall exchange the maximum information relating to the economically known components of the transaction. Electronic confirmation shall only be accepted by a party, where the receipt is automatically generated on the date on which the transaction took place. A buyer shall also ensure that any received confirmations, are checked on the day of receipt; and that any queries on the terms are immediately conveyed to the seller.

The obligation to make coupon payments is an important tenet for ensuring the success of the local repo industry. **Section XV** states that a seller is entitled to receive any benefits of ownership, including coupons, dividends or other income earned from securities used for repo transactions, to the same extent they would have been entitled to receive such benefits, had the securities not been used for repo transactions.

**Section XVI** outlines the settlement process and states that unless otherwise agreed between the buyer and seller, settlement shall be on the basis of payment and not delivery of the security transacted. This settlement date should be no later than three days after the transaction date and where the seller has caused any delay in settlement, the counterparty shall have the right to claim from the seller the loss of interest.

**Section XVII** states that procedures contained in the Master Repurchase Agreement (whose required components are outlined in **Section XII** and was also discussed in last week's article), shall be followed in the event of a default.

As outlined in **Section XVIII**, registrants must fulfill continuous reporting requirements as set out in the Order dated September 1<sup>st</sup>, 2016 which relates to the Micro and Macro Prudential Reporting Framework as well as any relevant Financial Statements and marketing material.

Repo sellers shall develop and implement documented policies and procedures for repo operations, monitor compliance and maintain a compliance log. The entity should also ensure that there are operational systems for transactional valuation and financial reporting, and adequate human, financial and operational resources. Records should be kept on collateral securities and their assignments of each to repo transactions, trade confirmations and all agreements and communications with clients. **Section XIX** also states that the seller shall adhere to all capital adequacy requirements. Total value of repos outstanding **shall not exceed 60% of the Seller's total assets** and that repo transactions are subject to inspection by the Commission in accordance with Section 89 of the Securities Act 2012.

As explained in last week's article, Non-Institutional Investors can be defined as ordinary or individual investors. However, there are times where they may be treated as an institutional investor. According to **Section XX**, this occurs when they satisfy the definition outlined in the Repo Guidelines as a Non-Institutional Investor and they state in writing, to the Seller, that they wish to be treated as an Institutional Investor.

The Repos Guidelines were formulated to provide protection to investors. The size of the local repo market as at June 30<sup>th</sup>, 2020 was estimated to be over TT\$3 Billion (see **Table below**). The Repos Guidelines are meant to provide best practices for all repo market participants.

*Key Indicators of the Repo Market in Trinidad and Tobago as at June 30th, 2020*

Key Indicators of the Local Repo Market	Closing Value as at June 30 <sup>th</sup> , 2020
1. Number of Repo Sellers	12
2. Total Market Value of Repo Liabilities	TT\$3,736,155,069
3. Total Market Value of Repo Assets/Collateral Securities	TT\$3,990,067,690
4. Total Market Value of Repo Liabilities for Non-Institutional Investors	TT\$1,299,751,132
5. Total Market Value of Repo Liabilities for Institutional Investors	TT2,436,403,937
6. Number of Repo Transactions	433

In next week's article, the TTSEC will evaluate the impact of the COVID-19 pandemic on the overall performance of the local securities industry in 2020. For more information on the local securities market visit us @ [www.ttsec.org.tt](http://www.ttsec.org.tt) You may also visit our Investor Education website at [www.investucatt.com](http://www.investucatt.com) or connect with us via any of our social media handles:



**Merry Christmas and a safe New Year to our readers, from the Staff of the TTSEC.**

**Published Article – Business Express Newspaper**

December 30, 2020.