

ADDENDUM

**OPERATIONAL AND ADMINISTRATIVE ISSUES
PERTAINING TO REPURCHASE TRANSACTIONS
ENTERED INTO BY THE
CORPORATION FOR PUBLIC DEPOSITS**

APRIL 2009

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1. BACKGROUND

- 1.1 This Addendum clarifies the procedures which will govern all repurchase transactions entered into by the Corporation for Public Deposits (the CPD). All these transactions will be conducted by the Financial Markets Department of the South African Reserve Bank (the SARB), who, 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. It should be read in conjunction with the Master Repurchase Agreement (Master Agreement) which is based on the International Securities Market Association Agreement (ISMA Agreement) by which all transactions referred to in this Addendum are governed and which must be signed by all Counterparty in these transactions. In the event of any conflict between this Addendum and the Master Agreement, the latter prevails.
- 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 As prescribed by Regulation 16(12) of the Regulations Relating to Banks published in Government Gazette No. 21726, Government Notice No. 1112 of 8 December 2000 issued by the Minister of Finance in terms of section 90 of the Banks Act (No. 94 of 1990), the seller shall continue to reflect an asset of which it had been the outright owner sold by it in terms of a repurchase agreement as such an asset in its monthly balance sheet (form DI 100) opposite the relevant asset category, at the value at which that asset appeared in the accounting records of the seller prior to the sale thereof.

- 1.4 The seller will, however, indicate that the said security is subject to a repurchase agreement with the buyer (counterparty) so as not to mislead potential creditors or investors and because this accounting procedure is designed for practical and risk weighting purposes. The buyer will record the security as an asset in its books in the category "Securities under repurchase agreements" until the seller repurchases the security in question.
- 1.5 The CPD may from time to time amend this Addendum which should be regarded as a guideline for conducting repurchase transactions by the Financial Markets Department for purposes of investing the CPD's funds. The CPD will endeavour to give reasonable notice of any amendments, but reserves the right to introduce any amendment with immediate effect, if necessary. These changes would be applicable to all transactions entered into as of the date of the amendments. 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 repurchase transactions (Repo) on a buy/sell basis for maturities up to 91 days.
- 2.2 Holders of eligible securities as defined in Section 3, should have full title over the securities offered for the repo and these securities may not become redeemable during the life of the repo transaction for which they are used. Therefore, securities offered for repo or provided in the event of a margin call should not mature on or before the maturity date of the specific repo transaction.

2.3 The SARB provides rates on its wire services pages¹ for the valuation of securities acceptable in the repo transactions. These rates represent the most recent rate indications. Securities are valued as explained in paragraph 4.1.

3. **ELIGIBLE SECURITIES**

3.1 **List of eligible securities**

3.1.1 The CPD accepts and uses the following instruments in its repo transactions:

- Government bonds
- Treasury bills
- SARB debentures
- Land Bank bills
- Coupon and Principal STRIPS of government bonds

3.2 **Definitions**

3.2.1 Government bonds are fixed-interest bearing securities issued by the central government under the Public Finance Management Act (No 1 of 1999) and constitute evidence of debt of the Republic of South Africa and therefore represent a charge on the revenues and assets of the Republic.

3.2.2 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 Public Finance Management Act (No 1 of 1999). Treasury bills are issued at a discount to their face value.

¹ Reuters, Bloomberg, Telerate, Inet and internet.

3.2.3 SARB debentures are issued by the SARB in terms of the South African Reserve Bank Act (No 90 of 1989) for monetary control purposes. The yield on debentures is calculated on an interest add-on basis. As it is an interest-bearing instrument the face value includes interest. At this stage, the SARB issues debentures with a 28-day maturity by means of a weekly tender. However, the SARB may decide to issue debentures for a period up to one year and has the discretion to redeem the bills prior to maturity.

3.2.4 Land Bank bills are issued by the Land and Agricultural Development Bank of South Africa under the Land and Agricultural Development Bank Act, (No 15 of 2002), and represent a liability of the Land and Agricultural Development Bank of South Africa, that is a debt obligation of the Land and Agricultural Development Bank of South Africa. These bills are issued at a discount to their face value.

3.2.5 On 21 January 2002 the National Treasury implemented a programme to facilitate Separate Trading of Registered Interest and Principal of Securities (STRIPS). Coupon and principal strips are direct obligations of the South African Government and are registered securities on the Bond Exchange of South Africa. Legislation facilitating the introduction of the strip market are contained in the Public Finance Management Act, No1 of 1999. The Act provides the Minister of Finance with the authority to borrow money and to convert such loans into any other loan with the concurrence of the lender. These strips trade as zero coupon instruments.

4. **PROCEDURES FOR INVESTMENT TRANSACTIONS**

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.

4.1 Valuation of securities

4.1.1 Government bonds are valued at yields agreed upon at the time of the transaction between the counterparties.

4.1.2 Treasury bills are valued at the previous Friday's auction's discount rates. There are three 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

4.1.3 Land Bank bills are valued on the same basis as Treasury bills.

4.1.4 SARB debentures are valued at the average yield determined at the most recently held debenture auction.

4.2 Repo maturity

4.2.1 The repurchase date is set on the day that the securities are bought (or sold) by the CPD. Should the repurchase date be declared a public holiday after the transaction took place, the second leg of the transaction will take place on the next business day after the public holiday. In this event, no interest will be paid for the additional period.

4.3 Details of underlying securities

4.3.1 The Counterparty should confirm the details of the transaction with the CPD within 30 minutes after the conclusion of the transaction, either by fax or e-mail message. The fax should include the signatures of two authorised signatories.

4.3.2 An example of the format and the information to be submitted via fax, referred to in 4.3.1, is included in Appendix I.

4.4 **Delivery confirmation**

- 4.4.1 Final details of securities to be delivered in respect of each transaction, as explained in paragraph 4.3.1, should also be sent to the Financial Instrument Register (FIR) by fax or through e-mail, within one hour after the conclusion of the transaction.
- 4.4.2 Failure to accurately disclose the securities to be delivered under a transaction will constitute an event of default and can result in a penalty charge and/or the cancellation of the transaction by the CPD.

5. **DELIVERY AND SETTLEMENT OF SECURITIES**

5.1 **Delivery**

- 5.1.1 All securities to be used for repo transactions should either be physically delivered to the Settlement Division, transferred in the FIR, or transferred to the SARB's safe custody account in the Central Depository.
- 5.1.2 All bond trades must settle through the Bond Exchange of South Africa.
- 5.1.3 Deliveries of securities to be sold to the CPD should be available in the FIR account within one hour after the conclusion of the transaction.
- 5.1.4 Details of deliveries should conform exactly to details given in Appendix I.

5.2 **Settlement**

- 5.2.1 Provided that sufficient collateral have been secured in the Central Depository or the FIR, 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.

5.3 **Repurchase of securities**

5.3.1 When a Repo transaction matures, Counterparties purchase securities from the CPD equivalent in value to those they have sold to the CPD in the first leg of the repurchase transaction. On or after receiving payment (via SAMOS) the CPD delivers to the participant securities equivalent to those sold to it.

6. **MARGIN MAINTENANCE**

6.1 **Calculation of Margin Deficit**

6.1.1 In order to provide for 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.

6.1.2 The CPD on a daily basis marks-to-market each participant's repo-portfolio, using the closing rates provided by the Bond Exchange of South Africa. The market value of assets provided as collateral in all the outstanding repos of each participant is compared with the repurchase price of the repos outstanding. The CPD normally calls for margin if the market value falls below the total repurchase price by an amount equal to or greater than R5 million. The CPD may change this amount at its discretion. Additional margin would take the form of any eligible securities with a market value at least equal to the margin deficit. The nominal amount of securities must be rounded up to the nearest one million. The additional securities are taken into account in subsequent mark-to-market valuations.

Example:

Margin deficit when total market value is less than the total repurchase price.

Total Repurchase Price is:

Purchase price	R350 000 000	
Interest	+ R 142 000	
Total repurchase price (sell-back cash consideration)	<u>R350 142 000</u>	(A)

Total Market Value:

Value of securities sold to the CPD	R201 336 488	
	+ R143 424 081	
Total Market Value	<u>R344 760 569</u>	(B)

Margin deficit is:

Total market value (B)	R344 760 569	
Total repurchase price (sell-back price) (A)	- R350 142 000	
Margin deficit (B) – (A)	<u>(R 5 381 431)</u>	

The call-trigger amount is R5 million. In the above example, the CPD would require margin securities with a total market value of at least R5 381 431 to be delivered.

6.1.3 The CPD will advise Counterparties by 09:30 of the exact amount of any margin securities to be delivered.

6.2 Repayment of excess margin

6.2.1 If the total value of securities exceeds the total repurchase price for all repos outstanding with a participant by an amount equal to or greater than R5 million, the CPD will at the request of the participant transfer excess securities (rounded up to the nearest one million) to the counterparty. The participant should request the CPD by telephone before 09:30 to make such a transfer.

6.2.2 If the CPD exercises a margin call, details of the securities to be delivered to the CPD should be confirmed by fax by 10:30 on the day of the call. Appendix II should be used.

6.2.3 Government bonds provided as margin securities should be settled through a CD transfer, debentures and treasury bills should be transferred to the SARB's account in the FIR while Land Bank bills should be delivered to the SARB's settlement division. All the above transactions should be completed by 11:00.

6.3 **Margin Transfers**

6.3.1 Securities provided to the CPD as the result of a margin call are taken into account in subsequent revaluations of securities.

6.3.2 The maturities of margin securities should be at least one day later than the maturity date of the longest repo outstanding with that participant (regardless of the type of securities held by the CPD in connection with that repo).

7. **LEGAL AND ACCOUNTING FRAMEWORK**

7.1 A repurchase agreement entered into between the CPD and a Counterparty is an irrevocable undertaking by the Counterparty (seller) to repurchase the securities sold to the CPD under this agreement and by the CPD to sell them back at an agreed price and on a stated date.

7.2 In the repurchase agreements conducted between the CPD and a Counterparty there is full transfer of ownership of the securities from the seller to the buyer for the period of the transaction. This transfer of ownership is accompanied by an irrevocable undertaking by the seller to repurchase the underlying securities and by buyer to sell them back at an agreed price and on a stated date. In a case of default by the seller to repurchase the securities, as agreed, the ownership of the securities remains with the buyer. The buyer has no further claim on the defaulting seller.

7.3 This document should be read in conjunction with the Master Repurchase Agreement (Master Agreement) which is based on the International Securities Market Association Agreement (ISMA

Agreement) by which all transactions referred to in this Addendum are governed. In the event of any conflict between this notice and the Master Agreement, the latter prevails.

- 7.4 For accounting purposes, the seller shall continue to reflect the underlying securities as assets on its balance sheet, as prescribed by Regulation 16(12) of the Regulations Relating to Banks, issued by the Minister of Finance in terms of section 90 of the Banks Act (No 94 of 1990) and published in Government Gazette no 21726 of 8 November 2000. According to this regulation, the seller shall continue to reflect an asset of which it had been the outright owner but which it had sold in terms of a repurchase agreement as such an asset in its monthly balance sheet (form DI100), at the value at which that asset appeared in its accounting records prior to the sale thereof. The seller will, however, indicate that the said security is subject to a repurchase agreement so as not to mislead potential investors. These accounting procedures are designed for practical and risk-weighting purposes and do not impair the legal claim of the buyer on the underlying securities in the case of default.
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REPURCHASE TRANSACTIONS

DATE _____

Contact Name: _____

Attention: _____

Attention: _____

Contact tel no: _____

Fax: _____

Fax: _____

REPOS BETWEEN: _____

AND THE CORPORATION FOR PUBLIC DEPOSITS

We refer to the SARB's telephone confirmation that, as a result of the acceptance of bids in the repo auction specified above, we are to enter today into the following repo transaction(s) with the CPD.

Summary of Bids				
Bid Allocation	Purchase Price	Repo Maturity	Repo Rate	Repurchase Price
First Bid				
Second Bid				
Total < A+B+C				

Particulars of securities to be transferred to the Corporation for Public Deposits:

Eligible Bonds					
Type	Nominal	YTM	Value	Haircut ratio	Adjusted Value
Total A					

Treasury / Land Bank Bills							
Type	Nominal	Days to Mat	Mat Date	Disc Rate	Value	Haircut	Adjusted value
Total B							

SARB Debentures							
Nom	Mat value	Days to Mat	Mat Date	Yield	Value	Haircut	Adjusted value
Total C							

Total A+B+C

Please note: the total of all assets (adjusted value) must be greater than the repurchase price.

AUTHORISED SIGNATURE 1_____
AUTHORISED SIGNATURE 2

NB: If insufficient room available on this form, please fax additional forms.

APPENDIX II

Contact Name: _____

Attention: _____

Attention: _____

Contact tel no: _____

Fax: _____

Fax: _____

**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 / Land Bank 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

NB: If insufficient room available on this form, please fax additional forms.