



South African Reserve Bank

# **Operational Notice**

**Financial Markets Department**

**Money Market Operations**

**February 2012**

## Contents

1.	BACKGROUND.....	4
2.	TYPES OF OPEN-MARKET OPERATIONS .....	6
	<b>2.1 REPURCHASE TRANSACTIONS.....</b>	<b>6</b>
	<b>2.2 SUPPLEMENTARY SQUARE-OFF AUCTIONS AND STANDING FACILITIES .....</b>	<b>8</b>
	<b>2.3 AVERAGING OF CASH RESERVES .....</b>	<b>9</b>
	<b>2.4 AUTOMATION OF END-OF-DAY SQUARE-OFF.....</b>	<b>10</b>
	<b>2.5 SARB DEBENTURES.....</b>	<b>11</b>
	<b>2.6 REVERSE REPURCHASE TRANSACTIONS .....</b>	<b>12</b>
3.	ELIGIBLE SECURITIES.....	13
	<b>3.1 LIST OF ELIGIBLE SECURITIES.....</b>	<b>13</b>
	<b>3.2 STATUTORY LIQUID ASSETS .....</b>	<b>13</b>
4.	TENDER PROCEDURES FOR MAIN AND SUPPLEMENTARY AUCTIONS AND UTILISATION OF STANDING FACILITIES .....	14
	<b>4.1 ANNOUNCEMENT OF MAIN REPO AUCTIONS AND INVITATIONS FOR BIDS .....</b>	<b>14</b>
	<b>4.2 SUPPLEMENTARY SQUARE-OFF AUCTIONS.....</b>	<b>15</b>
	<b>4.3 STANDING FACILITIES .....</b>	<b>15</b>
	<b>4.4 SUBMISSION OF BIDS FOR MAIN REPO AS WELL AS SUPPLEMENTARY     AND STANDING FACILITY AUCTIONS.....</b>	<b>16</b>
	<b>4.5 ACCEPTANCE OF BIDS AND ANNOUNCEMENT OF RESULTS .....</b>	<b>17</b>
	<b>4.6 VALUATION OF SECURITIES AND CALCULATION OF HAIRCUT.....</b>	<b>17</b>
	<b>4.7 MATURITY OF REPURCHASE TRANSACTIONS .....</b>	<b>19</b>
	<b>4.8 DETAILS OF UNDERLYING SECURITIES.....</b>	<b>19</b>
	<b>4.9 DELIVERY CONFIRMATION.....</b>	<b>20</b>
	<b>4.10 EMERGENCY PROCEDURES .....</b>	<b>21</b>
5.	DELIVERY AND SETTLEMENT OF SECURITIES .....	21
	<b>5.1 DELIVERY .....</b>	<b>21</b>
	<b>5.2 SETTLEMENT.....</b>	<b>22</b>
	<b>5.3 REPURCHASE OF SECURITIES.....</b>	<b>22</b>
	<b>5.4 REVERSE REPO TRANSACTIONS.....</b>	<b>22</b>
6.	MARGIN MAINTENANCE .....	23
	<b>6.1 REPURCHASE TRANSACTIONS.....</b>	<b>23</b>
	<b>6.2 REVERSE REPURCHASE TRANSACTIONS .....</b>	<b>25</b>
7.	LEGAL AND ACCOUNTING FRAMEWORK.....	26

APPENDIX I	TIMETABLE FOR REPO OPERATIONS .....	28
APPENDIX II	EXAMPLES OF ANNOUNCEMENTS ON WIRE SERVICES.....	29
APPENDIX III	REPURCHASE TRANSACTIONS .....	33
APPENDIX IV	MAIN REPURCHASE ALLOCATION METHOD .....	34
APPENDIX V	REVERSE REPURCHASE TRANSACTIONS .....	35
APPENDIX VI	MARGIN TRANSFER FORM .....	36
APPENDIX VII	SARB DEBENTURES .....	37
APPENDIX VIII	REVERSE REPURCHASE SCREEN ANNOUNCEMENT .....	38
APPENDIX IX	SARB DEBENTURES TERMS OF ISSUANCE .....	41

## 1. Background

- 1.1 This Operational Notice clarifies the procedures which govern participation in the South African Reserve Bank's (Bank) open-market operations. 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 Operational Notice are governed and which must be signed by all participants in the Bank's repurchase and reverse repurchase transactions. In the event of any conflict between this Notice and the Master Agreement, the latter prevails.
- 1.2 The present refinancing system, based on repurchase agreements (repos), was introduced by the Bank on 9 March 1998. Several refinements to the system were introduced on 5 September 2001, 25 May 2005, 23 May 2007 and 30 August 2010 (implementation finalised 1 March 2011). Further changes will be introduced on 1 March 2012. Since 15 June 2009 all reverse repo transactions have been settled according to the normal bond settlement procedures. Since 22 February 2010 money-market securities issued have been dematerialised and settled electronically via Strate Ltd, however, some categories were still to be dematerialised in future.
- 1.3 The repurchase/reverse repurchase market involves three very similar types of transactions, namely the classic (or American style) repurchase transaction, buy/sell-backs and securities lending. Although the vast majority of transactions referred to as "repos" in the domestic market are in reality buy/sell-backs (or carries), the repurchase/reverse repurchase agreements entered into between the Bank and its counterparties will be conducted and booked on the basis of a classic money-market repo where the cash taker (i.e. supplier or seller of the securities) retains the

right to any coupon payments. If a coupon payment relating to the stock involved in the specific repurchase transaction is made to the cash provider (i.e. buyer of the securities), such coupon receipts should immediately be paid over to the cash taker. Failure to do so would constitute an act of default.

- 1.4 As prescribed by Regulation 16 (12) of the Regulations Relating to Banks published in Government Gazette No. 21726 of 8 November 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 and sold by it in terms of a repurchase agreement as an asset in its monthly balance sheet (Form BA900) 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.
- 1.5 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.
- 1.6 The Bank may from time-to-time amend this Operational Notice, which should be regarded as a guideline for conducting open-market operations by the Financial Markets Department (FMD). The Bank will endeavour to give reasonable notice of any amendments, but reserves the right to introduce any amendment with immediate effect, if necessary. The Bank may also vary the operational timetable or vary or omit any of the procedures described on any particular day, if deemed necessary.

## **2. Types of open-market operations**

### **2.1 Repurchase transactions**

2.1.1 The Bank, as part of its monetary operations, conducts fixed-rate main repurchase (repo) auctions with one-week maturities. However, the Bank may at its discretion change the maturities for operational reasons. Details of the auctions will normally be announced at 10:00 and conducted between 12:00 and 12:15 on Wednesdays. If, for whatever reason, the auction cannot be conducted at 12:00, it will be postponed until 14:00. Details of such auctions will be announced at 12:30.

2.1.2 If the total bids received in the main repo auction exceed the announced average weekly liquidity requirement, the Bank will allocate the auction on a pro rata basis using the formula on Appendix IV.

2.1.3 During the Monetary Policy Committee (MPC) meeting week, the Bank will conduct two main repo transactions. These transactions will be for two- and five days. The first transaction will be conducted on Wednesday and mature on Friday, and the second one will be mechanically conducted on Friday and the banks that were successful in the Wednesday auction will roll the amounts as allocated on Wednesday, at the prevailing/new repo rate. The banks will be obligated to tender via the Money Market Internet System (MMIS), for amounts as allocated on Wednesday. The Bank will ensure that there is no discrepancy in the amounts being tendered for and those allocated on Wednesday and Friday.

2.1.4 The assets pledged in the main repo auction on Wednesday (two-day repo) will be released to the “free balance” in the Central Bank Collateral Management System (CBCMS) when the repo matures on Friday.

Banks will have an option to lodge the same or alternative assets to ensure that sufficient collateral is provided to cover the five-day repo.

- 2.1.5 If securities pledged as collateral are insufficient, the Bank will contact relevant banks for margin and the opposite will apply if banks have pledged too much securities. Margin in this instance can be settled in securities only.
- 2.1.6 The rate at which the main repo auctions are conducted is determined by the MPC of the Bank.
- 2.1.7 Holders of eligible assets as defined in Section 3 of this Notice should have full title of the assets offered for the repo transaction. Requests to exchange assets during the life of the repo transaction will not be considered. Securities offered for repo should not mature on or before the maturity date of the specific repo transaction.
- 2.1.8 The Bank will at 12:00 provide yields on its wire services pages (Appendix II) for the valuation of securities acceptable in the main repo transactions.
- 2.1.9 As mentioned in paragraph 1.3 coupon payments received on securities that are sold in terms of a repo agreement would be paid over to the supplier/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 act of default.

## 2.2 **Supplementary square-off auctions and standing facilities**

### 2.2.1 **Supplementary square-off auctions**

2.2.1.1 The Bank could at its discretion conduct supplementary square-off auctions with clearing banks. These auctions will be announced towards the end of the settlement cycle (SAMOS position window), if some unexpected developments cause a large shift in liquidity conditions in the market. The same eligible securities as listed in Section 3 are acceptable.

2.2.1.2 These auctions can either be in the form of a liquidity-providing repo transaction or a reverse repo transaction where surplus liquidity is drained from the market.

2.2.1.3 Supplementary square-off auctions will be conducted on an overnight basis at the prevailing repo rate.

2.2.1.4 The Bank will at 16:30 provide yields on its wire services pages (Appendix II) for the valuation of acceptable securities.

### 2.2.2 **Standing facilities**

2.2.2.1 The standing facilities are available daily on an automated basis in the form of a bilateral repo or reverse repo transactions maturing on the following business day. The respective interest rates are set at a spread of 100 basis points above or below the prevailing repo rate for the standing facility repo and reverse repo transactions, respectively. The Bank may change the spread from the repo rate at any time at its discretion.



- 2.2.2.2 Non-clearing banks will have daily access to the standing facilities between 10:00 and 14:30; provided they can deliver suitable eligible collateral (as defined in Section 3 of this Notice) if this is a liquidity providing transaction by the Bank.
- 2.2.2.3 Only clearing banks will have automatic recourse to these facilities during the relevant square-off window period (SAMOS position window).
- 2.2.2.4 The Bank will at 16:30 provide yields on its wire services pages (Appendix II) for the valuation of acceptable securities.
- 2.2.2.5 Although the standing facilities will be available to the banks at their discretion, the Bank will closely monitor utilisation of these facilities, and any sign of abuse can force the Bank to take necessary remedial action.

## 2.3 **Averaging of cash reserves**

- 2.3.1 The averaging of cash reserves enables banks to comply with the statutory cash reserves requirements on an average basis over each maintenance period<sup>1</sup>.
- 2.3.2 In addition to the main weekly repo and the occasional supplementary square-off auctions, commercial banks also have access to their cash reserves balances at the Bank and/or the standing facilities offered on a daily basis.
- 2.3.3 When accessing their cash reserves accounts (CRAs), banks have to differentiate whether such actions are either for the updating of balances

---

<sup>1</sup> A maintenance period starts on the 15<sup>th</sup> working day of a month and ends on the 14<sup>th</sup> working day of the following month.

according to Form BA310 or for refinancing purposes (i.e. utilising the averaging facility). The following “rec codes” (SAMOS description code for each transaction submitted) should be used:

- i) MDRES – for updating balances according to Form BA310; and
- ii) MDCRA – for refinancing and/or averaging purposes.

## 2.4 **Automation of end-of-day square-off**

2.4.1 The SAMOS penalty of 5 percentage points above the prevailing repo rate was abolished on 30 August 2010 and was replaced with the automated process with respect to the end-of day square-off operations. However, if it becomes evident that the abolition of the SAMOS penalty facility results in a dysfunctional interbank market, the Bank will not hesitate to make the rate at which banks utilise this facility in the final end-of-day square-off more punitive.

2.4.2 The automatic square-off entails that any balance on the SAMOS clearing account at the end of the position window period, is settled at the prevailing standing facility rates. This implies the following:

2.4.2.1 If a bank is short of cash and does not utilise its cash reserves balances to fund this short position, the SAMOS system automatically provides the necessary funds at the prevailing standing facility rate of repo rate plus 100 basis points. The assets lodged on SAMOS will be used as collateral for this loan and will be released the following business day. This facility is available to banks against the lodging of statutory liquid assets as collateral as specified in Section 3.2. These loans must be covered by at least 105 per cent of the market value of securities pledged.

2.4.2.2 If a bank is surplus cash and does not utilise their cash reserves account to deposit these excess funds, the system automatically accepts these

funds at a pre-determined standing facility reverse repo rate of repo rate less 100 basis points.

2.4.3 Banks that opted not to open SAMOS settlement accounts will only have access to liquidity provided by the Bank via the standing facility available between 10:00 and 14:30. (See paragraph 2.2.2.2.)

## 2.5 **SARB debentures**

2.5.1 The Bank issues its own debentures to drain surplus liquidity from the market (see terms of issuance Appendix VIII). These auctions are normally conducted on Wednesdays at 10:00. Market participants are invited to offer cash to the Bank on an auction basis (see Appendix VI). Bids (expressed to the nearest 0,005 per cent) are submitted via the MMIS. In the event of system problems being experienced, special arrangements can be made to submit bids telephonically to the FMD at (012) 313 4952 prior to the auction closing time followed by a confirmation fax to (012) 313 3691.

2.5.2 SARB debentures qualify as statutory liquid assets. The yield on debentures is calculated on an interest add-on basis and the maturity value includes interest.

2.5.3 Bids are ranked and allotted in ascending order. The Bank reserves the right to reject individual bids and to accept individual bids in part.

2.5.4 SARB debentures have maturities of 28 and 56 days and as from 1 March 2012, will include maturities of 7 and 14 days. The Bank might at its discretion, adjust or vary these maturities.

2.5.5 Certificates are not issued as SARB debentures are fully dematerialised like most money-market instruments in South Africa.

2.5.6 If the issue or maturity dates fall on a public holiday, the Bank will change either the issue or maturity dates to the next business day. If the maturity date of a specific issue is declared a public holiday, the issue will be redeemed on the next business day after the public holiday without interest being paid for the additional period.

## 2.6 **Reverse repo transactions**

2.6.1 Reverse repo (RR) transactions constitute the selling of securities under repo contracts by the Bank to drain surplus liquidity from the market. These auctions normally close at 10:00 on Mondays. After announcing the cash amounts, as well as the underlying bonds on offer in the reverse repo auction (see Appendix VII), market participants are requested to submit bids for the amount of cash, the commensurate cash rates and the underlying bond. Bids (expressed to the nearest 0,01 per cent) are to be submitted via the MMIS. In the event of system problems being experienced by participants, special arrangements can be made to submit telephonic bids to the FMD at (012) 313 4952 prior to the auction closing time, followed by a confirmation fax to (012) 313 3691.

2.6.2 Bids are ranked and allotted in ascending order. The Bank reserves the right to reject individual bids and to accept individual bids in part.

2.6.3 The cash taker (i.e. the Bank) retains the right to any coupon payments on securities used in reverse repo transactions. Failure to pass on the coupon payments to the Bank on the payment date would constitute an act of default.

2.6.4 Reverse repo transactions conducted by the Bank have maturities of 28 and 56 days and as from 1 March 2012, will include maturities of 7 and 14 days. The Bank, might at its discretion adjust or vary these maturities.

2.6.5 The Bank provides valuation rates for the securities on auction at 10:00 on its wire services pages (Appendix II).

### **3. Eligible securities**

#### **3.1 List of eligible securities**

3.1.1 The list of eligible securities consists of statutory liquid assets as defined in the Banks Act, 1990 (Act No 94 of 1990).

3.1.2 Statutory liquid assets consist of:

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

#### **3.2 Statutory liquid assets**

3.2.1 Government bonds are fixed-interest bearing securities issued by the central government under the Public Finance Management Act (PFMA) (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. 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.

- 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 PFMA (No. 1 of 1999). Treasury bills are issued at a discount to their face value. The amounts on offer and maturities of Treasury bills are determined by the National Treasury and can be changed at their discretion from time-to-time.
- 3.2.3 SARB debentures are issued by the Bank 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 Bank has the discretion to change the maturities, offer amounts or redeem the debentures prior to maturity.
- 3.2.4 Land Bank bills are issued at a discount to their face value by the Land Bank under the Land Bank Act (No. 13 of 1944) and represent a liability of the Land Bank.
- 3.2.5 Separate Trading of Registered Interest and Principal of Securities (STRIPS), issued in terms of the PFMA (No. 1 of 1999). These STRIPS trade as zero-coupon instruments.

#### **4. Tender procedures for main and supplementary auctions and utilisation of standing facilities**

##### **4.1 Announcement of main repo auctions and invitation for bids**

- 4.1.1 In its invitation to participate in the repo auctions, the Bank announces on its wire service pages (see Appendix II), its estimate of the market's daily average liquidity requirement for the coming week, together with

the interest rate at which the repo auctions will be conducted. The amount tendered for by the banks will be allocated on a pro rata basis up to the daily average liquidity requirement for the coming week if the bids amount is in excess of this average.

- 4.1.2 The Bank could postpone the 12:00 main repo auction until 14:00 if, for whatever reason, the Bank is unable to conduct the auction at 12:00. Market participants would be informed of any decision in this regard on its wire service pages.

#### 4.2 **Supplementary square-off auctions**

- 4.2.1 The Bank announces invitations for supplementary square-off auctions on its wire service page (see Appendix II).

- 4.2.2 Supplementary square-off auctions may be announced towards the end of the settlement cycle (see 2.2.1).

- 4.2.3 Supplementary auctions are conducted at the prevailing repo rate.

#### 4.3 **Standing facilities**

- 4.3.1 Following the announcement or non-announcement of a supplementary auction, the Bank will no longer invite commercial banks to participate in the daily standing facilities offered towards the end of the settlement cycle (SAMOS position window) as the final square-off operations are automated on the SAMOS system and effected at the prevailing standing facility rates.

- 4.3.2 The standing facilities are available in the form of a collateralised loan or a deposit on SAMOS, maturing on the following business day.

- 4.3.3 Standing facilities are offered at a spread of 100 basis points above or below the prevailing repo rate.
- 4.3.4 Non-clearing banks will have daily access to the standing facilities between 10:00 and 14:30 provided that they can deliver eligible collateral. Only clearing banks will have recourse to these facilities during the relevant square-off window period (SAMOS position window), also subject to the provision of suitable collateral.
- 4.4 **Submission of bids for the main repo as well as supplementary auctions**
- 4.4.1 Bids for the main repo, as well as the supplementary square-off auctions should be submitted within 15 minutes and 5 minutes, respectively, after the auction commences. The non-clearing banks making use of the standing facilities should contact the Bank's dealing room between 10:00 and 14:30.
- 4.4.2 Bids for funds are irrevocable once the auction has closed. Participants commit themselves to entering into repo transactions up to the amounts specified in the bid(s) submitted at the close of the auction.
- 4.4.3 Bids for the main repo are submitted via the MMIS while bids for the supplementary auctions are submitted telephonically before they are confirmed and conducted through the MMIS. In the event of technical problems being experienced, participants in the main repo and supplementary auctions should call the Bank's dealing room at (012) 313 4952 with the details of their bids, before the closing time of the auction as specified in the invitation. When submitting a bid, participants must state only the total amount of funds for which they wish to bid. The type of securities to be sold to the Bank (in the case of liquidity providing



operations) should not be specified when submitting bids, but only after the announcement of results.

4.4.4 Non-clearing banks wishing to avail themselves of the standing facilities offered to them between 10:00 and 14:30 need to contact the Bank's dealing room telephonically to indicate their participation.

4.4.5 The main repo transactions that will be conducted on Fridays during the week of the MPC meeting, will be done mechanically by the Bank, without conducting a full auction (see 2.1.3).

4.4.6 In the event of a dispute, reference will be made to recordings of telephone conversations. All telephone conversations received and made by the Bank's dealers are recorded.

#### 4.5 **Acceptance of bids and announcement of results**

4.5.1 The total amount allotted is determined at the discretion of the Bank. Auction results are posted on the Bank's wire services pages (see Appendix II).

4.5.2 The auction results for individual participants will be released via the MMIS. Participants may call the Bank's dealers to obtain the auction results should they not be able to access the MMIS. The Bank reserves the right to either reject or accept individual bids in full or in part.

#### 4.6 **Valuation of securities and calculation of haircut**

4.6.1 Participants receive cash to the value of an accepted bid in a repo auction. However, in order to protect the Bank against credit and market

risks, commercial banks have to provide the Bank with securities with an adjusted market value (“haircut valuation”). The adjusted market value means that the value of the securities divided by an appropriate ratio, as set out below, must at least be equal to the total repo price (the purchase price plus the interest on the repo transaction). These margins may be changed at any time at the discretion of the Bank.

Bonds with residual maturity longer than 10 years: 1,035

Bonds with residual maturity between 1 and 10 years: 1,025

Bonds, debentures and bills with residual maturity of up to 1 year: 1.010

4.6.2 Bonds are valued at the yields released at approximately 12:00 by the Bank on its wire services pages (See Appendix II).

4.6.3 Treasury bills are valued at the previous Friday’s auction’s discount rates. (The Bank 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

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

4.6.5 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.

#### 4.7 **Maturity of repurchase transactions**

4.7.1 The repo date is set on the day that the securities are bought (or sold) by the Bank. Should the repo date be declared a public holiday after the auction had been conducted, 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.

#### 4.8 **Details of underlying securities**

4.8.1 Participants in the main repo auctions should submit via the MMIS details of the type of securities to be sold to the Bank within 30 minutes after the publication of the auction results. In the event of systems problems being experienced by participants, special arrangements can be made to submit details telephonically to the FMD at (012) 313 4952, followed by a confirmation fax to (012) 313 3691.

4.8.2 Participants in the supplementary square-off auctions should submit the details of securities to be sold to the Bank within 10 minutes after the announcement of the auction results via the MMIS. In the event of systems problems being experienced by participants, special arrangements can be made to submit details telephonically to the FMD at (012) 313 4952, followed by a confirmation fax to (012) 313 3691.

4.8.3 Participants utilising the standing facilities offered between 10:00 and 14:30 to non-clearing banks should submit the details of securities to be

traded with the Bank within 10 minutes after informing the Bank of their intentions to do so via the MMIS. In the event of system problems being experienced by participants, special arrangements can be made to submit details telephonically to the FMD at (012) 313 4952, followed by a confirmation fax to (012) 313 3691.

4.8.4 Examples of the format and the information to be submitted in the event of system problems being experienced referred to in 4.8.1, 4.8.2 and 4.8.3 are included in Appendices III and IV.

#### 4.9 **Delivery confirmation**

4.9.1 Details of securities to be delivered in respect of auctions held at 12:00 should be sent to the Central Bank Collateral Management Account (CBCMA) by fax or through SWIFT, within one hour after the announcement of the results, using the form in Appendix III.

4.9.2 In the case of a 14:00 auction, participants should fax (or send via SWIFT) details of securities to the CBCMA (also using the form in Appendix III) not later than 15:00.

4.9.3 Due to time constraints regarding supplementary square-off auctions held during the SAMOS position window, details of securities to be delivered should be sent to the Bank via the MMIS, or in the event of system problems being experienced, by fax or via SWIFT before the closure of the SAMOS position window, using either the form in Appendix III or IV.

4.9.4 Failure to accurately disclose and deliver the underlying securities will constitute an act of default and can result in a penalty of up to R100 000

(One Hundred Thousand rand) and/or the cancellation of the transaction by the Bank.

#### 4.10 **Emergency procedures**

4.10.1 If the aforementioned procedures cannot be followed for whatever reason, the Bank reserves the right to change the procedures as deemed necessary. The market would be informed accordingly on the relevant wire service pages.

### 5. **Delivery and settlement of securities**

#### 5.1 **Delivery**

5.1.1 With the dematerialisation of the money market securities the Financial Instrument Register (FIR) was replaced with the CBCMA. All banks that wish to make use of the repo and/or standing facilities are required to open a CBCMA at the Bank.

5.1.2 All securities to be used for repo transactions should be transferred to the Bank's safe custody accounts in the Central Securities Depository. All the securities received by the Bank as collateral will be recorded in the CBCMA. The daily statements reflecting the securities held in the CBCMA will be made available on the MMIS.

5.1.3 Securities to be sold to the Bank following a repo auction should be available in the relevant accounts within one hour after the announcement of the auction results.

5.1.4 Securities to be sold to the Bank resulting from the utilisation of the standing facility available between 10:00 and 14:30 should be available

in the relevant accounts within 30 minutes after informing the Bank of such intentions.

- 5.1.5 Securities to be sold to the Bank following a supplementary square-off auction should be available in the relevant accounts before the closure of the SAMOS position window.

## 5.2 **Settlement**

- 5.2.1 Provided that sufficient collateral has been secured in the Central Securities Depository and recorded in the CBCMA, the Bank and the participants will transfer the funds within one hour via the SAMOS System. Banks that do not participate in the SAMOS system must settle through their settlement banks.

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

## 5.3 **Repurchase of securities**

- 5.3.1 When a repo transaction matures, participants should purchase securities from the Bank equivalent in value to those that it has sold to the Bank in the first leg of the transaction. On or after receiving payment (via SAMOS) the Bank delivers to the participant securities equivalent to those sold to it.

## 5.4 **Reverse repo transactions**

- 5.4.1 The reporting, matching and settlement of the reverse repo transactions, as explained in paragraph 2.6, will take place via the JSE Ltd and Strate Ltd, respectively.

5.4.2 The transfer of securities will be effected in the first settlement run of the day. Settlement will take place on a net basis and no trade exclusions will be allowed.

## **6. Margin maintenance**

### **6.1 Repo transactions**

6.1.1 In order to cover against potential losses, the Bank uses two calculations to mitigate market risk. In addition to the “haircut” valuation explained in paragraph 4.6, the Bank also utilises margin calls to neutralise mark-to-market losses.

#### **6.1.2 Calculation of margin deficit**

6.1.2.1 The Bank marks-to-market each commercial bank’s repo portfolio on a daily basis. The adjusted market value of assets provided as collateral in all the outstanding repo transactions of each participant is compared with the repo price of these transactions. The Bank calls for margin if the market value falls below the total repo price by an amount equal to or greater than R5 million. The Bank may change this call-trigger amount at its discretion. Margin calls can be settled in securities or cash, which are taken into account 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	
<b>Total repo price (sell-back cash consideration)</b>		<u>R350 142 000</u>	(A)
Adjusted value of bonds sold to the Bank		R201 336 488	
Adjusted value of Treasury bills sold to the Bank	+	R143 424 081	
<b>Total adjusted market value</b>		<u>R344 760 569</u>	(B)

*Thus, margin deficit is:*

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

- 6.1.2.2 In the above example, the Bank requires margin securities or cash with a total market value of at least R5 381 431.
- 6.1.2.3 The Bank will advise participants before 09:30 of the exact amount of any margin transfers to be made, based on the official JSE bond closing rates for value the previous day.
- 6.1.2.4 If the Bank exercises a margin call, details of the securities/cash to be delivered to the Bank should be confirmed by fax before 10:30 on the day of the call. Securities should be delivered before 11:00. Cash margins should also be paid before 11:00 via SAMOS to the Financial



Markets Department (see Appendix V). The Bank reserves the right to reject the composition of any proposed margin transfer.

6.1.2.5 Interest on cash margins 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 Bank is called for margin.

6.1.3 Repayment of excess margin

6.1.3.1 If the total adjusted value of securities exceeds the total repo price for all repurchase transactions outstanding with a participant by an amount equal to or greater than R5 million, the Bank will, at the request of the participant, transfer the excess margin. Participants should request the Bank before 09:30 for such transfers.

6.1.4 Margin transfers

6.1.4.1 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 participant.

6.2 **Reverse repo transactions**

6.2.1 Calculation of margin deficit

6.2.1.1 Reverse repo transactions are not subject to haircut valuations. However, such transactions are marked-to-market daily using the JSE bond closing rates. The Bank will call for margin if the market value of the securities sold to the counterparty exceeds the cash plus total interest for the period of the transaction (repo price) by an amount equal

to or greater than R5 million. Outstanding repo and reverse repo transactions are netted.

6.2.1.2 Interest at the Sabor will be calculated daily on cash margins and paid to the counterparty on the first business day of the next month. The same principle applies when the Bank honours a margin call in cash.

6.2.2 Margin transfers

6.2.2.1 Counterparties subject to a margin call should be informed of such a call before 09:30. Securities to be delivered should be confirmed via fax by 10:30 and settled before 11:00. The maturity date of any security provided as margin must exceed the maturity date of the longest reverse repo outstanding with that participant.

## **7. Legal and accounting framework**

7.1 A repo agreement entered into between the Bank and a counterparty is an irrevocable undertaking by the counterparty (seller) to repurchase the securities sold to the Bank under this agreement and by the Bank to sell them back at an agreed price and on a stated date. For the purpose of this legal and accounting framework, the “borrower” means the seller of the securities or the cash taker, and the “lender” refers to the buyer of the securities under the repo agreement, or the cash provider.

7.2 In the repo agreements conducted between the Bank and a counterparty there is full transfer of ownership of the securities from the borrower to the lender for the period of the transaction. This transfer of ownership is accompanied by an irrevocable undertaking by the borrower to repurchase the underlying securities and by the lender to sell them back at an agreed price and on a stated date. In case of default by the

borrower to repurchase the securities, as agreed, the ownership of the securities remains with the lender. The lender has no further claim on the defaulting borrower.

- 7.3 For accounting purposes, the borrower 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 borrower 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 BA100) opposite the relevant asset category, at the value at which that asset appeared in its accounting records prior to the sale thereof. The borrower will, however, indicate that the said security is subject to a repurchase agreement so as not to mislead potential investors. This accounting procedure is designed for practical and risk-weighting purposes and does not impair the legal claim of the lender on the underlying securities in the case of default.
- 7.5 The legal and accounting principles described above for repurchase agreements will also apply to reverse repo agreements.

**TAKE NOTE:**

***Any figures used in the following Appendices are fictitious and only used to enhance the readability of the document. The Bank reserves the right to amend the layout/contents of any page/table at its discretion.***

## APPENDIX I

## TIMETABLE FOR REPO AUCTIONS

Electronic announcements	Time	Activity	Action by participant	Action by the Bank
<i>Weekly:</i>				
Auction invitation	10:00	Main repo auction		
Bidding opens	12:00		Bid via MMIS	Receive, process and allocate bids
Bidding closes	12:15			
Auction results	12:20		Confirm amounts received	Confirm allocated amounts with participants
	12:50		Submission of security split	Check submissions received from participants
	13:20		Deliver securities	Receive securities as specified in submissions and transfer funds
Auction invitation	12:30	Main repo auction if the 12:00 auction was postponed		
Bidding opens	14:00		Bid via MMIS	Receive, process and allocate bids
Bidding closes	14:15			
Auction results	14:20		Confirm amounts received	Confirm allocated amounts with participants
	14:50		Submission of security split	Check submissions received from participants
	15:00		Deliver securities	Receive securities as specified in submissions and transfer funds
<i>Daily square-off operations:</i>		<b>Conducted at the discretion of the Bank</b>		
Auction invitation	16:25	Supplementary auction, if offered, and start of automated square-off process	Enter telephonic bids and load it on MMIS if supplementary auction is offered. Utilise cash reserve accounts.	Receive, process and allocate bids
Bidding closes	16:30			
Auction results	16:35		Confirm amounts received. Load assets on MMIS	Confirm allocated amounts with participants
	16:45	Closing balances settle automatically on SAMOS at standing facility rates	Check assets loaded by participants if a supplementary tender is loaded. Receive securities and transfer funds.	

## APPENDIX II

## EXAMPLES OF ANNOUNCEMENTS ON WIRE SERVICES

## 1. MAIN REPO AUCTION

*Estimated time of release: Invitation and average at 10:00 and/or 12:30 and results at around 12:20 and/or 14:20*

FIGURE 1: MAIN REPO AUCTION (SARB04)

MAIN REPO AUCTION	
TENDERS ARE INVITED FOR THE MAIN REPO AUCTION	
AUCTION DATE	_____
MATURITY DATE	_____
REPO RATE	_____
OPENING TIME	_____
CLOSING TIME	_____
RESULTS AT	_____
LIQUIDITY ESTIMATED FOR WEEK (R'm)	
AVERAGE	_____
MAIN REPO RESULTS (R'm)	
AMOUNT RECEIVED	_____
AMOUNT ALLOTTED	_____
<a href="http://www.reservebank.co.za">www.reservebank.co.za</a> , BANK's main page <SARB01>, Any queries (012) 313 4952	

## 2. SUPPLEMENTARY AND STANDING FACILITY REPO / REVERSE REPO AUCTIONS

*Estimated time of release: Invitation at 16:25 and results at around 16:35 (Supplementary facilities)*

**FIGURE 2: SUPPLEMENTARY REPO AUCTION AND STANDING FACILITY UTILISATION (SARB05)**

<b>SUPPLEMENTARY REPO AUCTION AND STANDING FACILITY UTILISATION</b>	
<b>SUPPLEMENTARY REPO OFFERED</b>	
AUCTION DATE	_____
MATURITY DATE	_____
REPO RATE	_____
OPENING TIME	_____
CLOSING TIME	_____
RESULTS AT	_____
AMOUNT RECEIVED	_____
AMOUNT ALLOTTED	_____
<b>Utilisation of standing facility (SF) between 10:00 and 14:30</b>	
Standing facility allotment (R'm)	
SF repo at repo +1.0%	_____
SF reverse repo at repo -1.0%	_____
<a href="http://www.reservebank.co.za">www.reservebank.co.za</a> , BANK's main page <SARB01>, Any queries (012) 313 4952	

### 3. REFINANCING STATISTICS

**FIGURE 3: ESTIMATED TIME OF RELEASE 09:00 (SARB17)**

<b>MONEY MARKET SUMMARY</b>		
BANK notes and coin in circulation	_____	_____
BANK notes and coin in circulation	_____	
<b>DATE</b>		
Main Repo	_____	
Supplementary Auction	_____	
Standing facility (Non-clearing banks)	_____	
Cash Reserve account maintenance (MDRES)	_____	
Cash Reserve account utilisation (MDCRA)	_____	
SAMOS square-off		
Main repo outstanding	_____	
Longer term reverse repo outstanding	_____	
SARB debentures outstanding	_____	
Liquidity requirement (1)	_____	
For any queries contact the dealing desk on 012 313 4952		
Amounts in rand millions (R ' m)		
<u>Notes:</u>		
MDRES and MDCRA = (+) Deposit (-) Withdrawal		
SAMOS square-off:(+) Utilisation of facility (-) Surplus funds		
Supplementary / Standing Facility = (+) Repo (-) Rev Repo		
BANK main page <SARB01>		
(1)Liquidity requirement calculations : outstanding main repo + outstanding supplementary + outstanding standing facility + (expected cash reserve action - actual cash reserve action)		

#### 4. ASSET VALUATION RATES

**FIGURE 4 (SARB20)**

THE FOLLOWING RATES WILL BE APPLICABLE FOR VALUATION PURPOSES :

TIME	R205 _____	R186 _____		
R153 _____	R206 _____	R208 _____		
R157 _____	R207 _____	R214 _____		
R189 _____	R209 _____			
R196 _____	R210 _____			
R197 _____	R211 _____			
R198 _____	R213 _____			
R202 _____	R154 _____			
R203 _____	R155 _____		TB 1 - 91 days	_____
R204 _____	R201 _____		TB 92 - 182 days	_____
			TB 183 - 273 days	_____
			TB 364 - days	_____
	Percentage	R'm	SARB DB 7 days	_____
OVERNIGHT FX RATE	_____	_____	SARB DB 14 days	_____
SABOR	_____	_____	SARB DB 28 days	_____
			SARB DB 56 days	_____

For strip bonds values and Sabor def. See [www.reservebank.co.za](http://www.reservebank.co.za)



## APPENDIX III

## REPURCHASE TRANSACTIONS

DATE: \_\_\_\_\_

Contact Name: \_\_\_\_\_ Attention: \_\_\_\_\_ Attention: \_\_\_\_\_

Contact Number: \_\_\_\_\_ Fax: \_\_\_\_\_ Fax: \_\_\_\_\_

**REPOS BETWEEN:** \_\_\_\_\_ AND THE SOUTH AFRICAN  
RESERVE BANK

We refer to the Bank'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 Bank.

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 South African Reserve Bank:

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.

### MAIN REPURCHASE AUCTION ALLOCATION METHOD

Formula: Allocating on a pro rata basis

$$Allot = \sum_{x=1}^n \left[ \frac{a^x}{b} \times c \right]$$

Where:

*Allot = the total amount allotted*

*n = the number of banks participating in the auction*

*a = the bids of the individual banks*

*b = the total amount of bids received*

*c = the amount on offer*

The table below illustrates how the allocation of an amount of R14,0 billion would be effected.

Table: Example of a pro rata allocation

Participant	Time bids received	Bids Received	Bids Allotted
Bank A	12:01	3 500	3 141
Bank B	12:01	200	179
Bank C	12:03	2 800	2 513
Bank D	12:04	3 200	2 872
Bank E	12:04	2 500	2 244
Bank F	12:05	3 400	3 051
<b>Total</b>		<b>15 600</b>	<b>14 000</b>

**APPENDIX V****REVERSE REPURCHASE TRANSACTIONS**

DATE: \_\_\_\_\_

Contact Name: \_\_\_\_\_ Attention: \_\_\_\_\_ Attention: \_\_\_\_\_

Contact Number: \_\_\_\_\_ Fax: \_\_\_\_\_ Fax: \_\_\_\_\_

REPOS BETWEEN: \_\_\_\_\_ AND THE SOUTH AFRICAN  
RESERVE BANK

TENDER DATE: \_\_\_\_\_

VALUE DATE: \_\_\_\_\_

We refer to the Bank'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 Bank.

Summary of Bids				
Bid Allocation	Sell Price	Reverse Repo Maturity Date	Reverse Repo Rate	Repurchase Price
First Bid				
Second Bid				
Total				

Particulars of securities to be transferred to \_\_\_\_\_ (buyer)

Asset				
Type	Nominal	Maturity Date	Yield To Maturity	Value
SARB Debenture				

\_\_\_\_\_  
AUTHORISED SIGNATURE 1\_\_\_\_\_  
AUTHORISED SIGNATURE 2

**APPENDIX VI**

Contact Name: \_\_\_\_\_ Attention: \_\_\_\_\_ Attention: \_\_\_\_\_

Contact Number: \_\_\_\_\_ Fax: \_\_\_\_\_ Fax: \_\_\_\_\_

**MARGIN TRANSFER TO THE SOUTH AFRICAN RESERVE BANK FROM: \_\_\_\_\_****PARTICULARS OF SECURITIES TO BE TRANSFERRED TO THE SARB**

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.

## SOUTH AFRICAN RESERVE BANK DEBENTURES

### 1. SCREEN ANNOUNCEMENTS

*Estimated time of release: Invitation normally at around 8:00 on the morning of the auction. Results at around 11:00.*

**FIGURE 1: INVITATION (SARB14)**

SARB DEBENTURE AUCTION INVITATION				
TENDERS ARE INVITED FOR THE FOLLOWING SARB DEBENTURE AUCTION				
AUCTION DATE	_____			
SETTLEMENT DATE	_____			
TOTAL AMOUNT ON OFFER (R'm)	_____			
DAYS	7	14	28	56
MATURITY DATE	_____	_____	_____	_____
RESULTS AT	_____			
Any queries contact the dealing desk on (012) 313 4952				
BANK's website ( <a href="http://www.reservebank.co.za">www.reservebank.co.za</a> )				
Results <SARB15>				
Terms and Conditions <SARB16>				
BANK main page <SARB01>				

**FIGURE 2: RESULTS (SARB15)**

SARB DEBENTURE AUCTION RESULTS				
TENDERS ARE INVITED FOR THE FOLLOWING SARB DEBENTURE AUCTION				
AUCTION DATE	_____			
SETTLEMENT DATE	_____			
DAYS	7	14	28	56
MATURITY DATE:	_____	_____	_____	_____
AMOUNT RECEIVED (R'm)	_____	_____	_____	_____
AVERAGE YIELD	_____	_____	_____	_____
LOWEST YIELD	_____	_____	_____	_____
CLEARING YIELD	_____	_____	_____	_____
OUTSTANDING AS OF	_____			AMOUNTS TO _____
Results can be confirmed at (012) 313 4952				
Any queries contact the dealing desk on (012) 313 4952				
BANK's website ( <a href="http://www.reservebank.co.za">www.reservebank.co.za</a> )				
Results <SARB15>				
Terms and Conditions <SARB16>				
BANK main page <SARB01>				

## REVERSE REPURCHASE TRANSACTIONS

### 1. SCREEN ANNOUNCEMENTS

*Estimated time of release: Invitation normally at around 8:00 on the morning of the auction. Results at around 11:00.*

**FIGURE 1: INVITATION (SARB06)**

REVERSE REPO AUCTION INVITATION			
BIDS ARE INVITED FOR THE FOLLOWING REVERSE REPO			
AUCTION DATE	_____		
SETTLEMENT DATE	_____		
CLOSING TIME FOR BIDS	_____		
RESULTS AT	_____		
DAYS	_____		
MATURITY DATE	_____		
BONDS ON OFFER	_____	_____	_____
CASH AMOUNT	_____	_____	_____
Any queries contact the dealing desk on (012) 313 4952			
BANK's website ( <a href="http://www.reservebank.co.za">www.reservebank.co.za</a> )			
Results <SARB07>			
Terms and Conditions <SARB08>			
BANK main page <SARB01>			

**FIGURE 2: REVERSE REPO RESULTS (SARB07)**

**REVERSE REPO AUCTION RESULTS**

AUCTION DATE \_\_\_\_\_  
 SETTLEMENT DATE \_\_\_\_\_

7 DAY: MATURING DATE	_____		
BOND	_____	_____	_____
AMOUNT RECEIVED (R'm)	_____	_____	_____
AMOUNT ALLOTTED (R'm)	_____	_____	_____
AVERAGE RATE %	_____	_____	_____
14 DAY: MATURING DATE	_____		
BOND	_____	_____	_____
AMOUNT RECEIVED (R'm)	_____	_____	_____
AMOUNT ALLOTTED (R'm)	_____	_____	_____
AVERAGE RATE %	_____	_____	_____
28 DAY: MATURING DATE	_____		
BOND	_____	_____	_____
AMOUNT RECEIVED (R'm)	_____	_____	_____
AMOUNT ALLOTTED (R'm)	_____	_____	_____
AVERAGE RATE %	_____	_____	_____
56 DAY: MATURING DATE	_____		
BOND	_____	_____	_____
AMOUNT RECEIVED (R'm)	_____	_____	_____
AMOUNT ALLOTTED (R'm)	_____	_____	_____
AVERAGE RATE %	_____	_____	_____
OUTSTANDING AS OF _____		AMOUNTS TO _____	
Any queries contact the dealing desk on (012) 313 4952			
BANK's website ( <a href="http://www.reservebank.co.za">www.reservebank.co.za</a> )			
Results <SARB06>			
Terms and Conditions <SARB08> BANK main page <SARB01>			

## 2. SOUTH AFRICAN RESERVE BANK REVERSE REPURCHASE TRANSACTIONS

Contact Name: \_\_\_\_\_ Attention: \_\_\_\_\_ Attention: \_\_\_\_\_

Contact Number: \_\_\_\_\_ Fax: \_\_\_\_\_ Fax: \_\_\_\_\_

REVERSE REPOS BETWEEN: \_\_\_\_\_ AND THE SOUTH AFRICAN RESERVE BANK.

AUCTION DATE: \_\_\_\_\_ VALUE DATE: \_\_\_\_\_

We refer to the Bank's telephone confirmation that, as a result of the acceptance of bids for the reverse repo operations specified above, we are to enter today into the following reverse repo transaction(s).

Summary of Bids				
Bid Allocation	Sell Price	Reverse Repo Maturity Date	Reverse Repo Rate	Sell Back Price
First Bid				
Second Bid				
Total				

Bond			
Type	Nominal (Rm)	Yield to maturity Ytm	Market Value

*PLEASE NOTE THAT THE SUPPLIER OF THE STOCK RECEIVES THE COUPON.*

Coupon interest to be paid to the BANK on \_\_\_\_\_ amounts to R \_\_\_\_\_

All the above figures are checked and confirmed.

\_\_\_\_\_  
Commercial bank Official\_\_\_\_\_  
Commercial bank Official\_\_\_\_\_  
Bank Official\_\_\_\_\_  
Bank Official



**SARB DEBENTURES TERMS OF ISSUANCE**

---

**1. Definitions****Account holders**

Central Bank Collateral Management (CBCM) account holders tendering on their behalf and on behalf of their clients.

**Custodians**

CBCM account holders who hold securities in safe custody and tender for securities on behalf of their clients (non CBCM account holders).

**Debentures**

Debentures are unsecured certificates of debt backed by the credit of the issuer. Central banks often issue debentures to manager liquidity conditions in the money market. Investors purchase debentures based on the credit worthiness of the debt issuer.

**Dematerialisation**

A process whereby paper-based certificates or documents of title are replaced with electronic records.

**Issue date**

The date on which the debentures are issued to successful auction participants.

**Issue size**

The rand amount of debentures on offer.

**Maturity**

The time between the beginning and the end of the debentures transaction (measured in days).

**Maturity date**

The date on which the debentures expire and the initial capital and interest get paid.

**Multiple rate auction**

An auction where the allotted rate equals the interest rate offered in each individual bid. Also referred to as an American style auction.

**Payment**

Payments are in rand and settle via South African Multiple Option Settlement (SAMOS).

**Rating**

Indication of the financial creditworthiness / soundness of the issuer based on the ability to meet debt obligations. Ratings are assigned by different international rating agencies.

**SARB / Bank**

The South African Reserve Bank referred to in Section 2 of the South African Reserve Bank Act, 1989 (Act No. 90 of 1989).

**SARB debentures**

Debentures issued by the Bank to drain excess liquidity from the market. SARB debentures are dematerialised and are issued at the discretion of the Bank.

**Settlement banks**

Banks that are SAMOS participants.

**Settlement date**

The date on which a transaction is settled. The settlement might take place on the same day as the trade (same-day settlement) or can occur

on one or several days after the trade date (settlement date is specified as the trade date (T) + settlement lag).

## **2. Terms and conditions of the issue**

### **2.1 Issue**

Issue date is normally on a Wednesday. However, the issue date can at times take place on a different day, should a Wednesday be a public holiday. The issue date in such an event will change to either the previous working day or the next working day. The issue date and the settlement date coincide as SARB debentures settle on a same-day basis (T+0).

The issue size is determined at the discretion of the Bank, after considering the liquidity conditions prevailing in the market.

SARB debentures normally have maturities of 7, 14, 28 or 56 days. The maturities can be adjusted or varied at the discretion of the Bank.

### **2.2 Authorisation**

All SARB debentures are issued in terms of Section 10(1)(i) of the South African Reserve Bank Act, 1989 (Act No. 90 of 1989).

### **2.3 Purpose of issue**

The Bank issues debentures as a monetary policy instrument with the aim of draining excess liquidity from the money market.

### **2.4 Redemption of capital and interest**

Interest earned on SARB debentures, at the debenture rate, shall be payable in arrears to the holder or last transferee on the maturity date. The interest payment shall be calculated according to the actual number of days from the issue date based on a 365-day year.

The interest earned on debentures as well as the capital thereof shall be transferred by the Bank to the credit of the holder or last transferee, and shall be deemed to have been received by the holder or last transferee if it had been so transferred.

Should the maturity date be declared a public holiday, after the auction had been conducted, the maturity date will be the next working day following the public holiday without any adjustment to the original interest amount.

## **2.5 Trading**

There is no formalised exchange for SARB debentures and trading takes place on an over-the-counter (OTC) basis. The SARB debentures are issued on an auction basis once a week (primary issue). SARB debentures can also be traded in the secondary market.

## **2.6 Method of issue**

Debentures are issued by the Bank on a multiple rate auction basis. These auctions are normally scheduled for Wednesdays. The minimum bid to participate in a debenture auction is limited to R1 million, and thereafter bids must be submitted in multiples of R1 million. Bids will be ranked and allotted in ascending order and should be expressed as a yield to the nearest 0.005%.

Bids are to be submitted to the FMD before 10:00 on the issue date. Tendering for the debentures can be done in the following manner:

- i. Money Market Internet System (MMIS). Before participants can utilise the MMIS, they have to register with the FMD and sign the required agreement.
- ii. If the MMIS is not operational, for example due to a system failure, telephonic bids followed by a confirmation fax could be submitted to the FMD's dealing room at 012- 313 4952 and 012- 313 3691 (fax), before the auction closing time.

Auction results are published at approximately 11:00. Payments are effected through SAMOS.

## **2.7 Settlement**

Settlement takes place electronically via SAMOS on a T+0 basis. Non-SAMOS participants have to settle via a settlement bank. The debentures will be moved to the account of the selected custodian and will be available once payment is received.

## **2.8 Statements**

Statements of CBCM account holders are available daily from the FMD on request at 012-313 4435.

## **2.9 Maturity date**

On maturity date, maturity values (initial capital plus interest) will be paid to CBCM account holders.

## **2.10 Transfers**

CBCM account holders must instruct the FMD by means of a multiple Transfer Instruction Form if scrip has to be transferred between accounts in the CBCM systems. Transfers of the debentures will be effected by the FMD. Enquiries in this regard can be directed to 012-313 4435.

## **2.11 Debentures rating**

The creditworthiness of a central bank is in most instances the same as that of the country. Ratings are assigned by international rating agencies, e.g. Standard and Poor's (S&P), Moody's Investors Services and Fitch. Rating agencies regularly review their assessment of South Africa's short-term debt rating. Information on South Africa's ratings can be found on the National Treasury's website [www.treasury.gov.za](http://www.treasury.gov.za).