

NZFMA

NEW ZEALAND
FINANCIAL MARKETS
ASSOCIATION



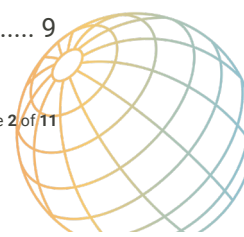
TE RŌPŪ MĀKETE PŪTEA O AOTEAROA

REPURCHASE AGREEMENT (REPO CONVENTIONS)



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1. Description

The New Zealand repo market is characterised by trades between institutions purely for liquidity reasons (General Collateral and those dealt to cover short trading positions [Specific Collateral]). Repo transactions are also undertaken by the Reserve Bank of New Zealand (RBNZ) as part of its daily open market operations.

In undertaking repos, the RBNZ accepts a range of securities. An up-to-date list of eligible securities can be found on the RBNZ website: <https://www.rbnz.govt.nz/financial-markets/domestic-markets/repo-eligible-securities-and-haircuts>

2. Products

2.1 Repurchase Agreement (Repo)

A repurchase agreement, also known as a repo, is a transaction involving the sale of a security and the simultaneous agreement to buy it back at an agreed price on a future date.

2.2 Reverse Repo

A Reverse Repo is the opposite to a repurchase agreement. Effectively one party's repo is another party's reverse repo.

2.3 Open Dated/At Call Report

An Open Dated / At Call Repo or a Reverse Repo for which no maturity date has been specified. The interest rate and term are renegotiated each Business Day. Either party may terminate the trade. See 3.10 for maturity conventions.

2.4 Term Repo

A Term Repo or Reverse Repo is one where the rate and maturity date are agreed upon at the commencement of the transaction.

2.5 Buy/Sell and Sell/Buy-Back Transactions

While a Repo or Reverse Repo is technically a single transaction, a buy/sell back and a sell/buy back is a pair of transactions: in effect a buy and a sell, or vice versa. These transactions mirror the economic effects of a repo. It is a structure where the spot and forward trades are executed at the same time using a cash rate to derive the forward yield from the spot yield. If a buy/sell back is open over a coupon date the return value is reduced by the coupon accrual value and its associated interest accrual. An example of a buy/sell back would be where counterparty A buys from and then sells to counterparty B.

Buy/sell backs are covered in the International Capital Market Association (ICMA) Global Master Repurchase Agreement (GMRA) if the buy/sell back annex is included or attached.



3. Dealing

3.1 Collateral

3.1.1 General Collateral (GC)

GC is collateral that meets a non-specific maturity requirement but has a quality requirement. In the interbank repo market, GC refers to any New Zealand Government Bond on issue.

New Zealand Government Index-linked Bonds and Treasury Bills are considered GC, but are only passed as collateral with the acceptance of the counterparty receiving the collateral.

3.1.2 Specific Collateral

Specific Collateral is collateral that meets specific issuer, coupon, and maturity characteristics. It is a particular bond/security issue sought by a dealer in order to meet a specific trading obligation, therefore specific quality and maturity of bond/security is sought and specified at the time of dealing.

3.2 Methods of Dealing

Telephone, broker, Bloomberg system and/or Refinitiv Messaging are accepted methods of transacting.

3.3 Electronic Dealing

Platforms and communications networks as bilaterally approved for use between parties.

3.4 Business Days

3.4.1 Good Business Day

A good business day is defined as any day on which banks in New Zealand are generally open for business.

Essentially, New Zealand business days are weekdays (Monday to Friday) other than New Zealand public holidays as gazetted.

3.4.2 Non-Business Day

A non-business day is defined as any day on which banks in New Zealand are generally obliged or permitted to close, including Saturday and Sunday.

In general, NZFMA recommends that transactions should not be negotiated for settlement or price fixing (rollover) on a non-business day.

3.5 Standard Transaction Size (market parcel)

This section relates to GC repo transactions dealt via brokers and direct interbank deals

The minimum non specified GC market parcel is \$50million of bonds. The maximum non specified number of lines per \$50million is two lines of bonds, with a minimum parcel size of \$20million.



Any deviation from the above is to be advised to the broker concerned prior to being quoted to the market.

For specific bonds or collateral, the minimum non specified market parcel is \$20million. Anything smaller must be specified before being quoted to the market.

Market parcels are negotiable between counterparties at time of dealing.

3.6 Two Way Pricing

Two-way pricing is not a general market convention.

3.7 Quotation and Dealing

Dealing - As Repo and Reverse Repo agreements are negotiated transactions, when dealing directly with other dealers, each dealer is responsible for agreeing to the terms and conditions. It is up to each dealer to make clear to the corresponding counterparty those terms and conditions. When an offer/bid is made by one party, the other party should either deal or counter with a bid/offer.

Overnight - Today against the next business day.

Tomorrow/next day - The first leg of the "repo" settles T+1 and unwinds T+2.

Bid/buy/borrow - Where the collateral is borrowed, and the cash is lent.

Offer/sell/lend - Where the collateral is lent, and the cash is borrowed.

Tomorrow - The following business day.

Spot - Two business days from today.

3.8 Other Instrument Conventions

Unless otherwise bilaterally agreed, the following conventions govern GC transactions:

- *The accepted bonds/securities lodged as GC must have a longer maturity date than the term of the repo.*
- *No right of substitution exists for repos of one week or less to maturity.*
- *The cut-off time for substituting lines pledged as part of term GC trades is 9:30am on the business day preceding substitution.*
- *Rights of substitution shall be limited to once per week per individual repo.*
- *Rights of substitution do not carry over/accumulate from week to week. If a right of substitution is not used within any week it is lost.*
- *For example, for a one-month trade with no rights of substitution having been exercised by the seller of the collateral within the first two weeks there are only two rights of substitution left in the trade.*
- *One right of substitution is one ticket of the original trade.*



- *For example, for a \$100m one-month trade for which the seller of the collateral chooses to break it into 4 parcels of \$25m consisting of 4 different securities, the one right of substitution per week convention allows the seller to substitute only one parcel of \$25m per week, not all four.*
- *When a right of substitution of collateral is exercised by the seller of that collateral, the seller should match the original cash value of the existing trade.*
- *Notional amounts cannot be split while exercising a right of substitution without the permission of the buyer of collateral.*
- *For example, for a \$100m one-month trade where the seller chooses to lend 1 security of \$100m, to satisfy a substitution request, the seller needs to replace the collateral with another parcel of \$100m. The seller cannot substitute two parcels of \$50m of different or the same collateral without the buyer's permission.*
- *Upon the exclusion of any collateral from the RBNZ's approved list, for any outstanding GC trades, the buyer has the right to ask the seller to substitute that collateral.*
- *For any GC trade dealt through a broker, it is the broker's responsibility to help mediate and keep track of the substitution process during the lifetime of the trade.*

3.8.1 Margining

It is the default practice in the New Zealand Repo market to make margin calls, settled via either the transfer of cash or securities, in preference to repricing transactions to cover exposures between the parties.

3.8.1.1 Calculation of Market Value

The fixed income dirty price is used to calculate market value.

Dirty Price = Clean Price + Accrued Interest

3.8.1.2 Transactions included in the calculation of Net Exposure

Based on section 3.16 of the ICMA Guidelines, the following should be included / excluded in the calculation of net exposure: (note: Purchase Date and Repurchase Date, as defined in the GMRA's, refer to the on/off leg settlement dates of each transaction).

3.8.1.3 INCLUDED Transactions / Exposures

All open activity between the counterparties, including:

- Transactions with a Purchase Date of today or earlier (unless trade date = purchase date)
- Transactions with a Repurchase Date of next business day or later
- All current term repo transactions Coupons:
 - Coupon payments are included in the margin calculation.
 - The fixed income dirty price is used to calculate market value.



3.8.1.4 EXCLUDED Transactions / Exposures

The following should not be included:

- Transactions where Trade Date and Purchase Date are on same day of margin call.
- Transactions where the Repurchase Date is today.
- Overnight Repo.

3.8.1.5 Deadline for making a margin call

Margin calls should be made and agreed upon by 11:00 am New Zealand Time

(NZT) except in circumstances where an operations team is located in an offshore jurisdiction, in which case all margin calls should issue and be agreed by 1:00 pm NZT.

Margin call trade instructions should be matched in the market by 2:00 pm NZT on the call date.

3.8.1.6 Deadline for delivering margin

Cash margin and margin securities should be delivered wherever possible on the call date (CD+0) and not later than next local business day (CD+1).

3.8.1.7 Interest payments on cash margin

The reference rate generally used in New Zealand is the interbank overnight cash rate, plus or minus an agreed spread, the former being a New Zealand benchmark interest rate calculated and published by the RBNZ and displayed on widely published electronic pages.

Counterparties may choose to settle the cash interest on a monthly basis.

Participants should reconcile and settle the interest with their counterparties in the first week of the following month.

3.9 Basis

All rates are quoted on an actual/365-day basis, using a simple interest calculation payable at maturity.

3.10 Maturity Conventions

At call/open **specific collateral** repos are automatically rolled at 9:30am on the business day preceding maturity. Market standard is to notify the counterparty of the intent to terminate an at-call / open specific collateral repo not later than 9:30am NZT on the business day preceding the date of settlement of the termination.

GC open repos are automatically rolled at 11:00am unless otherwise advised by either counterparty.

Term repos should be collateralised with bonds/securities that have a maturity date beyond the maturity date of that particular term repo.



3.11 Settlement Rate or Index

Not applicable.

3.12 Premium Payment Date(s)

Not applicable.

3.13 Expiry Conventions

Not applicable.

3.14 Broker Conventions

For the standard repo transaction size dealt via broker screen dealing systems please refer to *Section 3.5*.

All prices are subject to credit.

All screen prices are valid until removed or refreshed.

Divergence from the size of the screen bid/offer is at the discretion of the screen quoted counterparty.

If a broker has a price on screen and a dealer asks if the bid or offer can deal for a certain size the dealer is obliged to deal that size if it is available from the dealer making the bid/offer.

Prices may be left under reference and worked off screen.

To encourage price making, and to enhance market transparency, when dealing through a broker a dealer must be best bid/offer when inquiring whether the offer/bid will deal off screen between the bid/offer.

3.15 Confidentiality

Refer to the NZFMA Code of Conduct and Principles.

3.16 Credit

All deals subject to individual limits.

Haircuts

This is the amount by which the market value of the repo'd bonds/securities exceeds the cash amount of the transaction. The extent of the haircut will vary depending on the size of the transaction, the term of the repo, the quality and maturity of the collateral and the creditworthiness of the counterparty. No standard haircut exists.

3.17 Exercise of Options

Not applicable.

3.18 Pricing Formulae

The first leg consideration or start consideration is calculated in accordance with the RBNZ pricing formulae.



The second leg consideration or unwind consideration is calculated by using the simple interest formula with the start consideration as the principal which is multiplied by the repo rate for the number of days.

RBNZ pricing formulae

Pricing formulae are documented in the RBNZ publication: "Domestic Markets Section Operating Rules and Guidelines Section 4 APPENDICES", issued by the RBNZ Financial Markets Department. This document can be accessed using the following link: [S4 Operating Rules and Guidelines - Appendices \(rbnz.govt.nz\)](https://www.rbnz.govt.nz/operating-rules-and-guidelines/appendices)

4. Confirmations

4.1 Obligation of Dealers

All dealers are subject to the NZFMA Code of Conduct and Principles.

Price discrepancies should be discussed and preferably corrected by 2:30pm, where possible.

It is the obligation of the failing entity to exercise due diligence to settle the transaction.

5. Settlements

5.1 Physical Settlements

Physically delivered settlements will not be accepted for NZ Dollar Repo transactions.

5.2 Cash Settlements

NZClear is the system used for the settlement of all NZ Dollar Repo transactions.

5.3 Forward Settlements

For forward settlement of GC repo transactions, it is the obligation of the seller to inform the buyer of collateral details by 9:30am NZT on the day prior to the settlement date.

5.4 Settlement Failures

Failure to settle risks the reputation of the organisation and may bring the market into disrepute. Partial settlement is to be encouraged; however, the counterparty retains the discretion to accept or reject a partial settlement.

It is the obligation of the seller to inform the buyer of any possibility of settlement default at an appropriate time (11:00am NZT) so that the buyer can endeavour to cover the short position in the underlying security or make alternative arrangements that are agreeable to both counterparties. In the



event of difficulties that arise towards end of day (after 3:00pm NZT) both counterparties must make all reasonable efforts to arrange alternatives.

It is the obligation of the failing party to exercise due diligence to settle. If the failing party is offered bonds/securities to cover a fail, then it is obliged to cover the fail by borrowing the offered bonds/securities.

Dealers should be aware if a particular line of bonds/securities is in short supply. If the repo rate on a particular line of bonds/securities falls, this is an indication of illiquidity and dealers should ensure that they have adequate bonds/securities available for future settlements. Dealers should not repo bonds/securities unless they believe that they can deliver those bonds/securities at settlement.

5.5 Settlement Failure Compensation Claims

When settlement failure occurs, the deal will settle on the following business day with no rate adjustment (original settlement price). If settlement continues to fail the settlement price does not alter unless the two counterparties agree.

Exceptions to this are when a buyer fails to match a seller's instructions or cannot settle for reasons such as lack of cash or failure to settle in NZClear. The seller is entitled to claim use of funds at the market rate.

All such claims must be formally acknowledged and responded to within 14 days of receipt of a claim letter.

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