

MMA Market Operations Manual

Section 3

MMA Repurchase Facility

23 November 2006

Introduction

The purpose of the MMA's Repurchase Facility (the Repo) is to provide short-term rufiyaa liquidity to commercial banks that are unable to access funds on the inter-bank market.

This Section contains the terms and conditions for the operation of the Repo and should be read in conjunction with the MMA Master Repurchase Agreement (MRA).

Eligibility

The Repo is available only to commercial banks that have signed the MRA. All Repo transactions are conducted under the MRA signed between the commercial bank and the MMA.

Duration, availability, pricing and transaction amounts

Repos are available for terms of one to seven days.

The facility is available on all banking days between the hours of 1.30pm – 2.00pm and settlement is for same day value. The MMA will adhere strictly to these stated times.

The Repo Rate is set by the MMA and published on the web page (www.mma.gov.mv). The Repo Rate is the applicable 'Pricing Rate' pursuant to paragraph 2(1) of the MRA. The rate is set at a margin above the one month Treasury bill rate so as to provide sufficient incentive for banks to look first to the interbank market before seeking recourse to the MMA for funds.

The Repo is available in transaction amounts of a minimum of 1,000,000 and in multiples of the same thereafter.

Key Features of Transactions under the Master Repurchase Agreement

An MRA is the legal document that governs all repurchase transactions between the two parties that have signed it. The legal nature of a repurchase transaction involves an agreement to sell securities at an agreed price, and to buy them back at a future date at an agreed price. Some aspects of the MRA are outlined here but signatories of the MRA must ensure they are fully conversant with all aspects of the document.

Purchase and Repurchase Prices

The Purchase Price and Repurchase Price are defined in the MRA.

Purchase Price: the price at which the Purchased securities are transferred from Seller (borrower) to Buyer (lender).

Repurchase Price: the price at which the Purchased Securities are to be transferred from Buyer to Seller upon termination of a transaction.

The Purchase Price is determined by the Seller (borrower) according to their liquidity needs. The Repurchase Price is calculated using a simple money market formula and by applying the Repo Rate (which in the MRA is defined as the 'Pricing Rate').

Therefore;

Repurchase Price = Purchase Price + (Purchase Price x Repo Rate x days / 365)

Purchased Securities

Purchased Securities: the securities that the seller (borrower) under a Repo transaction must deliver to the buyer (lender).

Securities eligible to be delivered as Purchased Securities to the MMA are:

- a) Government of the Republic of Maldives Treasury bills,
- b) Government of the Republic of Maldives Treasury bonds,
- c) Maldives Monetary Authority Certificates of Deposit.

All securities must mature at least two days after the Repurchase date of the transaction.

Although the MRA provides for the substitution of securities during a transaction if both parties agree, the MMA will not currently permit any such substitutions under this facility.

Valuation of Securities

The MMA will add a haircut (i.e. initial margin) such that the value of securities sold, will be slightly greater than the value of funds borrowed under the Repo. This margin in the terminology of the MRA paragraph 2(d) is referred to the *Buyer's Margin Percentage*, and for the purposes of the Repo, is set at *102 percent*.

Example of calculations used in a Repo Transaction

The Repo Rate is 14 percent and Bank A seeks a 3 day Repo for Rf20,000,000. It offers to sell 22-day Treasury bills in settlement of the transaction. The discount rate applicable to 22-day Treasury bills is 5 percent.

Purchase Price = 20,000,000

Repurchase Price = 20,000,000 + (20,000,000 x .14 x 3 / 365)
= 20,023,013.70

The following steps are undertaken to determine the amount of Treasury bills required for this transaction.

Step 1. Calculate the required market value of 'Purchased Securities'

This involves applying the Buyer's Margin Percentage (2 percent) to the Purchase Price.

$$\begin{aligned} &= 20,000,000 \times 1.02 \\ &= 20,400,000 \end{aligned}$$

Step 2. Calculate the required face value of 'Purchased Securities'

By rearranging the discount formula¹;

$$FV = \text{market value} \times (1 + (DR \times \text{days} / 365))$$

Therefore:

$$\begin{aligned} &= 20,400,000 \times (1 + (.05 \times 22 / 365)) \\ &= 20,461,479.45 \end{aligned}$$

Step 3. Round-up to nearest 1,000,000

Because Treasury bills are transferable only in increments of 1,000,000, the amount calculated in Step 2 is rounded up to the nearest 1,000,000.

This then gives a Face Value of Treasury bills to be sold and repurchased under this transaction of 21,000,000.

Settlement and Confirmation

A bank wishing to access funds through the Repo must deliver a completed *MMA Repurchase Facility Form* signed by authorized signatories, to the MMA within the prescribed time (1.30pm – 2.00pm). Participants should confirm the face value of securities required by contacting the MMA in advance of the transaction.

On the Purchase Date, the MMA will transfer the agreed securities from the bank's book-entry account, to the book-entry account of the MMA, and transfer the Purchase Price, to the bank's current account at the MMA.

On the Repurchase Date, the MMA will transfer the previously transferred securities, from the MMA's book-entry account, to the book-entry account of the counterparty bank, and transfer the Repurchase Price from the bank's current account at the MMA to the MMA.

The MMA will promptly provide written confirmations for all Repo transactions.

¹ The settlement price for Treasury bills is calculated;
= $FV / 1 + (DR \times \text{days} / 365)$; where DR is the discount rate and days are the days to maturity.