



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Repurchase Agreement Transactions

Applicable to:

1. Licensed banks
2. Licensed investment banks

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PART A OVERVIEW

1. Introduction

Policy Objective

- 1.1. The policy document on repurchase agreement (Repo) transactions seeks to -
- (a) set out the scope of Repo transactions that can be conducted by licensed banks and licensed investment banks;
 - (b) set out regulatory requirements and the Bank's expectations in relation to Repo transactions entered into by licensed banks and licensed investment banks; and
 - (c) promote sound risk management practices by licensed banks and licensed investment banks for the conduct of Repo transactions.

2. Applicability

- 2.1. This policy document is applicable to all market participants which are licensed banks and licensed investment banks.
- 2.2. Notwithstanding paragraph 2.1, this policy document does not apply to Repo transactions entered into by overseas branches of licensed banks and licensed investment banks and Repo transactions entered into with the Bank.
- 2.3. This policy document is applicable to Repo transactions involving Ringgit and non-Ringgit Repo Securities and reverse Repo transactions including any outright sale or purchase of Repo Securities (herein defined) with an intention to repurchase or resell these Repo Securities at a future date. The substance of a transaction prevails over its form in determining whether a transaction is governed under this policy document.

3. Legal Provisions

- 3.1. The requirements in this policy document are specified pursuant to sections 140(1), 143 and 144 of the Financial Services Act 2013 (FSA).

4. Effective Date

- 4.1. This policy document shall come into effect on 12 November 2019 ("effective date").

5. Interpretation

- 5.1. The terms and expressions in this policy document shall have the same meaning assigned to them in the FSA unless otherwise defined in this document.

5.2. For the purposes of this policy document:

“S”	denotes a standard, an obligation, a requirement, specification, direction, condition and any interpretative, supplemental and transitional provisions that must be complied with. Non-compliance may result in enforcement action;
“G”	denotes guidance which may consist of statements or information intended to promote common understanding and advice or recommendations that are encouraged to be adopted;
“Classic Repo”	means a type of Repo where securities are sold against cash with a commitment to repurchase the equivalent securities on a specified date at a specified price, where both date and price are fixed at the initiation of the transaction. The Repo Seller delivers the securities and receives cash from the Repo Buyer. The cash is supplied at the prevailing Repo rate that remains constant during the term of the transaction;
“Cross Currency Repo”	means a Repo transaction where the securities and cash involved are denominated in different currencies;
“Held-in-custody”	means a Repo in which the Repo Seller retains possession of the Repo Securities, even though legal title passes to the Repo Buyer;
“PayNet”	refers to Payments Network Malaysia Sdn Bhd;
“Principal”	means a party to a Repo transaction who acts on its own behalf or who authorises an agent to act on its behalf;
“Repo Rate”	means the rate of interest on the cash leg in a Repo transaction expressed as a percentage per annum;
“RENTAS”	means Real Time Electronics Transfer of Funds and Securities System, which is the real time electronic funds and securities transfer settlement system operated by PayNet;
“RENTAS Securities”	means Repo Securities deposited under RENTAS;
“Repo”	means a transaction involving a sale of Repo Securities and a simultaneous agreement to repurchase the equivalent securities on a future date at the original price plus a Repo Rate. Repo

	shall include both Repo and Reverse Repo, Cross Currency Repo and, unless otherwise mentioned, covers both Classic Repo and Sell/Buy-Back transactions regardless whether the security is delivered-out or held-in-custody;
“Repo Buyer”	means the party who purchases Repo Securities for the term of the transaction and agrees to sell back equivalent securities at maturity at the original price plus the Repo rate;
“Repo Securities”	means underlying securities in the Repo transaction;
“Repo Seller”	means the party who sells Repo Securities for cash for the term of the transaction and agrees to buy back the equivalent securities at maturity at the original price plus the Repo rate;
“Reverse Repo”	means a Repo transaction from the view of the Repo Buyer i.e. the party who is purchasing the Repo Securities; and
“Sell/Buy-Back”	means a type of Repo involving an outright sale of Repo Securities on the value date at spot price and a simultaneous outright buy back of the equivalent securities for value on a forward date. The Repo Rate and any coupon income accrued during the term of the transaction on the nominal amount of the securities are embedded in the forward price and realised at the maturity of the transaction.

6. Related Legal Instruments and Policy Documents

- 6.1. This policy document must be read together with other policy documents and guidelines that have been issued by the Bank, in particular -
- (a) Capital Adequacy Framework (Basel II – Risk Weighted Assets) issued on 3 May 2019;
 - (b) Single counterparty exposure limit issued on 9 July 2014;
 - (c) Foreign Exchange Administration Rules;
 - (d) Code of Conduct for Malaysia Wholesale Financial Markets issued on 13 April 2017;
 - (e) Net Stable Funding Ratio issued on 31 July 2019; and
 - (f) STATsmart Reporting Requirements on Data Submission for Reporting Entities issued on 29 March 2019.

7. Policy Document Superseded

- 7.1. This policy document supersedes the Policy Document on Repurchase Agreement Transactions (BNM/RH/PD 032-3) issued on 31 July 2015.

PART B POLICY REQUIREMENTS

8. General Requirements

- G** 8.1. The conduct of Repo transactions must be in line with the principle of professionalism and integrity, as outlined under Principles for a Fair and Effective Financial Market for the Malaysian Financial Market issued by the Bank in order for the Repo market to operate in a sound and orderly manner.
- S** 8.2. Licensed banks and licensed investment banks must not in any circumstances enter into Repo transactions which limit the availability of Repo Securities with the intention of creating a false and distorted market in Repo and the Repo Securities.
- S** 8.3. At least one Principal to a Repo transaction must be a licensed bank or licensed investment bank.
- S** 8.4. The legal ownership of the Repo Securities must be transferred for all Repo transactions.
- S** 8.5. The maximum tenor of a Repo transaction is 5 years.
- G** 8.6. The standard lot for an inter-bank Ringgit Repo is RM10 million. Repo transactions involving non-Ringgit may observe the standard lot or minimum market lots practised in the relevant markets of such currency. Licensed banks and licensed investment banks who wish to transact a Repo for a different amount may specify the amount when requesting for, or providing, quotes.
- S** 8.7. Prior to undertaking Repo transactions, licensed banks and licensed investment banks must ensure that:
 - (a) only dealers duly authorised by the licensed banks and licensed investment banks can undertake Repo transactions;
 - (b) a list of authorised dealers to be maintained and updated from time to time;
 - (c) policies, procedures and internal controls are established to ensure that any Repo transactions including the selection of the underlying Repo securities have been properly authorised; and
 - (d) infrastructures are put in place to support its Repo transactions including systems for securities valuation and management, credit control, risk management and record keeping purposes.

9. Legal Agreement

- S** 9.1. All Ringgit and non-Ringgit Repo transactions must be subject to the Global Master Repurchase Agreement (GMRA) (the "Agreement") that specify all terms and conditions of the Repo transactions and the duties and obligations between the parties concerned.
- G** 9.2. At minimum, the Agreement must provide for:
 - (a) the absolute transfer of title of the Repo Securities including any security transferred through substitution or mark-to-market adjustment;

- (b) marking-to-market of transactions;
- (c) use of haircut and margin maintenance whenever the mark-to-market reveals material change in value;
- (d) events of default and the consequential rights and obligations of the parties to the transactions including provision on close-out netting;
- (e) full set off of claims between the parties to the transaction in the event of default;
- (f) the rights of the parties regarding substitution of Repo Securities and the treatment of coupon payments in respect of the Repo Securities subject to it, including for example, the timing of payments; and
- (g) the governing law of the Agreement as agreed between the parties.

10. Custody

- S** 10.1. Licensed banks and licensed investment banks must set up custodian arrangements for the Repo Securities held in their custody on behalf of their counterparty in a Repo transaction. Procedures and systems must be established to segregate and monitor the Repo Securities held-in-custody to avoid the risk of duplicative use of Repo Securities. Licensed banks and licensed investment banks must ensure that these systems and controls are subject to independent risk assessment.
- S** 10.2. The terms and conditions set out in the custodian agreement must be made clear by the licensed banks and licensed investment banks to their counterparty prior to entering into any Repo transaction under such custody arrangement.
- S** 10.3. Repo Securities held-in-custody must not be re-hypothecated by the Repo Seller during the term of the Repo. Repo Securities may be substituted with equivalent securities as may be mutually agreed between both parties provided that the Agreement contains terms on substitution of Repo Securities.

11. Risk Management

- S** 11.1. Licensed banks and licensed investment banks must establish a risk management framework which enables identification, measurement and continuous monitoring of all relevant and material risks arising from Repo transactions, taking into account their financial capacity to assume such risks prior to a Repo transaction.
- S** 11.2. Licensed banks and licensed investment banks must formulate and implement risk management measures to address risks arising out of Repo transactions. These measures must include counterparty credit assessment, net counterparty exposure limits and adoption of risk mitigation techniques which involve the use of prudent haircuts, margin maintenance and timely margin call to maintain effective control of risk exposure.

12. Foreign Exchange Administration Rules

- S** 12.1. Repo transactions by licensed banks and licensed investment banks must comply with the prevailing Foreign Exchange Administration rules on borrowing by resident and non-resident.
- S** 12.2. Hedging of Ringgit-denominated Repo Securities arising from Repo transactions must comply with the prevailing Foreign Exchange Administration rules on buying or selling of currency.
- G** 12.3. Foreign Exchange Administration rules are available from the Bank's website (bnm.my/fea)

13. Reporting and Settlement Requirements

- S** 13.1. For Repo transaction involving RENTAS securities, licensed banks and licensed investment banks must report to Bursa Malaysia Electronic Trading Platform.
- S** 13.2. For Repo transaction involving RENTAS securities as collateral, collateral for substitution or margin transfer, such transactions must be settled through RENTAS.
- G** 13.3. Cash margin may be transferred via RENTAS or any other mode of fund transfer as agreed by the parties to the Repo transaction.
- S** 13.4. For both RENTAS and non-RENTAS securities, licensed banks and licensed investment banks must disclose the details of the Repo transactions in the Bank's Statistical Mart for Analysis and Reporting (STATsmart).