

Guidelines for Repos in Ghana

BANK OF GHANA

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1 INTRODUCTION

These Guidelines have been prepared by the Bank of Ghana (the “**BoG**”), in collaboration with the Repo Stakeholder Committee. It contains directives and recommended best practices for market participants who intend to trade repos in Ghana.

Repos are governed by master agreements. The Global Master Repurchase Agreement (2011 version) (“**GMRA**”) shall be the Master Agreement* that shall govern the trading of repos in Ghana in its unamended form. All the directives contained in these guidelines are binding on eligible counterparties and serve as regulatory guidance for repo activity trading in Ghana.

These Guidelines supersede all previous notices and Guidelines issued by the BoG and in particular BoG notice no. BG/TD/98/65 issued on August 03, 1998.

These Guidelines will be administered by BoG, **who may consult** other relevant regulatory bodies and may be reviewed periodically to ensure that they remain relevant and useful.

These Guidelines must be read together with the following:

- a) The Banks and Specialized Deposit –Taking Act, 2016 (Act 930)
- b) The Operational Procedures of the Central Securities Depository (Ghana) Limited; and
- c) Notices or directives by BoG and the Securities and Exchange Commission

2 DEFINITIONS

2.1 In these Guidelines, unless the context otherwise requires, the following terms shall have the following meanings:

2.1.1 Agency Repo – A repo executed with counterparty on behalf of a customer or customers (in the case of a pooled transaction) by an agent. The customer is the Principal to the transaction and shares the risk of the transaction with the Agent’s counterparty, but not the Agent. However, the identity of the Principal(s) may not be disclosed to the front office of the counterparty. There will be separate contracts between an agent and his customers.

Counterparties who wish to trade an agency repo shall sign the Agency Annex. For simplicity, both parties can however not act as Agents in any single transaction. Only licensed financial intermediaries and appropriate capital markets operators licensed by the SEC may act as agents.

2.1.2 BoG – Bank of Ghana

2.1.3 Business Day –means any day (other than a Saturday, Sunday or official public holiday) on which banking institutions are generally open for the conduct of business in Ghana

2.1.4 CSD – Central Securities Depository

2.1.5 Eligible Counterparties –The parties listed under paragraph 6 of this Guidelines.

2.1.6 Event of Default – An event of default as specified under section 10 of the GMRA

2.1.7 FoP – Free of Payment

2.1.8 FoP Rules – The approved procedure for FoP transfers

2.1.9 Forward Repo – A transaction with the purchase date that is one business day or more (e.g. 1 month) after the standard settlement date for cash transactions of securities

2.1.10 GFIM – Ghana Fixed Income Market

2.1.11 GMRA – Global Master Repurchase Agreement (2011) published by the International Capital Market Association and available at www.icmafroup.org

2.1.12 HNWI – High Net Worth Individual

2.1.13 Open Repo – a repo transaction initiated without a fixed repurchase date. The maturity rolls over each day until either party terminates the deal by notice to the other

2.1.14 Repo – Repurchase Agreement

2.1.15 SDI – Specialized Deposit –Taking Institutions

2.1.16 SEC – The Securities and Exchange Commission

2.1.17 Sell/Buy-Back –Sell/Buy-Backs are economically identical to repurchase transactions. The main difference between these two repo types is how net exposure - arising from the changes in the market value of collateral - is eliminated. Sell/Buy-Backs use adjustment or re-pricing mechanisms to realign cash and collateral values. Also, a repurchase agreement is always evidenced by a written contract, whereas a Sell/Buy-Back may or may not be documented.

Also known as buy/sell – back, buy/sell or sell/buy. However a sell/buy- back involves borrowing cash, while a buy/sell-back involves the lending of securities (equivalent to a Reverse Repo)

Counterparties who wish to trade Sell/Buy-Backs must execute the Sell/Buy-Back Annex (also known as the Buy/Sell- Back Annex)

2.1.18 SFT – Securities Financing Transactions

2.1.19 Term Repo – Repos with a fixed repurchase date

1 DEFINITION OF A REPO

A Repo is a generic name for both a Repurchase Transaction and a Sell/Buy-Back.

It is a sale of a quantity of securities (by the Seller) at a purchase price at the start of the transaction and a simultaneous agreement to repurchase the securities from the other party (Buyer) at a different price and at a future date (if the intended repurchase date becomes an unscheduled bank holiday, that date is rolled forward to the next business day) or on demand (in the case of an open repo).

The sale of the securities (hereafter referred to as collateral) implies outright transfer of legal title from the Seller to the Buyer. The collateral becomes the unencumbered property of the Buyer who has the unfettered right to reuse/sell the collateral.

On the purchase date of a transaction, the seller shall transfer the purchased securities to buyer or its agent against payment of the purchase price by Buyer.

On the repurchase date, the buyer shall transfer to the seller or its agent equivalent securities against the payment of the repurchase price by the seller less any amount payable and unpaid by Buyer to Seller such as manufactured payment due to Seller if income is paid to Buyer on collateral.

The buyer can dispose of collateral during the term of the repo and is obliged to sell back equivalent securities at maturity. Equivalent securities is per the GMRA definition.

2 TYPES OF REPO DEALS

The following type of deals shall be allowed:

- a) Term Repo
- b) Open Repo
- c) Forward Repo
- d) Sell/ Buy Back
- e) Agency Repo
- f) Repurchase Transaction

3 GLOBAL MASTER REPURCHASE AGREEMENT

The GMRA is a master agreement used globally and published by the International Capital Market Association. It contains standard provisions suitable for the most common types of repo business and may be supplemented by market standard product or jurisdiction specific

annexes¹. Any other modifications agreed by the parties should be recorded in Annex I to the agreement, in trade confirmations or in a format which makes it clear that the parties agree to a variation of the standard form, e.g. side letter. Amendments made to the published form may have an impact on the ability of parties to rely on industry legal opinions on the enforceability of the GMRA.

The GMRA shall provide the general framework under which repos are transacted in Ghana.

The parties to a repo transaction must sign the GMRA. In the case of banks and SDIs, this is a regulatory requirement in order to recognize the reduction of credit risk by collateral in the calculation of regulatory capital requirements.

The agreement shall be subject to the laws of England and at the minimum, the agreement should provide for:

- a) The absolute transfer of title to the eligible securities including any eligible securities transferred through substitution or mark-to-market adjustment;
- b) Marking –to- market of transactions;
- c) Use of haircuts to protect against falls in the value of collateral;
- d) Use of margin maintenance whenever the mark-to-market reveals material change in value;
- e) Events of default and consequential rights and obligations of the parties to the transactions including provision on close-out netting ;
- f) Full close-out netting of claims between the parties to the transaction in an event of default; and
- g) The rights of the parties regarding substitution of eligible securities and the treatment of coupon payments on respect of the eligible securities subject to it, including for example the timing of payments.

4 ELIGIBLE COUNTERPARTIES

The repo market typically brings two types of end users. The first are those that provide collateral in return for cash (e.g. pension funds, insurance companies, asset managers, and hedge funds). The second are those that provide cash and receive collateral in return (e.g. treasurers or money market funds).

The following counterparties are eligible to partake in repos transactions:

- a) BoG;

¹ The GMRA may be adapted to Sell/Buy-Backs, by amending the master agreement through the signing of the Buy/Sell Back Annex

- b) Banks and SDIs;
- c) Securities Dealers;
- d) Corporates with the knowledge and sophistication to appreciate the risks relating to the repo market; and
- e) HNWI with the knowledge and sophistication to appreciate the risks relating to the repo market.

Corporates shall include both domestic and foreign organizations, including financial institutions. Corporates not domiciled in Ghana shall not transact repos where the collateral securities have time to maturity of less than 2 years.

5 MINIMUM TRANSACTION SIZE

For transactions involving Corporates and HNWI, the minimum Purchase Price for repo transactions shall be GHS 1,000,000 for transactions denominated in Ghana Cedi or its equivalent for transactions denominated in any other currency. There is no minimum transaction value requirement for BoG, Banks and SDIs and Securities Dealers.

6 ELIGIBLE COLLATERAL SECURITIES

The following fixed income securities shall be eligible for use as collateral securities for repos:

- a) Treasury Bills and Notes Issued by the Government of Ghana;
- b) Bonds issued or guaranteed by the Government of Ghana;
- c) Bank of Ghana Bills;
- d) Eurobonds issued by the Government of Ghana;
- e) Corporate Bonds listed on the GFIM

The maturity of a security must be later than the maturity of the repo in which it is being used as collateral.

Securities are not eligible as collateral if they are issued or guaranteed by the Seller.

7 BASIS AND BUSINESS DAY

- a) Unless otherwise agreed by the parties, all calculations for interest and accrued interest on the Purchase Price and Cash Margin shall be made on an Actual/Actual basis.
- b) All accrued interest on securities shall be calculated using the basis that applies to the securities market.
- c) A business day shall mean, a day, other than Saturday or Sunday, on which both the CSD and banks in Ghana are open for business.

8 REPURCHASE PRICE

Unless otherwise agreed among the parties, the repurchase price shall be determined as a function of the purchase price paid by the Buyer, the Repo Rate and the term of the Repo.

9 MARGINING A REPO

9.1 INITIAL MARGIN OR HAIRCUT

Initial margins or haircuts are used to adjust the value of collateral securities sold in a repurchase transaction in order to try to anticipate the loss of value in the securities that may be experienced if it is liquidated following an event of default by a counterparty.

The application of initial margin differs from that of haircuts in its calculation.

An initial margin is expressed relative to the purchase price and represents the percentage of the ratio of the market value of the collateral to the purchase price i.e. $(\text{Market Value of Collateral} / \text{Purchase Price}) * 100$. In the GMRA, an initial margin is referred to as Margin Ratio. An initial margin of 100% means no margin.

A haircut is expressed relative to the collateral and is defined as the percentage difference between the Market Value of collateral and the Purchase Price of the repo i.e. $[(\text{Market Value of Collateral} - \text{Purchase Price}) / \text{Market Value of collateral}] * 100$.

Note that an initial margin of, for example, 104% is not equivalent to a haircut of 4%

Initial Margins or Haircuts should be agreed at the point of trade and recorded in writing e.g. in the confirmation of a transaction. Once both parties have agreed the initial margin or haircut for a particular transaction, the value should remain fixed throughout the term of that transaction.

| Variable | Formula | Amount |
|--------------------------|----------|--------|
| Trade notional (TN) | Constant | 100.0 |
| Collateral notional (CN) | Constant | 117.5 |
| Margin Ratio (MR) | CN/TN | 1.175 |
| Loan to Value (LTV) | TN/CN | 85.1% |
| Haircut (H) | 1 - LTV | 14.9% |

| Variable | Formula | Amount |
|--------------------------|----------|--------|
| Trade notional (TN) | Constant | 100.0 |
| Haircut (H) | Constant | 30% |
| Collateral notional (CN) | TN/LTV | 142.9 |
| Loan to Value (LTV) | 1 - H | 70% |
| Margin Ratio (MR) | CN/TN | 1.429 |

| Variable | Formula | Amount |
|--------------------------|----------|--------|
| Trade notional (TN) | Constant | 100.0 |
| Margin Ratio (MR) | Constant | 1.333 |
| Collateral notional (CN) | TN*MR | 133.3 |
| Loan to Value (LTV) | TN/CN | 75% |
| Haircut (H) | 1 - LTV | 25% |

9.2 CALCULATING NET EXPOSURE

Net exposure between two parties represents the amount of aggregate exposure across each transaction by which one party exceeds the other. This is determined by summing up each outstanding transaction exposures with the other party and adding any manufactured payments that are due but unpaid. The net exposure is then reduced or increased by the amount of Net Margin still held by one of the parties.

If party A holds the Net Margin and it otherwise has a net exposure to party B, the Net Margin will reduce the net exposure of party A. But if party A holds the Net Margin but party B otherwise has a net exposure to party A, the Net Margin will increase the net exposure of party B. Participants should refer to section 4 of the GMRA for further clarification.

Transaction exposure is determined by marking each transaction to market taking into account the Initial Margin or Haircut. It is recommended that participants use the haircut method when calculating transaction exposure. Participants should refer to section 2(xx) of the GMRA for further clarification.

9.3 TRANSACTIONS INCLUDED IN CALCULATING NET EXPOSURE

Net exposure shall include all transactions between the counterparties for which the

- a) Purchase Date is today or earlier , and
- b) Repurchase Date is today or later

Forward starting repos shall be excluded from the net exposure calculation until they reach their forward Purchase Dates such that they operationally cease to be forward starting transactions.

9.4 MINIMUM MARGIN TRANSFER AMOUNTS (MTAs) (EXPOSURE THRESHOLDS)

While it is recommended that Net Exposure be calculated on every Business Day, it shall be calculated at least once a week. Margin shall be called whenever Net Exposure exceeds an agreed threshold.

Once the threshold is crossed, a margin is called to eliminate the entire Net Exposure and for this reason the threshold is typically referred to as an MTA in the repo market. Counterparties should set thresholds/MTAs within the allocated credit limit for repos as any amount below such a threshold represents unsecured credit exposure. Repo market participants can agree to eliminate the entire Net Exposure regularly (e.g. at the end of each calendar quarterly) regardless of the exposure threshold.

9.5 INTEREST ON CASH MARGIN TRANSFERS

Counterparties may agree to use cash as margin. Interest shall accrue on such cash margin using the weighted average of interbank rate published by BOG plus or minus an agreed spread if any.

Market participants shall settle the interest payments between the counterparties on a monthly basis.

9.6 DEADLINE FOR MARGIN CALLS

Margin Calls should be made early to provide the other party with reasonable time to check the margin calculation and to resolve any disagreements before the CSD system closes.

Margin Calls shall be made before 12:00pm GMT. Margin calls made after this deadline shall be deemed as having been made on the next business day.

9.7 HOW TO TREAT COUPONS

The Buyer is legally entitled to all coupons and income payments from the collateral securities which are subject to a repo transaction. However, the Seller retains the risk on the securities due to the commitment of buying back the securities at a fixed price. Under the GMRA, in the case of repos, the Buyer agrees to immediately pay compensatory amounts, generally known as manufactured payments, to the Seller equivalent to any income payment received on the collateral.

Note however that the treatment of coupons differs between a repurchase transaction and a sell/buy-back. In the latter, coupon payments and reinvestment income for the gap between income payment date and repurchase date, are factored into the Repurchase Price.

9.8 PRICE SOURCE AND VALUATION

In order to minimize margin call disputes, it is best practice for the counterparties to agree, wherever practical, on the price sources to be used to value collateral in a confirmation.

The pricing source should ideally be known and/ or available to both counterparties. It is market practice for the margin-caller to propose a price.

The price used for valuation shall be the mid-price as at the close of the previous Business Day of the Appropriate Market of the collateral. The use of mid-price assumes that the Buyer and Seller are equally likely to default and avoids generating margin calls due to the use of bid or ask prices. The appropriate market is the financial center which is the principal location for the trading of that security.

The Market Value of the collateral securities should be calculated using dirty prices. It is market practice for the accrued interest to be calculated from the last coupon date up to but excluding the margin delivery date.

In the event of a dispute about the price used by the margin caller, both parties should try to agree on an alternative price source, negotiate promptly, reasonably and in good faith.

9.9 ACCOUNTING FOR REPO

The accounting principles to be followed while accounting for repos/ reverse repos are as under:

I. Coupon /Discount

- a. The repo seller shall be deemed to continue to accrue the coupon/ discount on the securities sold under repo even during the repo period while the repo buyer shall not accrue the same.
- b. In case the interest payment date of the security offered under repo falls within the repo period, compensation for the coupons received by the buyer of the security should be passed on to the seller of the security on the date of receipt, as the cash consideration payable by the seller in the second leg does not include any intervening cash flows.

II. Accounting by the transferor (seller)

If a sale of a financial asset is subject to a repurchase agreement at a fixed price, or at the initial selling price plus interest, or if the asset is lent to a third party that agrees to return it, the seller retains substantially all the risks and rewards of ownership of the asset. The seller, therefore, does not derecognize the financial asset under a repo contract even if

- a. The financial asset subject to the agreement is of a type readily obtainable in the market, such that the transferee could sell the transferred financial asset and repurchase an identical financial asset in the market to meet its return obligation to the seller; or
- b. The agreement permits the transferee to return financial assets that are the same or substantially the same as the originally transferred asset or financial assets that are similar and of equal fair value.

The seller does not derecognize the asset. The consideration received is recognized as a liability to repurchase the asset. The liability is generally carried at amortized cost. If the transferee (buyer) obtains the right to sell or pledge the financial asset that does not qualify for de-recognition, then the seller reclassifies the financial asset in its statement of financial position - e.g. as a loaned financial asset or repurchase receivable.

III. Accounting by the transferee (buyer)

The transferee does not recognize the financial asset received under a repurchase or securities lending arrangement. Instead it recognizes a receivable from the transferor. This receivable may be recognized at amortized cost if it meets the IFRS 9 criteria for amortized cost classification. If the transferee subsequently sells the financial asset, then it recognizes a financial liability to return the financial asset based on its fair value

IV. Accounting on default

If there is an event of default by the seller and it is no longer entitled to reclaim the transferred financial asset, then the seller derecognizes the financial asset and the transferee recognizes the financial asset at fair value or, if it has sold the financial asset already, derecognizes the financial liability to return the financial asset.

V. Accounting for interest accruing on the financial asset

The seller retains substantially all the risks and rewards of ownership of the transferred financial asset unless there is a default event. However, the buyer will be entitled to receive the interest on the asset because the title has been transferred to them as security. In such situations, the buyer should not recognize this interest as income, but rather transfer the same to the seller who bears the risk on such instrument.

10 FAILURE TO DELIVER COLLATERAL

Fails might occur on two occasions: at the start of a repo if a seller fails to deliver securities or at the end of a repo, if the buyer fails to return the securities.

Even though fails are not desirable they may occur due to temporary operational problems, infrastructure frictions or market illiquidity. Unless specifically agreed, these should not necessarily be seen as an event of default as it may not reflect credit risks of a counterparty.

It should be noted that the failed party can terminate a failed repo at any time. If the buyer terminates a failed purchase, it will be paid repo interest up to the termination date. If the seller terminates a failed repurchase, they must follow the mini close-out procedure in the GMRA but care should be taken before doing so as it can be very expensive for the failing party and use of this mechanism may deter parties from using the market.

The decision to place a party into default has serious implications and should be taken by the appropriate governance structure of the non-defaulting party.

The BoG shall monitor fails, and where necessary, apply sanctions (including but not limited to a penalty) where a party is deemed to have acted unprofessionally, unfairly, with deliberate intent to cause a fail and impugning the integrity of the repo market.

11 EVENT OF DEFAULT²

A default means a party has triggered at least one of the 'Events of Default' under the GMRA. The occurrence of the following Acts of Insolvency can be agreed to be treated as an automatic Event of Default:

1. the filing of a petition for the winding up of the party and
2. the appointment of a liquidator or similar authority and the appointment of a receiver, automatically puts the insolvent party into default if Automatic Early Termination has been selected in Annex I.

For all other Events of Default, the party not in default must serve a notice to the defaulting party of an Early Termination date (not earlier than the date on which the notice becomes effective or later than 20 days after it becomes active). The Early Termination date is fixed by the non-defaulting party. The notice must be served in writing, in English and in a legible format.

As soon as an automatic Event of Default occurs or, in the case of other Events of Default, once the defaulting party has been served a termination notice, the close out netting of all repos outstanding and documented under the signed agreement starts and is summarized as follows:

- 1) All outstanding obligations due on repos under GMRA are terminated and become immediately due for settlement and all margin held by the parties are called back.
- 2) Default Market Values of collateral held by both parties are determined by the non-defaulting party, and any related transaction costs added. The non-defaulting party may use the following in determining the market value of the collateral
 - a) Actual prices realized in the sale of collateral
 - b) Market quotes
 - c) If sales are not possible and quotes are not available, its own estimate of the fair value in the case where quotes are not available and dealings not possible
- 3) All sums are converted to the Base Currency and netted off into one single residual amount
- 4) The defaulting party is notified of the residual amount and

² Section 11 text is a summary for non-legal staff and the definitive provisions are in the GMRA.

- 5) Whoever owes the residual amount shall pay it on the next business day. Interest will be due on late payment.

12 SETTLEMENT

Settlement of repos will be effected on either delivery versus payment (DvP) or free of payment (FoP) basis. This shall be done in accordance with the operational procedures of the CSD.

Under the FoP Rules, a transferor of securities is required to complete a FoP Transfer Form indicating the details of the transferor, the securities to be transferred as well as details of the transferee and the transferee's account. A transferee or his depository agent is therefore required to open and maintain an account with the CSD for purposes of holding the transferred securities. The CSD will effect the transfer of the securities from the account of the Transferor to the account of the transferee after submission of the completed FoP Transfer Form.

Where a FoP Transfer Form is received by the CSD before noon, the transfer will be effected on the same day and on the next Business Day if the FoP Transfer is received after 12 noon.

A foreign counterparty must appoint a custodian for the purpose of holding the securities in the CSD.

13 REPORTING REQUIREMENTS

A counterparty (or the agent of the counterparty in agency transactions) which participates in a repo transaction shall notify the Bank of Ghana in the prescribed form the same day and shall submit weekly returns on daily positions to the Bank of Ghana. Weekly reports will cover Monday to Friday and should reach Bank of Ghana on the following Monday.

Parties who transact repos with another party sometimes on their own account and at other times as an agent for third parties should ensure that they make it clear to the counterparty, at the point of trade, whenever they are acting as an agent. This is vital in order to be clear with whom rights and obligations are being established and who is taking risk on whom.

An agent must reveal the identity or identities of the third-party principal or principals for whom they are acting in order that the counterparty with whom the agent is dealing can fulfil its "know-your-customer" (KYC) obligations and measure their credit risk. It is, however, not necessary for the agent to disclose the identity or identities to the dealers of the counterparty if there is a commercial risk in doing so. In this case, the counterparty's dealers can be given

codenames only for the third parties and the key to the codenames can be given confidentially to the compliance or some other risk management or control function of the counterparty.

Both parties to a repo transaction are required to forward a duly executed copy of the GMRA together with all applicable and duly executed annexes to the GMRA to the BoG within 24 hours of their execution.

[All reports should be sent to: fmdreporeports @bog.gov.gh](mailto:fmdreporeports@bog.gov.gh)

The Head

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Accra Reports shall include the following;

- Name and Address of both counterparties (buyer and seller)
- Value date or deal date
- Tenor
- Due date
- Cash Amount
- Description of securities
- Notional value of securities
- Haircut
- Initial Margin/ Margin Ratio
- Interest rate
- Interest payment frequency
- Interest Amount
- Total Amount due

APPENDIX

| Appendix 1: Accounting for repos | | | |
|---|---------------|------------------------------|---------------|
| Assume Bank B lend to Bank A under repo arrangement as follows: | | | |
| — Carrying value of treasury bonds at USD 10 million | | | |
| — Interest at 10% per annum on repo transaction | | | |
| — The respective balance sheet of Bank A and Bank B before repo transaction are as below: | | | |
| Bank A | | Bank B | |
| Assets: | USD'millions | Assets: | USD'millions |
| Treasury bond | 100 | Treasury bond | 10 |
| Cash | 10 | Cash | 100 |
| | <u>110</u> | | <u>110</u> |
| Liabilities | | Liabilities | |
| Capital | 50 | Capital | 50 |
| Borrowings | 60 | Borrowings | 60 |
| Total equity and liabilities | <u>110</u> | Total equity and liabilities | <u>110</u> |
| Where the repo transaction is entered into for a value of USD 10 million treasury bonds the following will be the new balance sheet structure | | | |
| Bank A | | Bank B | |
| Assets: | Kshs'millions | Assets: | Kshs'millions |
| Treasury bond | 100 | Treasury bond | 10 |
| Cash | 20 | Loan to Bank A | 10 |
| | <u>120</u> | Cash | 90 |
| Liabilities | | | <u>110</u> |
| Capital | 50 | Liabilities | |
| Loan from Bank B | 10 | Capital | 50 |
| Borrowings | 60 | Borrowings | 60 |
| Total equity and liabilities | <u>120</u> | Total equity and liabilities | <u>110</u> |
| Under the repo transaction, the risk and reward has not passed hence the treasury bond under repo remains on the balance sheet of Bank A. The consideration received is reflected as a financial liability of USD 10 m (loan from Bank B). | | | |
| It is assumed that interest accruing on the treasury bond under repo is passed on to Bank A immediately it is received (Classic Repo structure) or on maturity of the repo transaction (Buy-Sell Back structure). Therefore Bank A will continue accounting for interest on treasury bond normally. | | | |
| However, the interest accruing on repo transaction will be recognized as income in Bank B (interest received on the loan to Bank A) and an expense in Bank A (interest expense on loan from Bank B). The following will be the new balance sheet structure after the repo transaction. | | | |

| Appendix 1: Accounting for repos | | | |
|---|--------------|------------------------------|--------------|
| Bank A | | Bank B | |
| Assets: | USD'millions | Assets: | USD'millions |
| Treasury bond | 100 | Treasury bond | 10 |
| Cash | 9 | Cash | 101 |
| | <u>109</u> | | <u>111</u> |
| Liabilities | | Liabilities | |
| Capital | 50 | Capital | 50 |
| Retained earning/P&L | (1) | Retained earning/P&L | 1 |
| Borrowings | 60 | Borrowings | 60 |
| Total equity and liabilities | <u>109</u> | Total equity and liabilities | <u>111</u> |
| Upon conclusion of the repo transaction the title to the treasury bond is returned to Bank A. | | | |