

TO ALL DEPOSIT MONEY BANKS

**GUIDELINES FOR THE CONDUCT OF REPURCHASE TRANSACTIONS UNDER
CBN STANDING FACILITIES**

I. Introduction

1. The Central Bank of Nigeria (CBN) offers to enter into repurchase transactions (repos) under its Standing Lending Facility (SLF) and Term Repurchase Facility (TRF). The objective of these facilities is to provide naira liquidity to eligible institutions that are unable to access funds at the inter-bank market. The rates on the facilities are set at margins above expected market rates, so as to provide sufficient incentives for banks to explore the interbank market, before seeking recourse to the CBN for funds.
2. These guidelines contain the terms and conditions for the operation of the SLF and the TRF and should be read in conjunction with the Nigerian Master Repurchase Agreement (NMRA). All references are made to sections in the NMRA.
3. The NMRA is the legal document that governs all repos between the two parties that have signed it. The legal nature of a repo involves an agreement to sell securities at an agreed price, and to buy them back at a set future date at an agreed price. Important aspects of the NMRA are contained in these guidelines and counterparties must ensure they are fully conversant with all aspects of the NMRA.

II. Eligibility

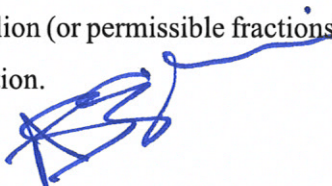
4. The SLF and TRF are available only to Deposit Money Banks (DMBs) and other eligible financial institutions **that have executed the NMRA with the CBN**. All such transactions will be conducted under the NMRA, signed between the counterparty and the CBN.

III. Facility Structure

5. The SLF is to provide naira liquidity to eligible institutions that are unable to access funds in the inter-bank market. Its tenor spans from one business day to the next, at a time as set by the CBN. The facility is available on all business days, between the hours of 5.00 p.m. and 6:30 p.m., (or such hours as stipulated by CBN from time to time). Settlement is for the same day value and the rate is set at the Monetary Policy Rate (MPR), plus its upper corridor, as set by the Monetary Policy Committee (MPC) of the CBN and published on the CBN website (www.cbn.gov.ng). This is the applicable 'Pricing Rate' pursuant to *Section 2 of the NMRA*.
6. The TRF is a term facility. It is available on all business days between the hours of 9 a.m. and 6:30 p.m (or such hours as stipulated by the CBN from time to time). Term Repos can be transacted with the CBN for periods that range from 4 - 90 days (i.e. 4 - 30 days, 31 - 60 days and 61 - 90 days). Settlement is for same day value, at rates anchored to the prevailing MPR as set by the MPC and published on the CBN website (www.cbn.gov.ng). This is the applicable 'Pricing Rate' pursuant to *Section 2 of the NMRA*.

IV. Transaction Amount

7. Transactions under the SLF shall be conducted in amounts of a minimum of ₦100 million and multiples of ₦1 million (or permissible fractions), based on the market value of securities placed for the transaction.
8. Transactions under TRF shall be conducted in amounts of a minimum of ₦100 million and in multiples of ₦1 million (or permissible fractions), based on the market value of securities placed for the transaction.



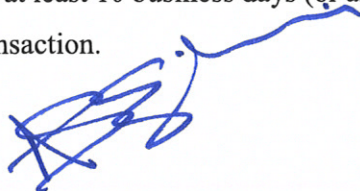
V. Other Terms and Conditions of CBN Repo Transactions

Purchase and Repurchase Prices

9. The Purchase Price is the price at which the Purchased Securities are to be transferred from Seller (borrower) to Buyer (lender) on the Purchase Date. The price will be calculated using appropriate market yields and applicable margin ratio.
10. The Repurchase Price is the price at which the Purchased Securities are to be transferred from Buyer to Seller on the Repurchase Date. It is calculated using a money market formula with the applicable rate, which is either the rate applied to the SLF (in the case of an SLF transaction) or the relevant Term Repo Rate (in the case of a TRF transaction). In the terminology of the NMRA, the applicable interest rate is defined as the Pricing Rate.
11. Repurchase Price = Purchase Price + (Purchase Price x Pricing Rate x Days/365¹)

Purchased Securities

12. Purchased Securities are the securities that the Seller (borrower) must deliver to the Buyer (lender) on the Purchase Date. The CBN (Buyer) will accept the following eligible securities for the facilities covered in these guidelines:
- Nigerian Treasury Bills (NTBs)
 - Federal Government of Nigeria Bonds (FGN Bonds)
 - CBN Bills
 - Any other security that may be approved from time to time
13. The maturity date of the securities must be at least 10 business days (or as specified by the Bank) after the Repurchase Date of the transaction.



¹ 366 days in the event of a leap year

Margin Maintenance

14. Pursuant to section 4 of the NMRA, Margin Transfer may be requested by the CBN or a counterparty.
- a) The CBN may make such a request in circumstances where the Market Value of Purchased Security (MVPS) together with the market value of Margin Transfers (cash and securities transferred when meeting previous Margin Transfers) falls below the threshold approved by the CBN from time to time.
 - b) Without prejudice to Section 4(g) of the NMRA, where a margin transfer can be made in either cash (Cash Margin) or in securities (Margin Securities), the CBN requires that all margin transfers are in the form of Margin Securities.
 - c) The value of the Margin Transfer must be such that the ratio of “MVPS plus Margin Transfer divided by the aggregate of all Repurchase Prices” restores the Margin Ratio to the ratio applicable at the commencement of the repos (the ratio shall be a weighted-average in circumstances where securities have various term-to-maturity cutting across bands).
 - d) When the CBN gives notice of a Margin Transfer, the counterparty must transfer to the CBN, the Margin Securities by 3pm of the following day from the Margin Transfer request.

Margin Ratio

15. The Margin Ratio as defined in *Section 2(y) of the NMRA* is the ‘Market value of the Purchased Securities at the time the transaction was entered into divided by the Purchase Price’. The CBN will apply a Margin Ratio to compensate for the risk that the value of securities could fall during the period of the repo transaction. The longer the duration of the securities, the higher the price volatility; and therefore, the higher the risk that the value of the securities could fall during the period of the transaction.
16. The Margin Ratio will be as stipulated by CBN from time to time.

Market Value of Purchased Securities (MVPS)

17. The MVPS will be based on yields as obtained from recognised sources e.g. FMDQ Securities Exchange, etc.

Zero Coupon Bonds

18. In the absence of secondary markets yields for Zero Coupon Bonds, the CBN will use the equivalent modified duration for FGN Bond yields for valuation. A margin may be added if the CBN considers that the Zero-Coupon Bond should trade at a premium yield to FGN bonds.

Treatment of coupon payments

19. Pursuant to *Section 5 of the NMRA*, where a transaction extends over the Income Payment Date (i.e. coupon payment date) the buyer (i.e. CBN) shall credit the seller with premium yield on the same day that it receives the income.

Substitution of securities

20. Substitution of securities is not permissible under these facilities.

Termination of Transaction

21. Repurchase transactions with the Bank are fixed term; hence, termination of a transaction will be effected on the date fixed at the initiation of the transaction (*Section 3d of the NMRA*).
22. The term of the transaction precludes pre-termination. **Termination before the due date shall attract an additional 10% penal charge on the relevant Term Repo Rate, as agreed, for the effective term (the period the facility has run).**

Penalty for non-repayment on the Repurchase Date

23. Despite the rights of a non-defaulting party in *Section 10 of the NMRA*, where a counterparty under SLF does not repay the Repurchase Price on the next business day, collateral execution is triggered on S4. Thus, securities placed for the transaction revert fully into the CBN position at a rediscounted value.
24. Despite the rights of a non-defaulting party in *Section 10 of the NMRA*, where a counterparty under Term Repo does not repay the Repurchase Price on agreed date, a new repo transaction will have been deemed to have been entered into between the parties. The Repurchase Price becomes the new Purchase Price and the new Pricing Rate is set at the applicable rate on the Standing Lending Facility plus five percentage points (or any percentage point as stipulated by CBN).
- a) The duration of the new repo will be over-night and it would be treated as SLF.
 - b) Failure to buy back the new overnight repo on the next business day triggers collateral execution on S4, whereby, securities placed for the transaction revert fully into the CBN position at a rediscounted value.
 - c) To calculate the rediscounted value of the collateral to be executed, up-to-date secondary market yield will be obtained from FMDQ Securities Exchange and other recognised sources. The CBN has the right to determine the yield applicable to each security.

Computation of price of each security

i. Nigerian Treasury Bills and CBN Bills

$$\text{Settlement Price} = \text{FV} - (\text{FV} \times \text{R} \times \text{Days} / 365)$$

Where: FV = the face value
R = the applicable discount rate
Days = are the days to maturity



ii. Federal Government of Nigeria Bonds

Settlement Price =

$$FV \left\{ \frac{\frac{1}{(1+i)^n} + r \left[c + \frac{1 - \frac{1}{(1+i)^n}}{i} \right]}{(1+i)^{a/b}} \right\}$$

- FV = the face value
- r = the annual coupon divided by two hundred (i.e. the semi-annual coupon interest rate (%))
- i = the yield divided by two hundred
- c = if the settlement date is the coupon payment date 'c' has the value of 0, otherwise it has the value of 1.
- n = the number of full half years between the next coupon payment date and the maturity date
- a = the number of days from the settlement date to the next coupon payment date
- b = the number of days in the half year ending on the next coupon date

VI. Initiation and settlement

25. A counterparty wishing to access funds through these facilities must submit a request on the S4 by moving its security to CBN as appropriate. The cash value is settled after applying necessary yields and margin ratio.

26. On the Repurchase Date, the counterparty's RTGS account at the CBN will be debited with the Repurchase Price and the Purchased Securities will be transferred to the counter party as appropriate.

27. In the event of a leap year, the base days are adjusted to 366 from 365.



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