
SELL AND BUY BACKS (“BUY BACKS”) Business Requirements

Version 2.6

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Date: 2009/09/28

1 Document Information

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2 Executive Summary

The term “Sale and Buy Backs” (herein after referred to as “Buy Backs”) is synonymous with a Repo and Carry whereby the intention of the seller (deliverer of securities) is to sell the purchaser securities / ISIN delivered conditional to the purchaser returning the same ISIN delivered or, with the explicit agreement of the seller, an ISIN with the same or similar characteristic.

At a MMAC meeting in July 2007 it was agreed that the Buy Backs were integral to the successful dematerialisation of Money Market and consequently the business requirements for MMS phase 1 would be appended as an Addendum to the MMS BRS v2.2 which would be revised to MMS BRS v2.3 for approval by MMAC.

At a MMAC meeting, on 11th October 2007, it was agreed that Buy Backs would constitute a change in beneficial ownership and would be treated as such in the Money Market System (“MMS”). Securities Lending transactions, Repos and Carries entered into purely as collateralised loans, or where the deliverer of the securities did not intend the beneficial ownership to change, should follow the process for reporting Pledges using the processes outlined in MM BRS v2.3.

All Buy Backs will be reported through the ETME by both counterparties with a Buy Back Indicator for the Client type (i.e. Transaction Type). Both legs to the Buy Back reported by the counterparties have to match in the ETME or else both legs of the Buy Back are failed at the end of the Ops windows and both counterparties will be sent a “Failed” Status Intimation message at the End of Business batch run.

Only single ISINs will be used to report Buy Back transactions. A Buy Back requiring multiple ISINs underpinning the cash must be split and reported to the ETME as multiple separate Buy Backs per ISIN.

All **four** legs of the Buy Back are linked in the ETME with a Unique Trade Reference Number (“UTRN”). Once matched, the ETME will assign a Unique Trade Reference Number (“UTRN”) to each of the DVP/RVP of first and second legs of the Buy Back. A “matched” Status Intimation message will be sent to the trading counterparties.

Once the first leg has been matched and settled, the second leg to the Buy Back can only be *Cancelled/Replaced before* settlement date. Both trading parties must report any such Replacement/Cancellation requests to the ETME for matching, and subsequent update into the Money Market System.

The ISIN to be settled in the second leg can be substituted with another ISIN by both parties to the trade sending Cancellation/Replacement request to the ETME which will match the requests. Where multiple ISINs will be delivered in the second leg, a Cancellation request must first be submitted by both counterparties to the ETME as well as reporting the **new** trades, with a Client Type (Transaction Type) “61” and the new ITR as well as the original ITR, per ISIN to be used as the substitution. The cancellation requests will be matched by the ETME. A “cancellation confirmation” Status Intimation message will be sent to the trading counterparties. The UTRN for the reported 2nd leg will be derived from the original trade information.

Buy Back trades can be cancelled once reported and matched, ONLY before the settlement of the second legs providing a Cancellation/ Replacement message is reported by both counterparties and matched by the ETME (Cancellation/Replacement to the first leg will arise on a Buy Back reported on a t+n settlement basis). A “matched” Status Intimation message will be sent to the trading counterparties.

“Open” Buy-backs will automatically be failed by the system on Reconciliation Date (Closing position at the end of day before Payment day) of the underlying ISIN.

Second leg of the BB cannot be for settlement on maturity date of the underlying ISIN.

Coupon and maturity payments will be made to the beneficial owner as reflected in the SOR accounts on Reconciliation Date (as per the timelines defined in the Operational Windows)

3 Background

Repos and Carries are generically referred to in this document as “Buy Backs”.

A Buy Back is synonymous with a Repurchase Agreement (“Repo”), Reverse Repurchase Agreements (Resale agreements) and Carry trades. Buy Backs are often considered as a short-term collateralized loan or a deposit given to the seller for the market value of the security sold, using the underlying security as collateral, and the seller buys back the ISIN at the price which he sold it back with interest on the implicit loan.

- **“Fixed”**

A Buy Back is the “sale” of an existing security at an agreed price, coupled with an agreement by the seller to repurchase the same security on a specified future date (the settlement date) at an agreed price. All Buy Backs are typically executed under an ISMA (International Securities Market Association) Global Master Repurchase Agreement.

- **Open**

If there is no Settlement date then the Buy Back is called an “Open Buy Back” and is treated like a call account in terms of interest (i.e. interest paid monthly, usually on the 1st of the month, if the period is longer than a month). The principal invested is an amount that is secured by the securities delivered. The interest rate of the Open Buy Back is variable, agreed daily between the parties and can be changed daily. The interest rate (i.e. Buy Back rate) is not related to the underlying value of the security used as collateral. If the Buy Back is closed (i.e. the balance gets drawn to zero), then the interest that is accrued for the month is paid either at the time the Buy Back is closed or at the end of the month. The interest payment referred to above will be handled outside the MMS.

- **Reverse Repurchase Agreement. (The buyer)**

A “reverse repurchase agreement” is an agreement to “buy” an existing security and sell it back again to the same counterparty for settlement on a later date at an agreed price

Typically in the **paper market** the securities used for Buy Backs are “bearer instruments” which the buyer keeps in safe custody. Delivery in the second leg requires the return of the securities with the *identical characteristics* to those delivered in the first leg. This is normally achieved by drawing the securities delivered in the first leg from safe custody. However, there is no requirement that the same certificate numbers of the instruments initially delivered in the first leg be returned but securities returned in the second must have exact characteristics as those which were delivered in the first leg.

In a **dematerialised** environment making use of an SOR, there will no longer be bearer securities which are identified by unique certificate numbers. In the dematerialized environment, ISIN numbers will be used to identify the unique characteristics of a security. Ownership of an ISIN will be recorded in the SOR. On the second leg (return leg) of a Buy Back the security

being returned must be the same ISIN, or with the agreement of the seller in the first leg, an ISIN with the similar characteristics.

Securities lending

Securities lending transactions have similar characteristics to a Buy Back with the main exception being that the securities are “lent” and **not** sold to the counterparty. All lending transactions are typically executed under a Lending Agreement.

Lending transactions are normally undertaken for the following two main reasons:-

- Collateralised loan (no change in beneficial owner)
- Trading strategy (change in beneficial owner)

If the intention in a Buy Back or a Security lending represents a change in ownership, then these transactions should be booked as Buy Backs. Should the intention not represent a change in ownership, it should be booked as a Pledge using the processes outlined in the MM BRS v2.3.

4 Related documents

The following documents have been used in clarifying strategic, business and technology issues in preparing this report and may be impacted by the required functionality detailed in this document:-

- The MM Blueprint 2.0
- The MM BRS v2.4
- The MMFE BRS v1.4.6
- The MM ETME BRS v 1.16

5 Assumptions

- Only generic categories 1 and 2 (detailed in MM BRS v 2.3) will be accommodated for Buy Back transactions during the Phase 1 of the Dematerialization of Money Market securities, i.e.:-
 - Generic Category 1: Discounted securities with a fixed maturity date.
 - Generic Category 2: Fixed interest bearing securities with a fixed maturity date.
- Beneficial ownership changes with a Buy Back trade
- Repos and Carries which have the same characteristics as Buy Backs will be reported and processed as Buy Backs
- Security lends and Repos and Carries which are transacted as collateralized loans, with the intention that the security lent cannot be on-sold or lent will be reported and processed as Pledges as detailed in MM BRS v2.3.
- All Buy Backs MUST be reported by BOTH Business Partners with a Trader role to the ETME for bulk matching and bi-lateral allocation for settlement or action in the Money Market system (MMS.)
- The ETME will validate that the settlement date of the 2nd leg (where available) is not after reconciliation date of the underlying ISIN.
- All Buy Back trade information will be reported with a single underlying allocation.
- Both legs of the Buy Backs will be uniquely linked by the UTRN.
- Buy Backs with an “Open” Settlement date will be accepted and validated in the ETME.
- Any interest payments arising on an Open Buy Back will be handled outside the MMS.
- Only single ISINs will be used for Buy Back transactions. Buy Back requiring multiple ISINs underpinning the cash must be split and reported to the ETME as multiple separate Buy Backs per ISIN
- Fixed Buy Backs will be traded to mature on or Before Reconciliation Date (Closing position at the end of day before Payment day)
- Open Buy Backs will automatically be failed by the system at end of day batch run on Reconciliation Date.

- Second leg of the Buy Back can be cancelled and replaced with a new second leg.
- Coupon and maturity payments will be made to the beneficial owner as recorded on Reconciliation Date and payable on Payment date.
- For T+n trades, the trade reporting cut-off time will be checked only on the day of Settlement. For T+0 trades, the cut-off time will be checked on the day the trade is received.
- Un-matched trades will roll over in the same status till the settlement date. If they are still un-matched till the EOD of the settlement date, then they will be failed during EOD process of Settlement Date.
- Settlement in the MMS will be as detailed in MMS BRS v2.3.
- All required legal documentation, tax and accounting reporting will be handled by Business Partners outside the MM system.
- Standard ISO15022 messages will be used where possible to report trade information to the MM ETME and to report trade bulk matching statuses to trading parties (even if proprietary messages were already developed for previous MM implementation). Proprietary messages will be developed where no standard messages are available.

6 Scope & Context

The following are excluded from the scope of this solution:-

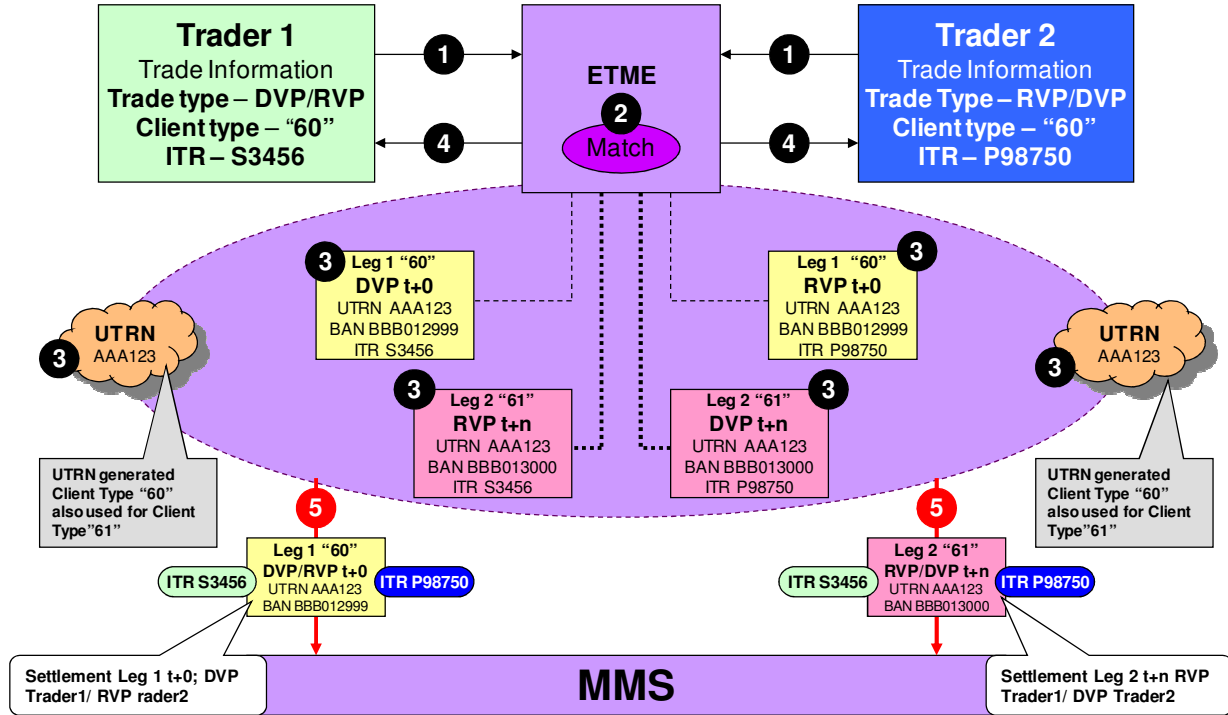
- Securities which fall into generic categories 3 and 4 i.e.:
 - Generic Category 3: Variable interest bearing securities with a fixed maturity date.
 - Generic Category 4: Variable interest bearing securities with a variable maturity date.
- Margining, collateral and risk management.
- Transaction fees pertaining to Buy Back transactions. These will be included in the MM Fees BRS (Buy-backs will be seen as one transaction when booked, i.e. the second leg will not carry a transaction fee unless modified.)

7 High Level Requirements

- Ownership of the underlying ISIN must change for Buy-backs.
- Buy-backs must be assigned a separate transaction type (client type) in the MM system.
- The Settlement date of the second leg of the Buy Back can be "Open"
- Both the parties must report Buy Back trades to the ETME **on the trade date** which must match BOTH legs of the Buy Back or both unmatched trades will be failed by the ETME at the end of day batch run.
- All four trade legs to the Buy Back must be linked by a Unique Trade Reference Number ("UTRN").
- Cancellation of 2nd leg of Buy Backs is possible before settlement providing both counterparties report the Cancellation request to the ETME which must match or be failed at the end of the day.
- Multiple ISINs can be delivered in the second leg only by canceling the second leg and replacing with multiple buy back trades reported with a new Client Type /(Transaction Type 61 and the UTRN assigned to the initial Buy Back Trade.
- The second leg of a Fixed Buy Back must settle on or before the Reconciliation Date of the Maturity Event of the underlying ISIN.
- Open Buy Backs will automatically be failed by the system at the end of the trade reporting window on the Reconciliation Date of the underlying ISIN.
- Coupon and maturity payments will be made to the beneficial owner recorded on Reconciliation Date and payable on Payment date.

8 High Level Information Flows

Buy Backs- Trade Matching



Notes:

1. Traders report trade information for **both** legs of the Buy Back in a SINGLE Trade Reporting message to the ETME including an ITR and Client /Transaction Type “60” and a single allocation underlying each leg.
2. The ETME will carry out normal validation on the trade information reported by both trading parties and commence the bulk matching process.
3. If the information in **ALL “FOUR” LEGS** of the Buy Back matches in the ETME, it will then assign a UTRN to the DVP/RVP of **Leg 1**, recorded in ETME as Client Type “60.” The same UTRN is also assigned to the 2nd Leg, recorded in the ETME as Client Type “61.” Thus, **all “four legs”, two settlements, carry the same unique UTRN** which is used to link all Buy Back legs and any future activity for this BB. The Bi-lateral allocation processes detailed in the ETME BRS will follow.
4. A “Matched” Status Intimation will be sent by ETME to both traders once ALL four legs of the bulk trade information has been matched, which will include the trader’s ITR and the UTRN assigned by the ETME to **both settlement legs** (DVP/RVP and RVP/DVP.) The communication of the BANs is optional.
5. The ETME sends the settlement information including the assigned UTRN and BANs for BOTH settlement legs, (DVP/RVP first and second legs) to MMS for settlement on the relevant settlement dates. **Allegation messages for the second leg are only sent to the CSD Participants on the settlement date of the second Leg, i.e. repurchase date.**

8.1 Trader Information to ETME

- Buy Back trades reported to the ETME by **both** counterparties with Client **Type '60'** for matching.
- Buy Back trades which include more than one ISIN underpinning the cash in the Buy Back should be reported as individual Buy Back trades.
- Information to be included in **both** legs of the bulk trade message includes :

Trade information required	Example
ISIN	ZAM000000017
Trade type	DVP/RVP
Trade Date	10/10/2007
Client/Transaction Type	60
Settlement Date (settlement of the first leg)	10/10/2007
Repurchase Date (Date of settlement of second leg / blank for Open Buy-backs)	09/12/2007
Nominal (Bulk)	R 10 000 000
Consideration (Bulk, settlement of the first leg) (if tolerance is > 0 then the seller's consideration will be used for settlement purpose)	R 10 535 214
Repurchase Amount (consideration to be settled in second leg/Optional For Open Buy Backs) (if tolerance is > 0 then the seller's consideration will be used for settlement purpose)	R 10 987 259
Trading Party (Trader CSD BP Id No.)	ZA600234
Trading Counterparty (Trader CSD BP Id No.)	ZA600242
ITR (trader's internal system ref.)	ZA600234/0126587
Original ITR Ref no.	Conditional
Nominal	R 10 000 000
Consideration	R 10 535 214
SOR number (Client's SOR number)	10000908
Repurchase Amount (Optional For Open Buy Backs)	R 10 987 259

Bulk trade information
Allocation trade information

- Matching criteria would be the basic attributes mentioned above except for the ITR and Original ITR numbers which are proprietary to the reporting counterparties back office systems. The ITR number reported in the original Buy Back trade is used as a reference to cancel Buy Back trade information reported to the ETME before matching. The Original ITR number is used where a cancellation to the Buy Back trade information is requested before matching and a new ITR submitted with the new Buy Back information.
- Status intimations detailed in the ETME BRS will be sent by ETME to both traders on the status of match/failed of Buy Back trades reported and acceptance / rejections of cancellation requests.
- The same validation on the reported trade information is carried out by the ETME.

8.2 Replacement / Cancellation of Buy Back Trades

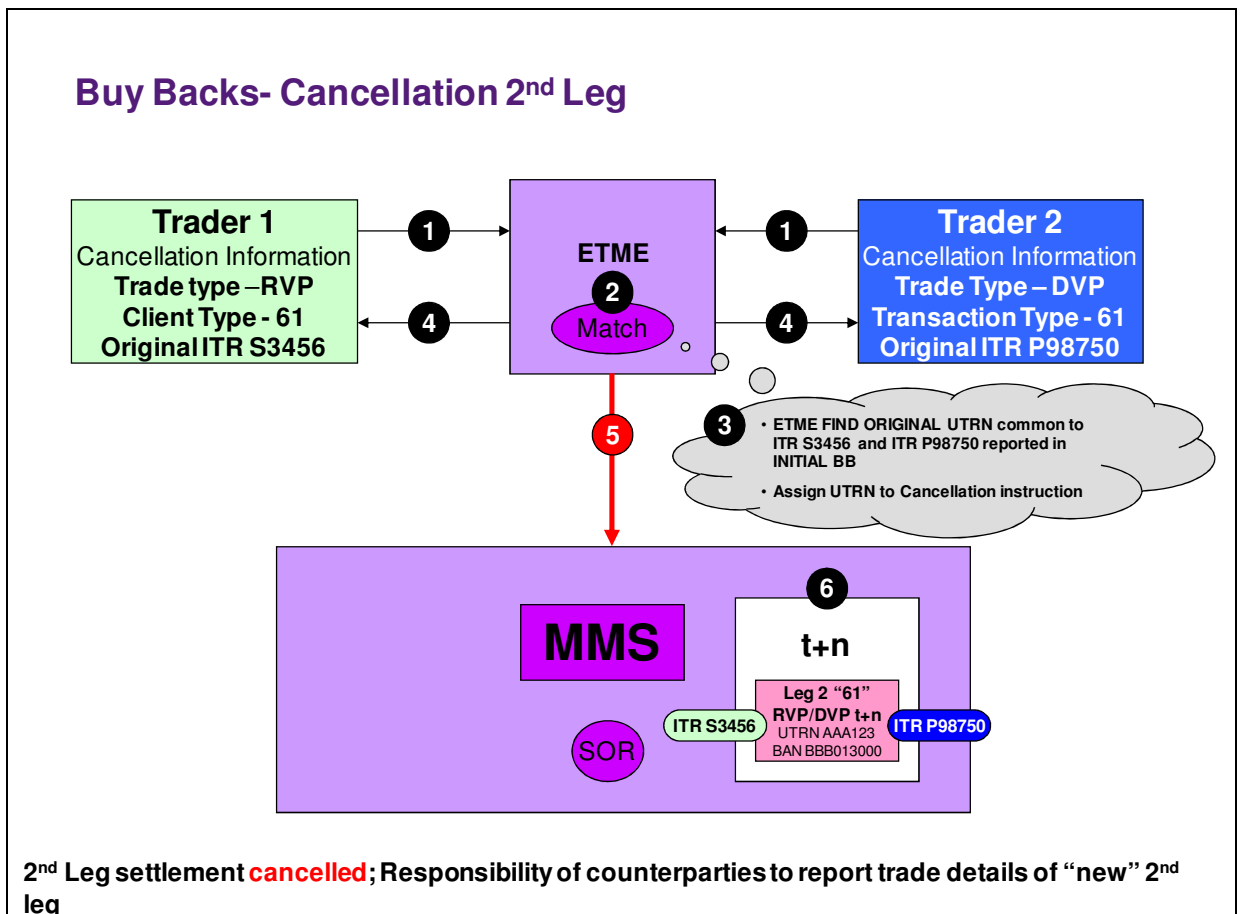
Before matching:

- Buy Back trade details can be replaced/ cancelled in ETME **before it is matched.**
- Replacement / Cancellation of Buy Back trades should be reported by the Trading Party to the ETME **with original ITR** number reported together with a new ITR number and the Buy Back trade details to be replaced /cancelled.

After matching:

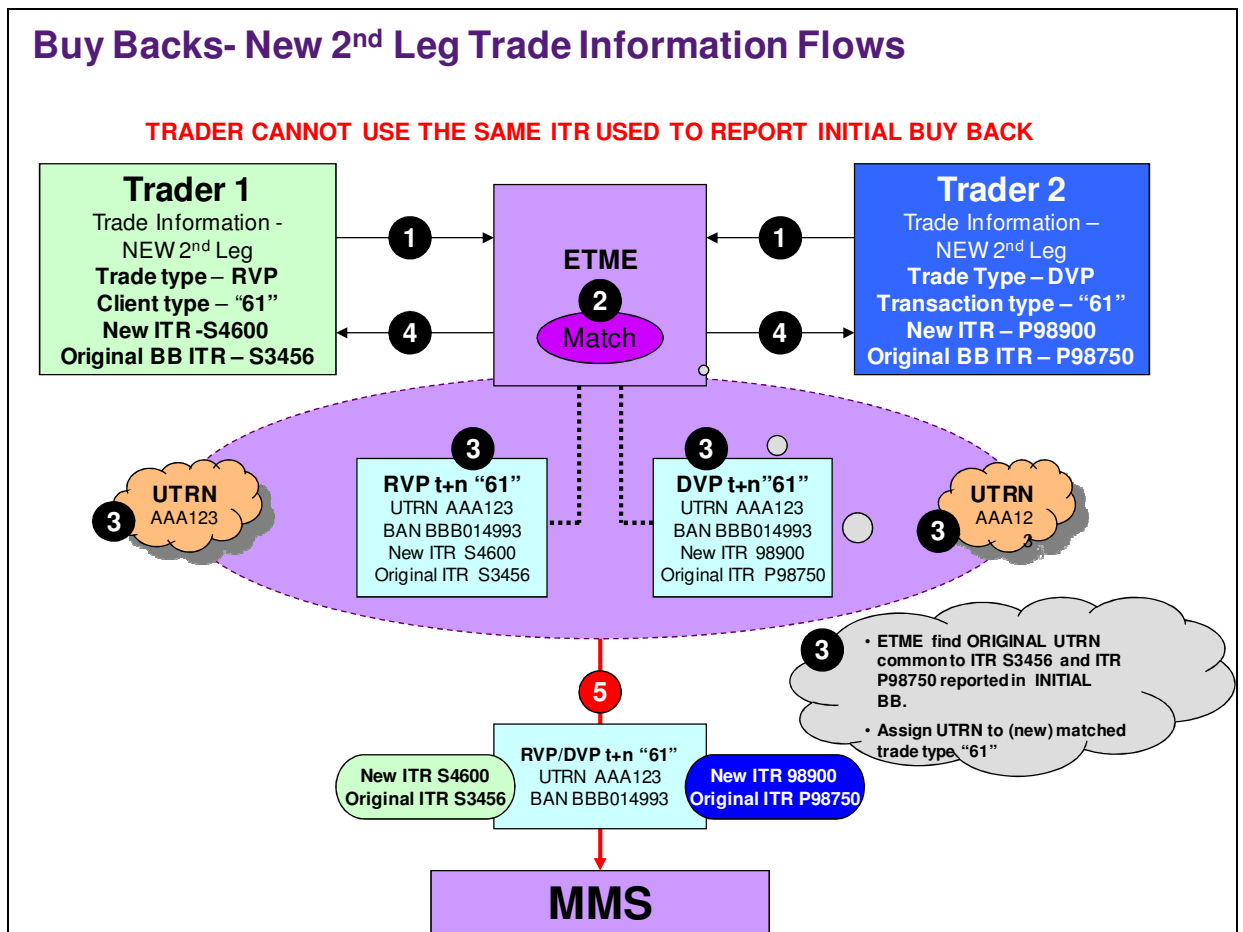
- The second leg of a Buy Back Trade can be modified ONLY by cancellation of the second leg in ETME **before settlement** using the original UTRN, reported with the initial Buy Back, providing **both** parties to the trade report the information which **must match** or else cancellation will be failed and the counterparties sent “Failed” Status Intimation messages.

The **second leg** of the Buy Back can be **modified** before settlement by **both parties** reporting cancellation requests with their original ITR reported in the initial Buy Back to the ETME which must match. The ETME will derive the UTRN common to the two parties ITR numbers reported and cancel the settlement of the second leg. Both trading parties will then report new 2nd leg trade details to the ETME with the new ITR numbers and client type “61”. After matching, the ETME will send 2 new trade legs to replace the 2nd leg of the buy back in MMS. **The information flow and required functionality for the cancellation of the 2nd leg of the Buy Back is detailed in the diagrams and notes below:**



1. Traders report CANCELLATION information for 2nd leg of Buy Back, INCLUDING the ITR reported for the ORIGINAL BB transaction and the trade type of the 2nd Leg to be cancelled, to the ETME.
2. The ETME will carry out normal validation on the cancellation information reported by both trading parties and commence the matching process, which MUST match.
3. If the information in both legs of the Cancellation request match in the ETME it will search the Allocated UTRN data base in the ETME to find the ORIGINAL UTRN allocated to the ORIGINAL BB trade. The ORIGINAL ITRs, which were included in the trade information of both counterparties when the BB was originally reported, is used for this purpose. If the UTRN “linked” to both traders’ ITR matches, this UTRN will be assigned to the Cancellation request.
4. A “Cancelled” Status Intimation will be sent by ETME to both traders once steps 2 and 3 above have been successfully completed, which will include the trader’s ORIGINAL BB ITR and the UTRN assigned to the ORIGINAL BB.
5. The ETME sends the CANCELLATION information including the ORIGINAL UTRN to MMS to cancel the 2nd LEG of the BB (in MMS in MATCHED status.).
6. 2nd Leg of BB is CANCELLED (status of 2nd Leg now “cancelled”)

The information flow, required functionality and notes for the booking of the new 2nd leg of the buy back is as follows:



1. Traders report trade information to the ETME for the “revised 2nd Leg of the BB, including a new ITR for this new 2nd Leg trade; the same trade type applicable to the cancelled 2nd trade leg; Client Type “61;” the ITR reported in the ORIGINAL BB trade information and a single allocation underlying the new 2nd Leg bulk.

2. The ETME will carry out normal validation on the trade information reported by both trading parties and commence the bulk matching process.
3. If the information in both legs of the new 2nd Leg trade matches in the ETME it will search the Allocated UTRN data base in the ETME to find the original UTRN allocated to the ORIGINAL BB trade. The ORIGINAL ITR, which was included in both the counterparty's trade information when the BB was originally reported, is used for this purpose. If the UTRN "linked" to both traders' ITR matches, this UTRN will be assigned as the 2nd Leg UTRN. This methodology will keep all transactions to the BB "LINKED." The Bi-lateral allocation processes detailed in the ETME BRS will follow.
4. A "Matched" Status Intimation will be sent by ETME to both traders once steps 2 and 3 above have been successfully completed, which will include the trader's ITR for the "NEW" 2nd Leg and the UTRN, which was assigned to the ORIGINAL BB.
5. The ETME will forward the matched trade information details and the assigned UTRN (initially assigned to the BB) and BAN to MMS for settlement on the settlement date. Allegement messages for the second leg are only sent to the CSD Participants on the Repurchase date.

8.3 Failure Procedure for Open BB on Reconciliation day

On **Reconciliation Date** of underlying ISIN during **Strate EOD procedures**:

- ❖ **Strate will cancel any Open 2nd Leg (in the back office panels in Strate back office Batch run)**
- ❖ **Strate will send "Status Intimation – FAILED" message to CSD Participants which will have to notify affected clients.**
- ❖ **The Beneficial Owner will be included in entitlements for the Maturity payment.**

Counterparties will have to resolve the Maturity paid OUTSIDE the MM system and the reporting of any transaction to replace to the 2nd Leg of the Buy Back (NEW ISIN) which they want to be settled in the MM system.

9 Processing within MMS

- Leg 1 of the Buy-back trade will be processed for Settlement on 1st settlement Date and Leg 2 on the Repurchase Date, 2nd Leg, or once Cancelled/Replaced if Open.
- Automatic failing of Open Buy Backs if still open at the end of the day on Reconciliation Date.
- Settlement mechanism will be as for MMS Settlement detailed in MM BRS v2.3
- Status intimations to the relevant Parties involved in the trade after settlement of Buy Back trades, processing of cancellation/Replacements requests and automatic failing of Open Buy Backs.
- Handling of Capital Events.

10 Capital Events

- For Maturities – all 2nd Legs to the Buy-backs should be traded to settle on or before **Reconciliation Date**.
- Where Open Buy-backs have been cancelled by the MMS **on Reconciliation Date** by the settlement process, the maturity will be paid to the beneficial owner when the entitlements are finalized and any repayment of the maturity will be

resolved by the parties **outside** the MMS. An additional failed status intimation message must be sent to the CSD Participants.

11 Reports and Queries

The same reports and queries applicable to MMS and the ETME will be available for Buy-backs.

Queries and reports on Buy Backs will only show the legs to the Buy Back applicable to the trader requesting the information.