

TBMA/ISMA GLOBAL MASTER REPURCHASE AGREEMENT (GMRA) (2000 VERSION): GILTS ANNEX AND NOTES TO THE GILTS ANNEX

The Bank is publishing today (30 November 2000) a revised version of the Gilts Annex to the GMRA. This, and the accompanying Notes to the Annex, replace the Gilts Annex and Notes published in 1995.

The changes from the previous version are as follows –

- (i) The Annex refers to the new, revised GMRA (GMRA 2000).
- (ii) ‘CREST’ is substituted for ‘CGO’ or ‘the CGO Service’.
- (iii) The definition of ‘gilt-edged securities’ is updated.
- (iv) The Annex provides for the pricing rate for a DBV transaction to be specified.
- (v) The reference to overnight collateral chits is deleted as the CREST arrangements do not provide for these.
- (vi) The previous Annex contemplated the possibility that a DBV return may not return because of the termination or suspension of either buyer or seller, but it did not cover the possibility of failure due to an insufficiency of stock or cash. This is now covered in a new paragraph 3.3(f)
- (vii) The previous paragraph 3.3 is deleted. This concerned the procedure to be followed where, under the rules and procedures of CGO, the transfer of securities resulted in a payment which was not required to be made under the Agreement or the terms of the relevant transaction. Such a procedure is not necessary as the rules and procedures of CREST permit free deliveries of securities.

The memorandum, together with the Annex and Notes on the Annex are available on the Bank’s website at www.bankofengland.co.uk/markets/gilt/gmra.htm .

TBMA/ISMA GLOBAL MASTER REPURCHASE AGREEMENT (2000 VERSION)

GILTS ANNEX

Supplemental terms and conditions where repurchase transactions are to be effected in UK gilt-edged securities

1. Interpretation

1.1 In this Part of this Annex:

- (a) the *Agreement* means the Agreement dated _____ substantially in the form of the TBMA/ISMA Global Master Repurchase Agreement (2000 version) of which this Annex forms part;
- (b) **CREST** means the computer-based system and associated clerical procedures established by CRESTCo Limited to facilitate the transfer of gilt-edged securities and other uncertificated securities;
- (c) *CHAPS system* means the same day payment system operated by the CHAPS Clearing Company Limited;
- (d) *gilt-edged securities* means securities which are gilt-edged securities for the purposes of section 50 (7) of the Income and Corporation Taxes Act 1988.

1.2 Terms to which a defined meaning is given in the Agreement have the same meanings in this Annex.

2. Scope

2.1 The parties have agreed that the Transactions to which the Agreement applies may include Transactions in respect of gilt-edged securities.

2.2 The terms and conditions set out in this Annex apply to Transactions in respect of gilt-edged securities and, to the extent and in the circumstances provided in paragraph 3.3(c) below, Transactions wholly or partly in respect of such other securities as are referred to in that paragraph.

3. CREST

3.1 CREST shall be an agreed securities clearance system for the purposes of paragraph 6(a)(iii) of the Agreement.

3.2 Where under the rules and procedures of CREST the delivery of any Securities from a securities account in the name of one party or its nominee or agent (*the transferor*) to a securities account in the name of the other party or its nominee or agent (*the transferee*) gives rise to an assured payment obligation by which the settlement bank acting for the transferee is obliged to make a payment to the settlement bank acting for the transferor, the creation of that assured payment

obligation shall for the purposes of the Agreement and any Transaction be treated as a payment from the transferee to the transferor of an amount equal to the amount of the assured payment obligation.

3.3(a) Subject to and in accordance with the following provisions of this sub-paragraph, the parties may agree to enter into an overnight sale and repurchase transaction (a ***DBV Transaction***) to be effected under the “delivery-by-value” facility of CREST.

(b) The Confirmation relating to a DBV Transaction -

- (i) shall specify the Transaction as a DBV Transaction;
- (ii) shall not describe the Purchased Securities;
- (iii) shall specify as the Purchase Price the consideration to be input in respect of the delivery of the Purchased Securities through CREST;
- (iv) shall specify the pricing rate for that DBV Transaction.

(c) The Purchased Securities under a DBV Transaction shall be such Securities (which may include Securities which are not gilt-edged securities) as shall be selected and delivered by CREST on the apportionment of securities to the relevant delivery in accordance with the rules and procedures of CREST.

(d) The amount by which the Repurchase Price under a DBV Transaction exceeds the Purchase Price shall be paid by Seller to Buyer on the Repurchase Date on or as soon as practicable after the delivery of Equivalent Securities through CREST from a securities account of Buyer to a securities account of Seller. Such payment shall be made through CREST or outside CREST in same day funds.

(e) If on the Repurchase Date of a DBV Transaction Equivalent Securities are not delivered to Seller by reason of the fact that either party’s membership of CREST has been terminated or suspended then, unless before the latest time for delivery of such Equivalent Securities under the rules and procedures of CREST an Event of Default has occurred under paragraph 10 of the Agreement in respect of either party, such non-delivery shall be deemed to constitute -

- (i) where Buyer’s membership of CREST has been terminated or suspended, a failure by Buyer to deliver Equivalent Securities on the Repurchase Date;
- (ii) where Seller’s membership of CREST has been terminated or suspended, a failure by Seller to pay the Repurchase Price on the Repurchase Date.

(f) If on the Repurchase Date of a DBV Transaction Equivalent Securities are not delivered to Seller by reason of the fact that there are insufficient Securities of the relevant description standing to the credit of Buyer’s account to enable delivery of the Equivalent Securities or there is insufficient cash standing to the credit of Seller’s account to enable payment of the Repurchase Price then, unless before the latest time for delivery of such Equivalent Securities under the rules and procedures of CREST an Event of Default has occurred under paragraph 10 of the Agreement in respect of either party, such non-delivery shall be deemed to constitute -

- (i) where there are insufficient Securities of the relevant description standing to the credit of Buyer’s account to enable delivery of the Equivalent Securities, a failure by Buyer to deliver Equivalent Securities on the Repurchase Date;

- (ii) where there is insufficient cash standing to the credit of Seller's account to enable payment of the Repurchase Price, a failure by Seller to pay the Repurchase Price on the Repurchase Date.
- (g) If after an Event of Default has occurred under paragraph 10 of the Agreement Equivalent Securities to the Purchased Securities are delivered to a securities account of Seller against the creation of an assured payment obligation in accordance with the rules and procedures of CREST notwithstanding the termination of the relevant DBV Transaction, such delivery shall give rise to the following obligations, each of which shall be conditional on the simultaneous performance of the other -
- (i) an obligation on Seller to deliver to Buyer on demand securities equivalent to the securities so delivered; and
 - (ii) an obligation on Buyer to pay to Seller on demand a sum equal to the amount of the assured payment obligation so created.
- 3.4(a) The parties may agree to enter into a series of DBV Transactions to be confirmed by a single Confirmation, each such DBV Transaction being for the same Purchase Price and each such DBV Transaction other than the first commencing on the Repurchase Date of the previous Transaction. Such a series of DBV Transactions is in this paragraph referred to as -
- (i) an **Open DBV Repo** if the Repurchase Date of the last Transaction in the series is not specified in the Confirmation but it is instead provided that, if either party gives to the other notice of not less than a stated period, the DBV Transaction which will be due for Termination on the date specified in the notice will be the last Transaction in the series and the series will be limited accordingly;
 - (ii) a **Term DBV Repo** if the date on which the last Transaction in the series is due for Termination is specified in the Confirmation.
- (b) Subject to the following provisions of this sub-paragraph, paragraph 3.3 above shall apply in respect of each DBV Transaction forming part of an Open DBV Repo or a Term DBV Repo.
- (c) It shall not be necessary for any Transaction forming part of an Open DBV Repo or a Term DBV Repo to be evidenced by a separate Confirmation and, subject to sub-paragraph 3.4(d) below, each such Transaction shall be deemed to be entered into on the Repurchase Date of the preceding such Transaction.
- (d) Notwithstanding the preceding provisions of this sub-paragraph, a transaction which would otherwise be deemed to be entered into on any day and would form part of an Open DBV Repo or a Term DBV Repo shall be deemed not to be entered into if before the parties have taken the steps necessary to effect delivery of the Purchased Securities under that Transaction on that day in accordance with the rules and procedures of CREST -
- (i) an Event of Default has occurred in relation to either party; or
 - (ii) an earlier Transaction forming part of that Open DBV Repo or Term DBV Repo has been terminated under paragraph 10(g) or 10(h) of the Agreement.
- (e) In any case where sub-paragraph 3.4(d) above applies, no further Transaction forming part of the relevant Open DBV Repo or Term DBV Repo shall arise.
- (f) Subject to sub-paragraph 3.4(h) below, and save in so far as the Confirmation relating to an Open DBV Repo or Term DBV Repo may otherwise provide, that part (if any) of the Repurchase

Price in respect of each Transaction in the relevant series (other than the last such Transaction) which exceeds the Purchase Price shall not be payable on the Repurchase Date, but shall instead be deferred until, and shall be payable on, the Repurchase Date of the last Transaction in the series. Such payments shall be made through CREST or outside CREST in same day funds.

(g) Any amount payable in respect of a Transaction forming part of an Open DBV Repo or term DBV Repo payment of which has been deferred under sub-paragraph 3.4(f) above shall, until it is paid or the relevant Transaction is terminated under any provision of paragraph 10 of the Agreement, be treated for the purposes of paragraph 4(c) of the Agreement as if it were an amount payable under paragraph 5 of the Agreement.

(h) If any Transaction forming part of an Open DBV Repo or Term DBV Repo is terminated under any provision of paragraph 10 of the Agreement, any amounts payable in respect of any earlier Transactions forming part of that Open DBV Repo or Term DBV Repo payment of which has been deferred under sub-paragraph 3.4(f) above shall become due and payable immediately.

4. Transactions in partly-paid Securities

4.1 This paragraph applies where -

- (a) the Purchased Securities under a Transaction are Securities on which a call or instalment remains to be paid; and
- (b) the due date for the payment of any such call or instalment occurs before the Termination of the Transaction.

4.2 Seller shall pay to Buyer, for value on or before the due date of the call or instalment, an amount equal to the call or instalment payable on that date in respect of Securities equivalent to the Purchased Securities.

4.3 No adjustment to the Repurchase Price shall be made in consequence of the call or instalment or of the payment made by Seller under paragraph 4.2 above.

4.4 On and from the due date for the payment of the call or instalment the expression "Equivalent Securities" shall with respect to that Transaction be taken to mean Securities of the same issuer, forming part of the same issue and being of an identical type, nominal value, description and amount as the Purchased Securities but after payment of the call or instalment in question.

5. Exercise of rights of conversion

5.1 This paragraph applies where the Purchased Securities under a Transaction are Securities in respect of which a right of conversion (whether arising under the terms of issue of the Securities or under a conversion offer made after such issue) becomes exercisable before the Termination of the Transaction.

5.2 Seller may, not later than a reasonable period before the latest time for the exercise of the right of conversion, give to Buyer written notice to the effect that, on Termination of the Transaction, it wishes to receive Securities in such form as will arise if the right of conversion is exercised or, in the case of a right of conversion which may be exercised in more than one manner, is exercised in such manner as is specified in the notice.

5.3 With effect from the latest time for the exercise of the right of conversion the expression “Equivalent Securities” shall be taken to mean -

- (a) if a notice has been given under paragraph 5.2 above not later than the time specified in that sub-paragraph, such amount of such Securities of such description as fall to be held by a holder of Securities of the same issuer, forming part of the same issue and being of an identical type, nominal value, description and amount as the Purchased Securities if he has exercised the right of conversion in the manner specified in the notice;
- (b) in any other case, such amount of Securities of such description as fall to be held by a holder of Securities of the same issuer, forming part of the same issue and being of an identical type, nominal value, description and amount as the Purchased Securities if he has not exercised the right of conversion.

6. Termination of on demand Transactions

6.1 Paragraph 3(e) of the Agreement shall not apply, but shall be replaced by the following -

“(e) In the case of on demand Transactions, demand for Termination shall be made by Buyer or Seller, by telephone or otherwise, and shall provide for Termination to occur as soon as reasonably practicable after such demand or on such date (being at least one Business Day after that on which the demand is made) as may be specified in the demand: provided that, unless otherwise agreed between the parties, a demand which is made before 10 a.m. on a Business Day may provide for Termination to occur not later than the close of business on that day.”

7. Dividend entitlements: effect on margin provisions

7.1 This paragraph applies where -

- (a) the ex-dividend date for the payment of any dividend on any Purchased Securities occurs before the Termination of the relevant Transaction; or
- (b) the ex-dividend date for the payment of any dividend on any gilt-edged securities which have been delivered to a party as Margin Securities occurs before Equivalent Margin Securities have been delivered to the other party.

7.2 For the purposes of paragraph 4 of the Agreement -

- (a) where paragraph 7.1(a) above applies, from the period from the ex-dividend date until the Termination of the Transaction, Buyer shall be deemed to have received a payment of Cash Margin equal to the amount of the dividend payable on the Purchased Securities by reference to that ex-dividend date;
- (b) where paragraph 7.1(b) above applies, the party which has received those Margin Securities shall, from the period from the ex-dividend date until Equivalent Margin Securities are delivered to the other party, be deemed to have received a payment of Cash Margin equal to the amount of the dividend payable on those Margin Securities by reference to that ex-dividend date.

TBMA/ISMA GLOBAL MASTER REPURCHASE AGREEMENT (2000 VERSION)

Notes to supplemental terms and conditions for repurchase transactions in UK gilt-edged securities

Revisions to the TBMA/ISMA Global Master Repurchase Agreement ('GMRA')

1 The International Securities Market Association (ISMA) have, in conjunction with the Bond Market Association (formerly the PSA), agreed a revised version of the GMRA, which was published in October 2000. This version replaces that published in 1995.

Stock Lending and Repo Committee

2 The UK Stock Lending and Repo Committee, chaired by the Bank of England, has been preparing in parallel a revised version of the annex to the GMRA dealing with UK gilt-edged securities. This revised Annex, published in November 2000, takes account of the revised GMRA and the migration of gilts settlement from the Central Gilts Office (CGO) to CREST (which took place on 3 July 2000). In addition, the revised Annex reflects an amendment to the definition of gilt-edged securities, the fact that CREST, unlike CGO, does not provide for overnight collateral chits, and the earlier upgrading of the CGO system (now CREST) – such that the Annex provides for the pricing rate to be specified for DBV transactions. The Annex also includes a new paragraph 3.3(f), which recognises the possibility that a return leg of a DBV could fail because of insufficient cash or stock in the relevant accounts.

Purpose of the Annex

3 The Annex is designed as an Annex to the GMRA. The Annex has, like the GMRA itself, been drafted with a view to legal, regulatory and taxation provisions applicable in the United Kingdom, and they are intended to cover those matters which are thought likely to be common to most gilt repo transactions or to most such transactions of particular kinds. They are not intended to limit parties' freedom to deal with parties outside the United Kingdom or to incorporate other terms, subject to appropriate consideration of and advice on the additional issues which this may raise.

Securities which may be covered

4 The GMRA to which the Supplemental Terms form an annex may, if the parties so decide, cover repos in both gilts and other securities.

Combination with other agreements

5 It would be possible to provide for a master agreement incorporating the Supplemental Terms to be operated in combination with another master agreement for other transactions (for example a stock lending agreement in a form approved by the London Stock Exchange, which includes events of default and close-out and netting provisions substantially identical to those of the GMRA). However, the Gilt Repo Legal Agreement Working Party, which drafted the original Gilts Annex published in 1995, took the view that any such linkage should be left for parties to agree if they chose rather than recommended as a matter of course.

Confirmations

6 The Annex does not vary the provisions of paragraph 3 of the GMRA relating to confirmations. Parties who wish to do so, for example by making express provision for the status of taped telephone conversations (which are permitted by the GMRA), are free to add specific provisions.

CREST and 'delivery-by-value' transactions

7.1 Paragraph 3 of the Annex contains provisions relating to the use of CREST. Paragraph 3.3 modifies the application of the Agreement where the parties agree to use the CREST 'delivery-by-value' facility, under which the parties may agree an overnight transfer of securities having a specified value. The securities will be selected by the system in accordance with a predetermined procedure laid down by the rules of the system and the transaction will be reversed automatically the following morning unless in the meantime the CREST membership of one of the parties has been suspended or terminated or there is insufficient stock or cash in the buyer's or the seller's account. The consideration used by the system for the reversal will be the same as that of the original delivery; paragraph 3.3(d) provides for any agreed premium element of the repurchase price to be paid separately through CREST or outside CREST in same day funds.

7.2 Paragraph 3.4 enables the parties to enter into a single agreement for a series of successive DBV Transactions, each following on immediately from the preceding transaction in the series, and for any premium element in the repurchase price of each individual DBV Transaction in the series to be carried forward and settled together at the end of the series.

8 Paragraph 4 of the Annex makes provision for transactions in partly-paid securities. Where a call or instalment becomes due while a repo transaction is outstanding, the seller is obliged to fund it by making an equivalent payment to the buyer. There is no increase in the repurchase price, but the seller's obligation is to repurchase the securities in the paid-up form. The value of the securities in the paid-up form will increase on the due date for the call or instalment and it is likely that this will trigger a margin transfer from buyer to seller.

Exercise of rights of conversion

9 Paragraph 5 of the Annex makes provision for transactions in securities on which a right of conversion becomes exercisable during the term of the transaction, whether under the terms of issue of the securities or because the securities are the subject of a conversion offer. In these circumstances the seller is entitled to give notice to the buyer specifying in what form it wishes to receive securities on termination of the transaction. It will then be for the buyer to ensure that it is able to deliver such securities, whether by exercising the conversion right on securities which it holds, purchasing securities in the converted form or exercising a corresponding right under a matching repo agreement into which it has entered as seller. If the seller does not give a notice, the securities deliverable at the maturity of the transaction are securities in the form which will be held by a holder who has taken no action.

Termination of on demand transactions

10 Paragraph 6 of the Annex varies the normal timing laid down by the GMRA for the termination of on demand transactions by giving either party the right to call for same day termination provided that the call is made before 10.00 am. (The general position under the GMRA is that termination will occur after not less than the minimum period customarily required for the settlement or delivery of money or securities of the relevant kind. In the case of a repo of gilt-edged securities, this would mean that a termination notice must be given by close of business on the business day before that of the intended termination. Parties who prefer this position may wish to amend the Annex so as to exclude paragraph 6.)

Ex-dividend dates: effect on margin provisions

11 The length of the ex-dividend period for most gilt-edged securities is now seven working days. Gilt-edged securities continue to differ from most securities used in repo transactions in having a significant ex-dividend period. During this period the market value of the securities is likely to fall to reflect the fact that they have gone ex-dividend. Normally this fall would be taken into account in the calculation of margin under the GMRA and would trigger a margin payment to the party holding the securities. This is thought to be inequitable, given that that party is entitled to receive the amount of the dividend from the Treasury. The Annex therefore provides that for the purposes of margin calculation that party is treated as having received a payment of cash margin equal to the dividend entitlement.

Taxation

12 Like the GMRA itself, the Annex is drafted to cover only repos in respect of which "manufactured dividends" are to be paid without deduction of tax, whether or not actual interest on the securities is received subject to deduction of tax. Under the UK tax regime, manufactured dividends on gilts are paid without deduction of tax.

Special counterparties

13 The Annex does not include provision for counterparties with a special status such as trustees or partnerships. Parties will need to form their own view as to whether special investigations or additional provisions are appropriate when dealing with such counterparties.