

## **MANDATORY PROVIDENT FUND SCHEMES AUTHORITY**

### **III.8 Guidelines on Repurchase Agreements**

#### **INTRODUCTION**

Section 51 of the Mandatory Provident Fund Schemes (General) Regulation (“the Regulation”) specifies the restrictions on entering into repurchase agreements in respect of a registered scheme.

2. Section 6H of the Mandatory Provident Fund Schemes Ordinance (“the Ordinance”) provides that the Mandatory Provident Fund Schemes Authority (“the Authority”) may issue guidelines for the guidance of approved trustees, service providers and other persons concerned with the Ordinance.

3. The Authority hereby issues guidelines to specify the requirements in respect of repurchase agreements.

#### **REPURCHASE AGREEMENTS**

##### **Requirements of Collateral**

4. The payment for the debt security must be in the form of cash (“cash collateral”), in the same currency denomination as the debt security or in Hong Kong or US dollar if the debt security is denominated in a foreign currency.

5. The cash collateral should be:
  - (a) deposited with a bank, as defined in section 2 of the Banking Ordinance (Cap. 155), or an eligible overseas bank; or
  - (b) invested in debt securities prescribed under section 7(2)(a) or (b) of Schedule 1 to the Regulation and with remaining maturity of 1 year or less. The debt securities must be denominated in the same currency as the cash collateral.
6. Collateral must be marked-to-market daily.
7. A minimum margin requirement of 5% over the market value of the debt security under the repurchase agreement must be maintained for the collateral. The approved trustee and/or the custodian may impose a higher margin requirement taking into account the volatility of the value of the debt security.
8. The custodian can only transfer the debt security to the purchaser at the time of receiving or after it has received the collateral from the purchaser.

### **Repo on Repo Prohibited**

9. No repurchase agreement can be entered into in respect of debt securities that are held as collateral.

### **Counterparty Risk**

10. The custodian is required to closely monitor the risk exposure to counterparties on a daily basis.

## **Approved Pooled Investment Fund**

11. The above requirements also apply to repurchase agreements conducted in approved pooled investment funds.

## **DEFINITION OF TERMS**

12. Except where otherwise specified in the guidelines, the terms common to the Ordinance and the subsidiary legislation of the Ordinance carry the same meanings as defined in the Ordinance and the subsidiary legislation. Appropriate references should be made to the Ordinance and the subsidiary legislation, where necessary.