



## ABC – REPO AUCTIONS COLLATERALIZED WITH BANK LOANS

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At its meeting on 8 May 2020, the Board of Directors of *Banco de la República* (the Central Bank of Colombia) authorized the inclusion of credit instruments from loan portfolio operations (promissory notes) as part of the set of instruments eligible for transitory expansion operations (repos). This facility is offered to credit institutions as a funding mechanism to irrigate credit to the financial system, among other purposes.

Below is a general description of the mechanism.

- a. **Enforceable Regulation:** External Resolution 2 of 2015 (RE 2/2015) of the Board of Directors of *Banco de la República* (BR); External Regulatory Circular DEFI-354 (CRE DEFI-354); External Regulatory Circular DOAM-148 (CRE DOAM-148); External Regulatory Circular DOAM-141 (CRE DOAM-141); and External Regulatory Circular DGPC-413 (CRE DGPC-413); and all other rules that modify, add or supplement them (the regulation mentioned above is available at the following link <https://www.banrep.gov.co/es/reglamentacion-expansion-y-contraccion-monetaria>).

- b. **Eligible securities:** Credit loans (promissory notes) denominated in local or foreign currency with credit rating equal to "A", as per the relevant regulation issued by the Office of the Financial Superintendent of Colombia (SFC), dematerialized and/or immaterialized at Deceval.

Only in the case of non-existence or insufficiency of dematerialized and/or immaterialized promissory notes, shall physical promissory notes be admissible as long as said promissory notes are received through document managers (DM) and they correspond to any of the entities designated by Deceval for the immobilization of the promissory notes. For these purposes, the ACO will be required to comply with the requirements referred to in the External Regulatory Circular DGPC-413 (CRE DGPC-413).

Item 3.1.3 of the CRE DEFI-354 contains other conditions that said instruments must meet.

- c. **Participants:** Banking establishments, financial corporations, financing companies, and financial cooperatives qualified as placement agents of OMAs (ACO)<sup>1</sup> at the date of the auction, including institutions regulated by special rules licensed to receive resources from the public.

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<sup>1</sup> In order to maintain its quality as ACO, an institution shall comply with the access and maintenance requirements referred to in the CRE DEFI 354 to participate in the REPO auctions.

**Maturity:** The operation will have a 6-month term<sup>2</sup>.

- d. **Allotment:** the transitory expansion operations program with promissory notes will have a global allotment of up to COP \$6.3 billion. For three months, starting from 14 May 2020, every 2 weeks (on Thursdays) an auction of these operations will be held. The first auction of the program will be for COP \$1 trillion. The allotment for subsequent auctions will be announced throughout the development of the program.
- e. **General Limit:** repo volume outstanding may not exceed 15% of the liabilities to the public as defined in form No. 14 of the CRE DEFI-354. To participate in the auctions, the ACO shall send in this form before the day of the auction. This is without prejudice to all other conditions as established in the CRE DEFI-354.
- f. **Haircuts :** BR will receive the promissory notes for the outstanding principal balance, minus the principal payments that are due during the term of the REPO and the *haircuts* presented below:

Type of loans	Haircut <sup>1</sup>
Commercial loans and financial leasing operations, with suitable commercial warranty*	17%
Mortgage loans	17%
Commercial loans and commercial leasing operations, without suitable warranty	19%
Commercial loans, microcredit, and financial leasing operations for consumption and microcredit, with suitable commercial warranty*	23%
Commercial loans, microcredit, and commercial leasing operations for consumption and microcredit, without suitable warranty	33%
Credits with coverage that is greater than or equal to 80% and less than 90% by the <i>Fondo Nacional de Garantías</i> (National Guarantee Fund -FNG) <sup>2</sup>	15%
Credits with coverage equal to or greater than 90% by the FNG.	12%
*A suitable guarantee is understood as one that meets the criteria set forth by the SFC.	
<sup>1</sup> For promissory notes that protect several modalities of loans, the highest <i>haircut</i> will be applied to these instruments, including promissory notes containing loans guaranteed by the <i>Fondo Nacional de Garantías</i> - FNG	
<sup>2</sup> Promissory Notes for credits with coverage of less than 80% by the FNG will have the <i>haircut</i> corresponding to the specific type of loan.	

<sup>2</sup> Should the deadline take place on a non-working day, the repo will be terminated on the following banking business day.

- g. **Conditions of the Auctions (schedule and Allotment):** The schedules and allotments of the auctions will be informed in the auction announcement.

Auction announcements shall be published in the SEBRA bulletin boards and on the Bank's website at the following link:

[www.banrep.gov.co](http://www.banrep.gov.co) => Servicios => Convocatoria de subastas del Banco de la República (Link: <https://www.banrep.gov.co/sites/default/files/paginas/convocatorias.pdf>). If necessary, you must press Ctrl+F5 to refresh the page and display the updated information.

- h. **Submission of Tenders:** Tenders must be submitted through the auction system of the SEBRA access portal or by the mechanisms defined in the auction announcement.

There is no limit to the number of offers that the ACO may submit in the auction system of the SEBRA access portal.

All authorized institutions should confirm that the users who will submit the bids in the auction system are duly enabled to operate in the auction system and they have been assigned the profile "SUBASTAS\_CONTROL\_TOTAL\_EXTERNO\_REPOS." Questions about user profiles can be solved by phone call at (+571) 3431000.

All the bids placed by an ACO are considered as standing, final and irrevocable. The ACO is responsible for the accuracy and content of its bids as well as for verifying that they are presented correctly. By presenting the offer, the ACO acquires the obligation to comply with the monetary transaction when approved by BR.

The value of the offer will correspond to the amount of resources to be received upon approval.

The margin shall be presented as percentage (it must not include the % sign).

The ACO may submit several offers that may not exceed the total allotment of each auction; additional offers (in the order submitted) shall not be taken into account for approval.

Each tender shall:

- Be equal to or greater to one hundred million pesos (COP100,000,000).
- Be expressed as a multiple of one hundred thousand pesos (COP100,000).
- Have as a maximum ceiling the value covered by the Global Banking Insurance Policy of BR, which will be announced in the corresponding auction announcement.
- Indicate whether partial approval is accepted.

- i. **Fields** that must be filled out in order to present the offer in the auction system:

- City of settlement
- Tax ID
- Term
- Amount
- Margin
- Accepts partial approval: Yes / No

j. **Auction Procedure and Cost of the Operation:** the auction is of uniform price.

Institutions must offer the margin over the reference rate + 200 basis points.

The minimum rate is the reference rate + 200 basis points (for which the minimum margin is 0%). After receiving the tenders, BR will sort them strictly in descending order by margin and will approve all tenders with margin greater than or equal to the margin where the allotment of the auction is completed. All the offers approved will have the same margin (cutting margin). In this way, the cutting rate of the auction corresponds to:

$$[(1+\text{Reference Rate}+200 \text{ basis points}) \cdot (1+\text{Cutting Margin})]-1$$

Whenever the value of two or more tenders at the cutting margin is above the remaining of the allotted amount, this value shall be distributed proportionally to the value of the offers that accept partial approval.

Based on the cutting rate, the interest rate to be applied for each operation will consider the percentage of participation of the dematerialized/immaterialized promissory notes received and/or physical promissory notes through GD in the total value of receipt of promissory notes, as indicated in the table below:

Promissory Note	Applicable Rates
Dematerialized and/or Immaterialized	Cutting Rate at the Auction
Physical Promissory Notes through GD	Cutting Rate at the Auction + 20 bp*
*Bp stands for basis points.	

The interests will be caused from the day of disbursement and charged on the REPO's maturity date by debit to the ACO's account at the CUD at BR.

k. **Unacceptable Concentration:** BR will not grant an institution more than 20% of the allotment for the auction.

- I. **Submission of Tenders in Case of a Contingency:** tenders must be presented opportunely, in the manner, and through the medium announced in the auction announcement. In case of a contingency by which this means cannot be used, by alternate media as explained below:

During the hours established for the operation, the institution shall first notify this situation on BR's website ([www.banrep.gov.co](http://www.banrep.gov.co)) as per the circular DOAM-148 (item 5.1.1). All fields in the registration form must be completed and the button "Generate Register" must have been clicked before the closing time established for the operation.

Immediately after generating the register, the institution shall submit its tenders to BR through alternative means up to 10 minutes after the closing time of the auction; otherwise, it will not be taken into account. In case the mechanism used is a phone call, you will be able to submit your tenders provided that you have been connected at most 10 minutes after the closing time of the auction.

Should there be a generalized failure in BR's web page, the institution may submit its bids as indicated, without having to generate the register, following the guidelines contained in the previous paragraph.

Only up to three (3) tenders can be submitted through any of the contingency mechanisms, which may not be modified or revoked. The ACO is responsible for the accuracy and content of its offers, as well as for verifying that they are presented correctly.

Bids must be submitted in the contingency form (Excel File) called "Formato 1."

Contingency Mechanisms must be used in the order described below:

- **GTA at the SEBRA portal:** The institution shall send the contingency form found at the Electronic Bulletin Boards of SEBRA in the USER'S GUIDES FOR AUCTIONS (Excel file) through the GTA mechanism, duly completed. The file must not be encrypted (BR will only consider files that are not encrypted).
- **E-mail:** in case of failures in the alternative GTA mechanism, the institution shall send the contingency form via email to [DOAM-Subastascontingencia@banrep.gov.co](mailto:DOAM-Subastascontingencia@banrep.gov.co). The file must be digitally signed. The signature must use a digital certificate issued by an open digital certification authority credited by the *Organismo Nacional de Acreditación de Colombia* (National Accreditation Organism of Colombia, ONAC). The file must not be encrypted (BR will only consider digitally signed files that are not encrypted).
- **Telephone:** in case of not being able to submit offers by e-mail, as a last resort, the institution may call by phone at (+571)3430359 to submit tenders. In this case, the contingency user "login", the key to the contingency "token", and the number generated by the contingency "token" are indispensable.
- **Regarding contingency tokens:** As per the External Regulatory Circular DG-T-273 Issue 6, Chapter I, item 3.3, the PKI delegate of each institution is the only one authorized and accountable for creating, modifying, and deleting subscribers from his/her institution; for this reason, the operational area must validate with your PKI

delegate that the token assigned for the contingency of operations with the Front Desk at *Banco de la República* remains in force. This is something that the PKI delegate can validate through the Identity Manager at SEBRA. Concerns about the contingency token can be solved by phone call at (+571) 3431000.

- m. Compliance with the Operation:** within 7 working days following the day of the auction, the ACO shall transmit the information related with the loans that will support the operation together with all other certifications and documents as required in CRE DGPC-413 and the conditions therein stated to BR. The ACO shall send the above as soon as possible to BR in order to avoid the sanctions that would result from the noncompliance of the operation by the end of the 7 days mentioned before.

Thus, BR will initiate the validation process of documentation related to the promissory notes (Annexes 6A, 6, 5, 5D, and, if required, Annexes 5E, 5F, or 6R as per CRE DGPC-413) for their subsequent transfer by the ACO in Deceval and/or delivery of the physical instruments through the DM.

- n. Disbursement of and Accounting for Resources:** BR will disburse the resources within 7 working days after the day of the auction, once the ACO has transferred to BR the promissory notes and has submitted the entire documentation and information requested as per CRE DGPC-413 completely and consistently.

The resources disbursed shall be accounted for on the date on which the promissory notes have been transferred to BR and the entire documentation and information requested has been submitted completely and consistently.

The procedures associated with the REPO collateralized with promissory notes are contained in the External Regulatory Circular DGPC-413.

- o. Contact Numbers:**

- Consultations related to authorized agents, eligible securities, and sanctions shall be served on the telephone line (+571) 3430794.
- Consultations regarding the submission of tenders and the auction system will be addressed on the telephone line (+571) 3430359.
- Consultations related to compliance with repos will be dealt with on the telephone line (+571) 3431050.
- Consultations related to *tokens*, certificates, and technological issues (not related to your local infrastructure) to access the system of auctions will be served on the telephone line (+571) 3431000.

- p. Other Considerations:**

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- Institutions that participate in the operation will not be subject to any control over active operations.
- During the term of the operation, BR shall verify the quality and characteristics for admissibility of the promissory notes and might issue a margin call requesting and substitutions of instruments as required. On the other hand, the ACO shall continue to comply with the requirements set forth in CRE DGPC-413, and should report during the term of the operation any changes related to the credits associated with promissory notes such as, e.g., rating changes, and principal prepayments.