

INFORMATION PAPER

RESERVE BANK OF AUSTRALIA DOMESTIC MARKET DEALING ARRANGEMENTS

The Reserve Bank deals regularly, usually daily, in domestic markets for the purpose of managing the supply of liquid funds available to the banking system. The Bank deals for this purpose in Commonwealth Government securities (CGS) of up to one year to maturity and in repurchase agreements (RPs) based on CGS.

From 12 June 1996, the Bank will widen the group of counterparties with which it is prepared to undertake these operations to include all members of the Reserve Bank Information and Transfer System (RITS). This paper sets out the procedures that apply to these operations. Apart from some changes to the Bank's dealings in repurchase agreements, the procedures are the same as those which currently apply.

1. The Bank's Dealing Timetable

1.1 Announcement of the Bank's dealing intentions

The Bank will publish at 9.30 am each morning its dealing intention for the day. This will be supplied by the Bank on electronic news services. The dealing intention will be expressed as one of three alternatives:

- . an offer to buy CGS and RPs;
- . an offer to sell CGS and RPs;
- . a statement that the Bank does not propose to deal on the day.

At the same time, the Bank will also announce its estimate of the money market cash position for the day and the volume of any CGS settlements which are due to occur on the day.

1.2 Closing time bids/offers

Bids or offers may be made to the Bank until 10:00 am, by telephone on (02) 551 8321 or by direct line. All lines will be subject to telephone recording. After a bid or offer is submitted to the Bank it can be altered or withdrawn at any time if it has not by that time been formally accepted by the Bank.

1.3 The Bank's responses

The Bank will respond to all bids and offers, notifying acceptance where it has decided to accept a deal and notifying non-acceptance otherwise. The Bank will endeavour to respond by 10:15 am but cannot guarantee always to meet this deadline.

When the Bank accepts a bid or offer, details will be read back by the Bank's dealer and confirmed by the counterparty at the time of the Bank's response. In the event of any dispute, it will be the details agreed at this time which will be regarded as correct by the Bank.

The Bank may accept bids or offers in part as well as in whole, and may make a counter bid or offer before deciding whether or not to accept it.

1.4 Additional rounds of dealing

In addition to the normal timetable described above, the Bank may announce an additional round of dealing at any time. When it does so, the Bank will endeavour to ensure that the announcement has the widest possible circulation and details of the closing time for bids/offers will be stated. Except for timing, all other procedures will be the same as for a normal dealing round.

2. Bidding Terms

The minimum size for outright bids and offers for CGS will normally be \$10 million and the minimum size for RPs will normally be \$50 million. Smaller amounts will be allowed only at the Bank's discretion.

Bids and offers for CGS should be expressed as a yield to maturity, and stated to two decimal places. Bids and offers for RPs should be expressed as a cash yield per annum over the term of the RP, stated to two decimal places.

When making bids or offers for RPs, the term of the RP must also be stated in days. Where a range of days is stated, the Bank will assume the range is inclusive - ie if a range 7 to 30 were stated, the Bank would assume the counterparty was willing to undertake the RP for any term from 7 days to 30 days.

There will be no limit on the number of bids or offers that can be made by any party.

3. Settlement

All transactions by the Bank will be for same-day settlement through RITS. Transactions with banks and special service providers will be settled directly through their Exchange Settlement Accounts.

4. Repurchase Agreements

In view of the much broader range of counterparties with which it will be prepared to deal in future, the Bank intends to adopt more formal documentation covering RPs. All the Bank's transactions in RPs will be governed by the PSA/ISMA Global Master Repurchase Agreement, as amended for Australia.

There would be benefits in terms of the development of the RP market in Australia if the PSA/ISMA Agreement, which is the common international documentation for RPs, were to be adopted generally in the market. To assist in this, the Agreement and Annex will be incorporated into the RITS regulations and can be executed bilaterally between counterparties within the system.

In line with international practice, the Bank will require a margin ratio of 102 per cent of the consideration of the RP when the Bank agrees to buy CGS from a counterparty under the Agreement. The margin ratio where the Bank sells CGS under the Agreement will be 100 per cent. Margins will be adjusted should the Net Exposure, as defined in the Agreement, exceed 1 per cent of the unwind consideration.

3.

A copy of the Agreement and Annex is attached.

Reserve Bank of Australia
SYDNEY

9 May 1996