



مصرف الإمارات العربية المتحدة المركزي  
CENTRAL BANK OF THE U.A.E.

GUIDELINES FOR COLLATERAL MANAGEMENT UNDER THE  
CENTRAL BANK OF THE UAE'S  
INTERIM MARGINAL LENDING FACILITY

(“Interim MLF Terms & Conditions for Conventional Banks Only”)

*Effective from 15 April 2014*

## 1. Definitions

In these Interim MLF Terms & Conditions, unless otherwise specified:

1.1 “CBUAE” means the Central Bank of the UAE, i.e., the monetary authority of the UAE under Union Law No. 10 of 1980

1.2 "Federal Government" means the Federal Government of the UAE

1.3 "Local Governments" means the local Emirate Governments in the UAE

1.4 “AED” means the local currency of the UAE, the Emirati Dirham

1.5 “GREs” mean Government Related Entities. These are commercial companies with Federal or UAE Emirates Government ownership of more than 50%, directly or indirectly

1.6 “PSEs” mean non-commercial Public Sector Enterprises which are public utilities and similar organizations fully owned by any Emirate of the UAE or Federal Governments and which provide goods or services not being provided by the private sector

1.7 “MMD” means the Monetary Management Division of CBUAE

1.8 “UAEFTS” means the UAE Fund Transfer System. It is the real time gross settlement system established and operated by CBUAE

1.9 "Eligible Counterparty" means any conventional bank, domestic or foreign, licensed to operate in the UAE and which (i) is required to maintain reserves with CBUAE as per Article 78, Union Law No. 10; (ii) is a direct participant in the UAEFTS; and (iii) has signed the relevant documentation as required by the IMLF Terms & Conditions. Such documentation includes a Triparty Repo with any of the approved Triparty Agents and the GMRA 2000, as defined later, with CBUAE

1.10 “IMLF” means the Interim Marginal Lending Facility. It is the borrowing facility where eligible counterparties can access CBUAE funds (marginal loans) for overnight settlement by pledging securities as collateral via a Triparty Repo

1.11. “Triparty Agent” means a CBUAE approved international central securities depository (ICSD) such as Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking SA (“Clearstream”)

1.12 “Triparty Repo Agreement” means the service agreement in which a Triparty Agent undertakes the settlement and management of the securities delivered as collateral in an IMLF transaction. In the case of Clearstream, the relevant service agreement is the Collateral Management Service Agreement (CMSA) and in case of Euroclear the relevant service agreement is the Repurchase Service Agreement (RSA)

1.13 “Eligible Collateral” means security assets delivered as collateral in the relevant Triparty Custody Account to access the IMLF which comply with the eligibility criteria set in Section 4 of these Terms & Conditions

1.14 “Collateral Value” means the valuation of security holdings as determined by the Triparty Agent’s internal valuation methodology

1.15 “Eligible Value” means the Collateral Value adjusted for haircuts. Eligible Value is also the amount of cash paid by CBUAE to the eligible counterparty on the value date of the IMLF Transaction in exchange for collateral. Eligible Value shall be rounded off to two decimal points

1.16 “Haircut” means the initial margin. It is the difference between the collateral value and the eligible value

1.17 “IMLF Transaction” means a collateralized exchange of cash which consists of TWO legs: The first leg is when an Eligible Counterparty submits collateral via its Triparty Agent and CBUAE delivers cash equivalent to the Eligible Value into the Eligible

Counterparty's Current Account at CBUAE on Day (T+0). The second leg is the reversal of the first leg on the maturity date of the repo, Day (T+1)

1.18 "GMRA 2000" means The Bond Market Association/International Securities Market Association (TBMA/ISMA) Global Master Repurchase Agreement version 2000 along with its annexes that is required to be signed between CBUAE and banks operating in the UAE

1.19 "Secondary Prices" means the prices in the secondary markets as recorded as per the Internal Settlement System of the Triparty Agent

1.20 "Triparty Custody Account" means a custody account maintained by either of the Triparty Agents to house securities received by CBUAE from eligible counterparties, under the terms of this agreement

## **2. Eligibility for Usage of the IMLF**

2.1 Drawing on IMLF funds is open to all eligible counterparties.

## **3. IMLF Transaction Arrangement**

3.1 IMLF transactions will be processed via a Triparty Repo Agreement whereby a third-party, the Triparty Agent, will undertake the collateral management and CBUAE will handle the funds transfer via the UAEFTS.

3.2 More specifically, an eligible counterparty will deliver securities to the Triparty Custody Account of CBUAE with the agreed Triparty Agent and will receive IMLF funds through the UAEFTS in its current account at CBUAE.

3.3 To draw on IMLF funds, the eligible counterparty is required to sign a Triparty Repo Agreement with one of the approved Triparty Agents and GMRA 2000 with CBUAE.

## **4. Collateral Eligibility and Classification**

4.1 CBUAE, at its sole discretion, accepts straight bonds, covered bonds, sukuk, notes and short-term securities from UAE and foreign issuers as collateral for IMLF funds provided that these securities are rated (except for securities issued directly by UAE local Govern-

ments) and tradable, issued and denominated in UAE Dirham, the US Dollar or any other acceptable currencies listed in Paragraph 4.4.

*Collateral Classification:*

4.2 Eligible Collateral is classified into FIVE classes as below:

- **Class A** collateral consists of high-quality debt securities (both bonds & sukuk) that are traded with an identifier recognized by the Triparty Agent and issued, originated and/or explicitly guaranteed by:
  - i. UAE Federal and Local Governments and their respective GREs/PSEs;
  - ii. Foreign Governments and their related-agencies;
  - iii. Approved sovereign backed multilateral supranational institutions; and
  - iv. Corporate entities / banks & financial institutions WITHOUT close links and/or not in the same group as the institution entering into an agreement with CBUAE under the IMLF.

The spectrum of Class A securities includes straight bonds, covered bonds, treasury bills, medium-term notes, short-term notes and commercial papers. Minimum acceptable credit ratings are **AA** for long-term credit and **P-1/A-1/F1** for short-term credit.

- **Class B** collateral consists of investment grade debt securities (bonds & sukuk) that are traded with an identifier recognized by the Triparty Agent and issued, originated, and/or explicitly guaranteed by:
  - i. UAE Federal and Local Governments and their respective GREs/PSEs;
  - ii. Foreign Governments and their related-agencies;
  - iii. UAE corporate entities but excluding those which are in the same group as the institution entering into an agreement with CBUAE under the IMLF;
  - iv. Securities issued by a UAE bank under an MTN/bond program as per the guidelines established by CBUAE.
  - v. Corporate entities / banks & financial institutions WITHOUT close links and/or not in the same group as the institution entering into an agreement with CBUAE under the IMLF.

The spectrum of Class B securities includes straight bonds, covered bonds, treasury bills, medium-term notes, short-term notes and commercial papers. Minimum acceptable credit ratings are **A** for long-term credit and **P-2/A-2/F2** for short-term credit.

- **Class C** collateral consists of other investment grade debt securities (bonds & sukuk) that, in CBUAE's judgment, are traded with an identifier recognized by the Triparty Agent and issued, originated and/or explicitly guaranteed by:
  - i. UAE Local Governments and their respective GREs/PSEs;
  - ii. UAE corporate entities but excluding those which are in the same group as the institution entering into an agreement with CBUAE under the IMLF; and
  - iii. Securities issued by a UAE bank under an MTN/bond program as per the guidelines established by CBUAE.

The spectrum of Class C securities includes straight bonds, covered bonds treasury bills, medium-term notes, short-term notes and commercial papers. Minimum acceptable credit ratings are **BBB** for long-term credit and **P-3/A-3/F3** for short-term credit.

- **Class D** collateral consists of below investment grade debt securities (bonds & sukuk) that, in CBUAE's judgment, are traded with an identifier recognized by the Triparty Agent and issued, originated and/or explicitly guaranteed:
  - i. UAE Local Governments and their respective GREs/PSEs;
  - ii. UAE corporate entities but excluding those which are not in the same group as the institution, entering into an agreement with CBUAE under the IMLF; and
  - iii. Securities issued by a UAE bank under an MTN/bond program as per the guidelines established by CBUAE.

The spectrum of Class D securities includes straight bonds, covered bonds, treasury bills, medium-term notes, short-term notes and commercial papers. Minimum acceptable credit ratings are **BB** for long-term credit and **P-3/A-3/F3** for short-term credit.

- **Class E** collateral consists of securities issued directly by the UAE Local Governments which do not carry any of the acceptable credit ratings or are not rated. The

acceptance of such securities in the list of Eligible Collateral will be at the discretion of CBUAE.

4.3 The following table summarizes the classification of eligible collateral:

Table 1: Eligible Collateral Classification				
Class A	Class B	Class C	Class D	Class E
AA*	A*	BBB*	BB*	< BB or NR**
<p>[UAE Securities]</p> <ul style="list-style-type: none"> <li>Federal and local Governments and their respective GREs/PSEs securities;</li> <li>Banks &amp; Financial Institutions bonds / MTN programs;</li> <li>Corporate bonds, covered bonds and commercial papers; and</li> </ul> <p>[Foreign Securities]</p> <ul style="list-style-type: none"> <li>Governments &amp; related-agencies securities;</li> <li>Supranational securities;</li> <li>Banks &amp; Financial Institutions bonds / MTN programs;</li> <li>Corporate bonds, covered bonds; and Commercial Papers.</li> </ul>		<p><b>APPLICABLE ONLY FOR UAE Securities***</b></p> <ul style="list-style-type: none"> <li>Local Governments and their respective GREs/PSEs securities;</li> <li>Banks &amp; Financial Institutions bonds / MTN programs; and</li> <li>Corporate bonds, covered bonds and commercial papers.</li> </ul>	<p><b>APPLICABLE ONLY FOR SECURITIES ISSUED DIRECTLY BY UAE LOCAL GOVERNMENTS</b></p>	

\* Minimum acceptable rating; \*\* Not Rated; \*\*\* Issuer country of origin is the UAE

*Eligible Collateral Currency Denomination:*

4.4 Eligible Collateral denominated in one of the following currencies will be deemed acceptable under the IMLF: UAE Dirham, US Dollar, Euro, UK Sterling, Japanese Yen, Swiss Franc, Australian Dollar, GCC currencies, Norwegian Kroner, Singapore Dollar, Hong Kong Dollar and the Malaysian Ringgit.

*Credit Rating Requirements:*

4.5 Credit ratings of Eligible Collateral may be assigned by any of the following internationally recognized credit rating agencies: Fitch, Moody's and Standard & Poor's. For purposes of collateral classification, the lowest rating will apply in circumstances where multiple ratings exist. This will apply to both splits among ratings agencies and if an issue is assigned both short and long term ratings.

*Triparty Agents:*

4.6 Eligible Collateral shall be held in custody in one of the International Central Securities Depositories (ICSDs) mentioned below who will also act as the Triparty Agents:

- Clearstream Banking in Luxembourg
- Euroclear Bank in Belgium

## **5. Cost of Drawings on IMLF Funds and Minimum Transaction Size**

5.1 The cost of drawings at which an eligible counterparty may obtain AED funds from the IMLF shall be CBUAE official **Repo Rate plus 100 basis points**. Calculation of the cost of drawings shall be on an Actual/360 basis.

5.2 An eligible counterparty shall only be able to enter into IMLF transactions with a minimum size of **AED10 million**.

## **6. Collateral Valuation – Effective Price of an IMLF Transaction**

6.1 Eligible Collateral will be valued by the agreed Triparty Agent, on behalf of CBUAE, under the Triparty Repo Agreement and these IMLF Terms & Conditions.

6.2 A Haircut, as published on Table 2 below, will be applied to the marked-to-market valuation of the Eligible Collateral. The size of the haircut reflects the size, duration and classification of the security as per the criteria listed in Table 1. The haircut is to be expressed as a percentage of its face value.

Table 2 follows on the next page.

Table 2: Haircuts for Eligible Collateral (%)						
Collateral Type/Maturity	Issue Size ("IS") in AED Million	Class A	Class B	Class C	Class D	Class E
Floating Interest Rate (All Maturity) / Fixed Interest Rate < 1 Year to Maturity	500 ≤ IS	2	11	25	38	AT THE DISCRETION OF CBUAE
	IS < 500	3	12	26	39	
Fixed Interest Rate 1-3 Year Maturity	500 ≤ IS	4	13	27	40	
	IS < 500	5	14	28	42	
Fixed Interest Rate 3-5 Year Maturity	500 ≤ IS	6	15	30	44	
	IS < 500	7	16	32	46	
Fixed Interest Rate more than 5 Year Maturity	500 ≤ IS	8	17	34	48	
	IS < 500	9	18	36	50	

6.3 The Triparty Agent will accept as Eligible Collateral only such securities whose secondary markets prices are recorded within the relevant internal settlement system of the Triparty Agent when it is open for business. Additional margins for securities whose secondary price age exceeds **5 European business days** will be subject to additional margins as per the following schedule.

- Up to 5 Days ~ no margin for price age
- 6-9 Days ~ 10%
- 10-15 Days ~ 20%
- Beyond 15 Days ~ 100% (any security with a price age beyond 15 days will not be accepted)

6.4 The Eligible Value (EV), i.e., the first leg Settlement amount, will be the cash amount transferred from CBUAE to the eligible counterparty on day T+0 of the IMLF transaction as per the following evaluation:

$$EV = \text{Collateral Value} / (1 + \text{Haircut} + \text{Price Age Add-on})$$



6.5 A currency haircut add-on of five percentage points (5%) will be applied to securities which are issued and denominated in eligible currencies (indicated in paragraph 4.4) other than the UAE Dirham and the US Dollar. Accordingly, EV will be calculated as follows:

$$EV = \text{Collateral Value} / (1 + \text{Haircut} + \text{Price Age Add-on} + \text{Cross Currency Add-on})$$

6.6 No model generated prices will be accepted for pricing by the Triparty Agents.

## 7. Operational Procedures

7.1 The IMLF will operate on all UAE business days excluding Saturdays, Sundays and UAE banking holidays. It will be closed also on days when the concerned Triparty Agent(s) is (are) closed.

At the time of publication of these Terms & Conditions, both Triparty Agents' operations are open on all days of the year excluding the **1<sup>st</sup> of January and 25<sup>th</sup> of December** of each year.

The IMLF operating window will be open for business at **13:00 hours** local time and will run up to the official closure of the UAEFTS<sup>1</sup>. Business hours for the UAEFTS will be as per the relevant notifications from CBUAE from time to time.

The settlement date of the first leg will be on the same business day (T+0) for all offered eligible securities held in custody by one of the approved Triparty Agents. The second leg of the transaction will be on the next business day (T+1).

7.2 Settlement of IMLF funds will be in AED through the eligible counterparty's Current Account with CBUAE. The Eligible Collateral will be affected at the Triparty Agent as per the agreed norms based on the Triparty Repo Agreement.

## 8. IMLF Transaction Processing & Settlement

8.1 During the operating window of the IMLF, an eligible counterparty must first inform the MMD via official dealing lines (refer to Section 11 later) of its intention to access the IMLF before submitting a transfer notice to the nominated Triparty Agent via SWIFT or any other agreed mode of electronic communication. The eligible counterparty will include all the relevant details required by the Triparty Agent in this transfer notice.

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<sup>1</sup> At the time of publication, official closure of the UAEFTS is 15:00 hours local time.

8.2 For settlement of the first leg of the IMLF transaction to occur, the Triparty Agent must receive the transfer notice from the eligible counterparty prior to the closure of the UAEFTS.

8.3 Upon receiving the transfer notice from the eligible counterparty, the Triparty Agent will value the securities offered by the eligible counterparty for the IMLF transaction.

8.4 MMD will then send a matching instruction to the Triparty Agent via SWIFT or as per the internal settlement system of the Triparty Agents.

8.5 After the collateral valuation is completed, the Triparty Agent will inform CBUAE of the list of securities being delivered by the eligible counterparty as Eligible Collateral along with their corresponding Eligible Value. Eligible Counterparty shall ensure that the “Eligible Value” of the collateral is equal to the amount of funding requested in 8.1. This is to ensure the execution of the 1<sup>st</sup> leg of the IMLF transaction.

8.6 Once the confirmation of the transfer of securities from the eligible counterparty’s account at the relevant ICSD to CBUAE’s triparty custody account at the ICSD has been received (via the agreed mode of communication), CBUAE will transfer funds equal to the Eligible Value to the eligible counterparty’s Current Account at CBUAE on a T+0 basis. A formal confirmation is required to be delivered to CBUAE by the eligible counterparty in the form prescribed in Annex II of the GMRA 2000.

8.7 On the following business day (T+1), CBUAE will automatically debit the Eligible Value plus Cost of Drawings from the eligible counterparty’s Current Account with CBUAE by 9:00 hours local time.

8.8 Upon confirmation of the automatic debit to the eligible counterparty’s Current Account, CBUAE will submit, by 10.00 hours UAE time, a unilateral instruction to the Triparty Agent for the transfer of securities from CBUAE’s triparty custody account to the eligible counterparty’s ICSD account. Upon receipt of the unilateral transfer instruction, the Triparty Agent will transfer such securities from CBUAE’s triparty custody account to the eligible counterparty’s ICSD account.

## **9. Other Terms and Conditions**

9.1 CBUAE will, at any time, be entitled to suspend/revoke the IMLF or amend these Terms and Conditions. This includes varying the cost of drawings for obtaining AED funds and deposit rates and restricting/denying eligible counterparties accessing the IMLF or applying any restrictions/conditions on the borrowings of banks under this facility, as and when deemed necessary by CBUAE.

9.2 CBUAE reserves the right to reject any security offered or provided as collateral, for any reason, at any time.

9.3 CBUAE reserves the right to reclassify collateral eligibility at all times. In addition, CBUAE reserves the right to revise/add applied haircuts on a regular basis in line with economic and financial developments in local/global financial markets. The currency haircut add-on of 5% will be reviewed from time to time depending on volatility in exchange rates.

9.4 CBUAE reserves the right to stop the execution of the second leg of an IMLF transaction in case of a default or bankruptcy even if occurring prior to such reversal.

9.5 An eligible counterparty may decide to opt out of the IMLF and these Terms and Conditions by giving CBUAE a written notice to this effect. This notice will take effect 2 business days upon CBUAE's receipt of such notice, during which the withdrawing eligible counterparty is prohibited from accessing the IMLF.

9.6 The provisions of the GMRA 2000 will apply unless there is inconsistency between the GMRA 2000 and these Terms and Conditions, in which case the latter will prevail. CBUAE's interpretation of the terms and conditions of this facility will be final and its decisions are irrevocable.

9.7 CBUAE reserves the right to, as and when required, to access data pertaining to the securities holdings of eligible counterparties held at either of the two Triparty Agents.

## 10. Contact Information

10.1 The official dealing lines are as follows:

Telephone lines	02 - 665 2232 02 - 666 6245 02 - 665 6118
Swift Address	CBAUAEAA
IMLF Email addresses: Eligible counterparties to use email addresses of their chosen triparty agent	sf.clearstream@cbuae.gov.ae sf.euroclear@cbuae.gov.ae
Thomson Reuters dealing code	CBEM

10.2 Any intimation over the phone has to be confirmed via an email/Swift or over the Thomson Reuters dealing line to be construed as confirmation of the requested IMLF transaction.