



Central Bank of Seychelles
Operational Guidelines for Policy Tools:
Values of Collaterals
And Applicable Haircuts

June 2017

1.0 Introduction

Assets that are considered as eligible collaterals against the lending facilities of Central Bank (hereafter referred to as the Bank) are specified in the Monetary Policy Framework¹ (MPF). In a bid to protect the Bank from the risks associated with holding them (notably market risk and credit risk of the issuer), a haircut shall be applicable to the value of these collaterals.

The Bank reserves the rights to amend any of the provisions in the document on the basis of its monetary policy stance and/or to reflect market conditions with participants notified of any change in advance.

This guideline supersedes and replaces all previous guidelines related to the values of collaterals and applicable haircuts published by the Bank.

2.0 Eligible Collateral

(i) Assets are classified into three categories based on their respective risk profile, with category 1 having the lowest risks and category 3 having the highest risks.

- **Asset Category 1**

- 1.1 Deposit Auction Arrangement (DAA)
- 1.2 Central Bank Bills
- 1.3 Treasury Bills
- 1.4 Government Bonds and Stocks (Rupee denominated)

- **Asset Category**

- 2.1 Securities issued by Other Depository Corporations² (ODCs) and other financial institutions (Rupee denominated).
- 2.2 Negotiable instruments approved by the Bank that are repayable within one hundred and eighty (180) days.

¹ The Monetary Policy Framework (MPF) document is available on CBS website at www.cbs.sc.

² The ODCs means the commercial banks and credit union.

- **Asset Category 3**

- 3.1 Government Securities (Foreign currency denominated)
- 3.2 Securities issued by ODCs and other financial institutions (foreign currency denominated)
- 3.3 Negotiable instruments approved by the Bank that are repayable within three hundred and sixty five (365) days
- 3.4 Balances due from financial institutions abroad (denominated in foreign currency)

(ii) Whilst these assets may be used as collaterals against most lending facilities, categories 2 and 3 may not be used to back up any overnight to one week lending facility.

3.0 Haircuts applicable on eligible collaterals

- (i) The haircut applicable shall be a percentage of the value of the collateral which must be deducted and shall depend on the level of risks related to the asset.
- (ii) Taking into consideration the assets classification outlined in the MPF, the following haircuts shall be applicable on eligible collaterals.

Haircuts on assets eligible for collaterals				
	Residual Maturities (months)			
Categories	0 - 3	4 - 6	7 - 9	10 - 12
1.1	0.0%	0.0%	0.0%	0.0%
1.2	0.0%	0.1%	0.3%	0.5%
1.3	0.0%	0.1%	0.3%	0.5%
	Residual Maturities (years)			
	0 - 1	1 - 5	5 - 10	> 10
1.4	0.5%	1.5%	2.5%	3.5%
2.0	1.5%	3.0%	4.5%	6.0%
3.0	2.5%	4.5%	6.5%	8.5%

- (iii) The Bank reserves the right to change the haircuts applied in order to reflect current market conditions.

4.0 Values

The value of a security³ shall equal its market value whilst that for the other collaterals shall be the face value.

4.1 Market Value of Securities

(i) Bills or securities with a maximum term to maturity of 365 days

The market value of these securities to be used as collaterals shall be calculated as per below formula using the latest respective T-bill rate;

$$\text{Market Value} = V \times \left[1 - \left(r \times \frac{d}{365} \right) \right]$$

Where;

V = Face Value;

r = Latest T-Bill rate

d = Days to Maturity

(ii) Bonds and Stocks

To discount government bonds and stocks, the Bank will use the Present Value (PV) function stated below;

$$PV(\text{market value}, \text{value}_1, \text{value}_N)$$

- The **market rate** is the rate of discount over the length of one period which is derived from the latest respective average T-bill rate. A period is defined as the number of coupon payments made in a year. For instance, if the coupon payment is made semi-annually, the market rate then equals the annualised interest rate divided by two (2).

³ For the purpose of this paper, securities shall only refer to bills, bonds and stocks issued by government, Central Bank, commercial banks and other financial institutions.

- The *values* in the formula represent the cash flows (both coupon and principal) throughout the remaining lifespan of the bond. These must be equally spaced in time and occur at the end of each period, in the correct sequence.
- The *Present Value* of the bond or stock equals the summation of present values of coupons plus the present value of the principal. The standard formula to calculate the PV for both single and multiple coupon annual payments is as follows:

Present Value = PV of Coupon Payments + PV of Principal

$$PV \text{ of Coupon Payments} = \sum_{t=1}^n \left[\frac{C_t}{(1+r)^t} \right] + \frac{P}{(1+r)^n} \quad \text{for } n > 0$$

$$PV \text{ of Principal} = C \times \left[\frac{1 - (1+r)^{-n}}{r} \right] + \frac{P}{(1+r)^n} \quad \text{for } n > 0$$

Where;

P = is the principal value of the bond.

C_t = is the cash-flow (coupon) for period *t*.

r = is the market interest rate⁴.

n = is the number of periods (number of coupon payments) left to maturity.

⁴ For multiple annual payments, *r* = the rate of interest divided by the number of payments within a year.