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KUU YA  
KENYA



CENTRAL  
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23<sup>RD</sup> MARCH 2009

## **BANKING CIRCULAR NO.3 of 2009**

**TO: CHIEF EXECUTIVES OF COMMERCIAL BANKS**

### **INTERBANK ("Horizontal") MASTER REPURCHASE AGREEMENT (MRA)**

As you are aware, the Interbank Master Repurchase Agreement ("Horizontal Repo") program was rolled down by the Central Bank of Kenya (CBK) vide Banking Circular No. 6 of 2008. The facility which became effective from September 12, 2008, required banks to sign and exchange Master Repurchase Agreements (MRAs) on a bilateral basis and notify CBK vide the prescribed letter to participate in the Horizontal Repo.

Horizontal Repos were introduced as part of the CBK's overall objective of deepening the capital and money markets and enhancing the intermediation process in the market. This facility offers real time Delivery versus Payment (DvP) for the transactions and is supposed to help banks manage their liquidity and therefore greatly assist in CBK's effectiveness in its conduct of Monetary Policy. Its introduction followed the clamor by the market for this facility following the skewed liquidity distribution occasioned by the Safaricom IPO.

In introducing the facility, the CBK constituted an internal steering committee that worked closely with other stakeholders namely the KBA, ACI and CMA among others, and came up with operational guidelines, system specifications, legal/regulatory framework and a code of conduct to guide participants. Additionally, CBK developed an electronic transaction system for the Repo program which was subjected to thorough testing by all banks and desired results from the testing exercise were obtained.

The purpose of this circular is to request banks to take advantage of this program, which was designed in direct response to requests from the banking community. Continued delay in implementing the Horizontal Repo hampers CBK's effectiveness in its conduct of Monetary Policy. Banks are therefore requested to immediately implement all operational procedures and guidelines relevant to the operationalization of the Horizontal Repo program. The Central Bank of Kenya will closely monitor the response to this Circular, with a view to introducing other administrative measures to support the implementation of the Horizontal Repo and support the objectives of the program, which is to enhance market liquidity and promote development of the financial system.

A handwritten signature in dark ink, appearing to read 'J. Kitili'.

**JACKSON M. KITILI**

**DIRECTOR, MONETARY OPERATIONS & DEBT MANAGEMENT**