



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

RULES IN RESPECT OF THE PRIMARY DEALERS IN GOVERNMENT BONDS OF THE REPUBLIC OF SOUTH AFRICA

The under-mentioned rules provide a framework of obligations to which Primary Dealers, the National Treasury and the South African Reserve Bank shall adhere to, to ensure a high level of professional discipline.

The arrangements set out in the rules are subject to review and modification by the National Treasury after consultation with the Primary Dealers and the South African Reserve Bank.

Institutional Requirements

Primary Dealers:

1. A Primary Dealer must be a reputable local banking institution, or a foreign bank with a branch office registered in South Africa.
2. A Primary Dealer must be a member of the Bond Exchange of South Africa.
3. The continued designation as a Primary Dealer, subsequent to a change in ownership structure is not automatic as such change may have a bearing on the institution's selection of function as a Primary Dealer.
4. Primary Dealers will not be required to enter into any formal legal agreement with the National Treasury. Banks wishing to be appointed will, however, be required to apply in writing to the National Treasury.
5. In its written application, an aspirant Primary Dealer must confirm that it is in full compliance with all the requirements and also that it has strategically aligned its business to a long-term commitment as a Primary Dealer in RSA government bonds.
6. Should a Primary Dealer wish to cancel its appointment, it must inform the National Treasury in writing of its intention to discontinue its membership and of the date on which such termination is effected from.

7. Attendance of regular meetings between the Primary Dealers, the National Treasury and the South African Reserve Bank to discuss issues of mutual interest, will be required.
8. The conviction of a Primary Dealer for, or the Primary Dealer's pleading guilty to, a crime under South African law for activities, which undermine sound financial regulation in the Republic, may jeopardise such a Primary Dealer's position as a participant in government bonds. Depending on the nature of the transgression, a Primary Dealer may be suspended from the panel either permanently, or for a period of time in the discretion of the National Treasury, as befits the transgression.

National Treasury

9. The Minister of Finance or such other person to whom he or she delegated authority may, after consultation with the South African Reserve Bank, appoint new Primary Dealers, and terminate their appointments. The National Treasury shall on an ongoing basis, review the effective functioning of Primary Dealers.
10. The effective functioning of appointed Primary Dealers would be reviewed on an ongoing basis.
11. Before the National Treasury appoints or terminates a Primary Dealer's appointment, it must inform such dealer in writing of the intention to cancel its appointment and invite such dealer to make written representations why the National Treasury should not proceed to suspend or terminate its appointment.
12. The National Treasury shall after consultation with the Primary Dealers and the South African Reserve Bank, make rules for participants in Government Bonds. In the event of any dispute concerning the interpretation and application of such rules, the National Treasury's decision shall be final.

Capital Requirements

Primary Dealers:

13. Local banks or the home country bank, (in respect of foreign participants) must at all time meet the minimum Tier I and Tier II capital standards, as defined under the Baslé Capital Accord.
14. Primary Dealers should have at least R1 billion of Tier I capital, as defined in the Baslé Capital Accord. In instances where banking institutions do not conform to the minimum capital requirement of R1 billion, such institutions must provide a letter of comfort from their holding company in respect of the maintenance of the minimum capital requirement for security dealing purposes.

15. Should a Primary Dealer, after its appointment, fail to continue to conform to the minimum capital requirement, the National Treasury should immediately be informed. In such cases the National Treasury may, after consultation with the South African Reserve Bank, recommend to the Minister of Finance or his delegated authority that the trading relationship with such a Primary Dealer be discontinued until the minimum capital position is restored.

National Treasury / South African Reserve Bank:

16. Under no circumstances will a trading relationship be maintained with the Primary Dealer that is unable to restore its minimum capital position to the stipulated minimum level within three months.
17. The Registrar of Banks shall on an ongoing basis, report to the National Treasury on the compliance by Primary Dealers with the minimum capital requirements.

Auctions

Primary Dealers:

18. Primary Dealers must participate actively at the Government Bonds auctions by bidding at market related yields on a competitive basis.
19. The minimum bid requirement at each bond auction is a percentage ration calculated as follows: 1 divided by the number of the primary dealers, plus 2 percentage points rounded to the nearest 1%. Where 10 primary Dealers are appointed, each dealer is compelled to bid for at least 12% at an auction.

The minimum bid requirement is applicable for each bond on auction.

20. A single Primary Dealer may take up the full amount of the each bond auctioned.
21. Yield bids must be submitted in multiples of 0.005%.
22. The number of bids that may be submitted by a Primary Dealer is not restricted.
23. Bids should be for amounts of R10 million and multiples of R5 million, and increasing in increments of R5 million thereafter, except for the bonds which the National Treasury, SARB and PDA have agreed on different amounts.
24. Tenders are to be submitted electronically using the Bloomberg auction system up to 11h00 of the day of the auction. Should technical problems arise that prevent one or more Primary Dealers from submitting their bids via Bloomberg, the annexed Auction Emergency Procedures are agreed between the South African Reserve Bank, the National Treasury and Primary Dealers will be followed.

25. 30% of the amount of each bond on auction is available on a non-competitive basis until 11h00 of the second business day following the day on which the auction was held. The non-competitive bids are allocated at the rate of the single price auction.

National Treasury:

26. Participation in auctions will be restricted to the panel of primary dealers.
 27. Auctioning of bonds will take place in terms of the calendar of regular auctions, which will be announced at the beginning of each financial year.
 28. The bonds and the estimated annual amounts to be issued will be contained in the calendar.
 29. The National Treasury retains the right to amend the conditions pertaining to auctions to ensure orderly, fair and competitive auctions at all times.
 30. Changes to the auction calendar will be the exception. Changes will only be made after agreement has been reached with the panel of Primary Dealers and will be announced as far in advance of the pre-arranged dates as possible.
 31. Auctions will be held on Tuesdays. Where a Tuesday fall on a holiday, the auction date will be the following business day.
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CODE OF CONDUCT AMONGST PRIMARY DEALERS IN GOVERNMENT BONDS OF THE REPUBLIC OF South Africa

FOREWORD

This document has been drafted to facilitate discussions in the compilation of a final Code of Conduct between Primary Dealers. We are inviting participants to make their inputs ahead of the commencement of the PD system.

INTRODUCTION

Aim:

1. The aim of this code is to describe acceptable conduct amongst Primary Dealers and has been developed in consultation with the National Treasury and the South African Reserve Bank in its capacity as the National Treasury's agent. It does not establish acceptable conduct for the rest of the market. The Code will become an integral part of the Rules for Primary Dealers.
2. Compliance with the Code is necessary to promote public confidence in the integrity of the South African Government Bond Market and to encourage liquidity and efficiency throughout this market.
3. It is recognised that the Code is an evolving document that may change over time subject to consensus from the Primary Dealer panel, the National Treasury, the South African Reserve Bank and the Bond Exchange of South Africa ("BESA").
4. The Code is intended to supplement, and not to replace or modify, applicable statutes or BESA rules.

Distribution:

5. Primary Dealers should offer to make available a copy of the Code to their clients/counter-parties. Clients should be advised that copies of the Code are

available from the Primary Dealers or the South African Reserve Bank or the National Treasury.

Compliance, Complaints and Arbitration:

6. Breach of the Code by the Primary Dealers will be viewed most seriously by the National Treasury and the South African Reserve Bank.
7. Where there is a breach of the Code by any Primary Dealer, the South African Reserve Bank may, in consultation with the National Treasury, reprimand firms concerned. If the breach is sufficiently serious to cast doubt on the competence of the firm or its integrity, the firm could be suspended or removed from the panel of Primary Dealers.
8. Market related complaints between Primary Dealers should be resolved through the panel of Primary Dealers. Market related complaints between a Primary Dealer and other market participants should first be resolved through BESA. Should this fail the South African Reserve Bank and the National Treasury shall be willing, if asked, to arbitrate in disputes between Primary Dealers, or between Primary Dealers and other market participants.

Products covered by the Code:

9. Instruments which the Primary Dealers may exclusively access from the National Treasury, as agreed to, from time to time.

CONTROLS

10. It is essential that management of each Primary Dealer has in place, and reviews regularly, appropriate control procedures that their dealing and other relevant staff must follow.

Know your counter-party:

11. It is necessary for a variety of reasons, including firms' own risk management approach and meeting legal obligations (e.g. on money laundering), for firms to undertake basic "know their counter-party" checks before dealing in any instruments covered by this Code.
12. Members shall ensure that dealings in the Domestic Debt Market with customers, is on a confidential basis. The policies and procedures adopted to ensure confidentiality should restrict access to information only to the personnel that require it; to confine trading to restricted office areas and designated personnel; and to encourage the use of secure communications and technology (e.g. careful use of cell or speaker phones, secure systems access and close supervision).

Taping:

13. It is mandatory that all telephonic conversations by dealers are taped

14. Tapes should be kept for at least two (2) months, and preferably longer. Tapes, which cover any transaction about which there is a dispute, should be retained until the problem has been resolved. Management should ensure that access to taping equipment and tapes, whether in use or in store, is strictly controlled so that they can not be tampered with.
15. Failure to tape will normally count against a firm if it seeks arbitration.

Deals at non-current rates:

16. Deals undertaken at non-current rates (according to BESA guidelines) should be reported timeously to BESA.

Market hours for Primary Dealers:

17. Primary Dealers are under an obligation to quote prices from 8h30 to 16h30. Quoting prices outside these hours is at the discretion of individual Primary Dealers.
18. It is not obligatory for Primary Dealers to quote prices within ten (10) minutes of the auction closing time and until the results of the auction are announced.

After-hours dealing:

19. Management should issue clear guidelines to their staff, both on the kinds of deals that may be undertaken after-hours, and on the permitted limits of any such dealing. These should be processed promptly on the next working day, in accordance with BESA rules.
20. Management should ensure that, where allowed employees of Primary Dealers adhere to an approved personal account trading policy. The National Treasury shall ensure that such policies are not in conflict with BESA rules or the aims on this Code.

Entertainment, gifts and gambling:

21. Management should have a clearly articulated policy towards the giving/receipt of entertainment (and gifts), and ensure it is properly approved and recorded.

Abused substances (including drugs and alcohol):

22. Management should take all reasonable steps to educate themselves and their staff about possible signs and effects of the use of alcohol, drugs, and other abused substances. The judgement of any member of staff using such substances is likely to be impaired. Dependence upon drugs etc, makes them more likely to be vulnerable to outside inducement to conduct business not necessarily in the best interest of the firm or the market generally and could seriously diminish their ability to function satisfactorily.

DEALING PRINCIPLES AND PROCEDURES: A STATEMENT OF BEST PRACTICE

23. Where counter-party approval is not forthcoming, the aggrieved party may approach the National Treasury. The National Treasury may in its discretion consult with BESA in adjudicating a dispute.
24. It is considered good market practice to warn the price maker if he/she quotes a price that is materially off the market.

Method of Communication:

25. Communication shall be either, through Reuters 2000, and/or Bloomberg and/or telephone, and/or any means of communication supported by the panel and the National Treasury.
26. For speedy settlement, each Primary Dealer should be adequately represented in South Africa.

Mark-to-market:

27. At 16:30 everyday, BESA will randomly contact two Primary Dealers for a yield (mid of bid and offer) in the most liquid government bond. (At the time of print, this was the R150 bond). BESA will then set the level of this bond based on a consensus yield obtained from these dealers and display this yield to the Primary Dealers and the whole market using an electronic vendor's screen, namely Reuters on page "BESA". In the event that a consensus yield cannot be arrived at, two other Primary Dealers will be called at random, until a consensus yield is obtained.
28. All Primary Dealers are then required to quote yields for the balance of the primary dealer bonds given the level of the above R150. The two highest and the two lowest (in the case of equality, two of the highest or two of the lowest) yields are disregarded and the remaining six quotes are arithmetically averaged. The average is rounded off to the closest half a basis point, the resulting figure is the mark to market rate for the bond.

PRIMARY DEALERS ASSOCIATION

29. The Primary Dealer Association (PDA) can represent the panel of Primary Dealers on matters of mutual interest. Through a process of consensus seeking discussion, the PDA makes representations to the National Treasury regarding any issue. As last recourse, a majority vote can be used to form an official view but the minority view must always be presented to the National Treasury. A quorum is defined as 75% of Primary Dealers being present or via a proxy vote through the Chairperson or Vice-Chairperson.

30. At least once a year, the PDA must elect a Chairperson and Vice-chairperson who will co-ordinate all PDA activities and act as liaison between Primary Dealers and the National Treasury and the South African Reserve Bank.
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