



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

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

Table of Contents

RULES IN RESPECT OF THE PRIMARY DEALERS IN GOVERNMENT BONDS OF THE REPUBLIC OF SOUTH AFRICA	3
Institutional Requirements	3
Primary Dealers:.....	3
National Treasury.....	4
Capital Requirements	4
Primary Dealers:.....	4
Auctions	5
Primary Dealers:.....	5
National Treasury:.....	6
Market Making.....	6
Human Resources.....	7
CODE OF CONDUCT AMONGST PRIMARY DEALERS IN GOVERNMENT BONDS OF THE REPUBLIC OF SOUTH AFRICA	7
Distribution	7
Compliance, Complaints and Arbitration	7
Products covered by the Code.....	8
Controls.....	8
Know your counter-party:.....	8
Telephone recording:	8
Deals at non-current rates:	9

Market hours for Primary Dealers: 9
After-hours dealing: 9
Entertainment, gifts and gambling: 9
Substance Abuse 9
Dealing principles and procedures: a statement of best practice 10
Method of Communication: 10
Mark-to-market: 10
Primary Dealers' association 10

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

The under-mentioned rules and code of conduct 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 and code of conduct are subject to review and modification by the National Treasury after consultation with the Primary Dealers and the South African Reserve Bank.

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

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 in terms of the Banks Act, 1990 (Act No. 94 of 1990).
2. A Primary Dealer must be a member of the Johannesburg Stock Exchange (JSE).
3. The continued designation as a Primary Dealer, subsequent to a change in majority ownership structure is not automatic as such change may have a bearing on the institution's selection of function as a Primary Dealer. National Treasury must be notified of such changes and their impact on the institution's primary dealer operations.
4. Banks wishing to be appointed will, however, be required to apply in writing to the National Treasury. Primary Dealers will be required to sign a Memorandum of Understanding and Confidentiality Agreement with 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. At least one calendar month notice should be provided for such termination. Less than a calendar month notice may be allowed in exceptional circumstances.

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. Before the National Treasury suspends 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.
11. 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 times comply with the relevant minimum requirements related to Common Tier 1 capital and reserve funds, Tier I capital and reserve funds and Tier II capital and reserve funds, as may be prescribed from time to time in the Regulations relating to Banks, issued in terms of the Banks Act, 1990.
14. Primary Dealers must at all times have available no less than R1 billion of qualifying Tier I capital and reserve funds, determined in terms of the Regulations relating to Banks, issued in terms of the Banks Act, 1990. In instances where Primary Dealers do not conform to the minimum Tier 1 capital and reserve funds requirement of R1 billion, such Primary Dealers must provide a duly enforceable 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 aforementioned prescribed minimum capital and reserve funds requirements, the National Treasury must be informed immediately. 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.
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 Prudential Authority shall on an ongoing basis, report to the National Treasury on the compliance by Primary Dealers with the aforementioned prescribed minimum capital and reserve funds requirements.

Auctions

Primary Dealers:

18. Primary Dealers must participate actively in the Government fixed-rate bond auctions by bidding at market related yields on a competitive basis.
19. The minimum bid requirement at each bond auction is a percentage ratio 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 fixed-rate bond on auction.

20. A single Primary Dealer may take up the full amount of 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, South African Reserve Bank and Primary Dealer Association 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 agreed between the South African Reserve Bank, the National Treasury and Primary Dealers will be followed.
25. Primary Dealers are required to submit test bids 1 hour before the auction closes to enable enough time to address technical problems. Should technical problems

arise that prevent one or more Primary Dealers from submitting their auction bids, the Auction Emergency Procedures agreed between the South African Reserve Bank, the National Treasury and the Primary Dealers will be followed

26. It is a responsibility of a Primary Dealer to train new employees to avoid erroneous bidding in the auction and have suitable technological infrastructure and systems in place to ensure the auction bidding is adhered to.
27. 50% 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. Of the 50% non-competitive bid auction allocation, 20 percentage points will be allocated to primary market participation, and 30 percentage points will be allocated based on the secondary market Electronic Trading Platform performance.

National Treasury:

28. Participation in auctions will be restricted to the panel of Primary Dealers.
29. 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.
30. The National Treasury retains the right to amend the conditions pertaining to auctions to ensure orderly, fair and competitive auctions at all times.
31. 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.
32. Fixed-rate bond auctions will be held on Tuesdays. Where a Tuesday falls on a South African holiday, the auction date will be the following business day or as per the auction calendar. The annual auction calendar will be uploaded on the National Treasury Investor Relations website.

Market Making

33. All Primary Dealers are obliged to quote prices (make a market) for government fixed-rate bonds to provide secondary market liquidity.
34. Primary Dealers are not obligated to make market on bonds that have less than one year to maturity, and on bonds with an outstanding amount of less than R10 billion.
35. Primary Dealers who are members of the Electronic Trading Platform (ETP) are required to meet all the obligations of the platform as outlined in the ETP Membership Criteria and the JSE bond ETP Rules and Directives.

36. Primary Dealers who wish to become members of the ETP must apply to the Market Committee – which is made up of the National Treasury and all Primary Dealers – for consideration.

Human Resources

37. The institution must ensure that there is at all times, sufficient staff to carry out Primary Dealer and market making activities.

CODE OF CONDUCT AMONGST PRIMARY DEALERS IN GOVERNMENT BONDS OF THE REPUBLIC OF SOUTH AFRICA

Aim

1. The aim of this code of conduct (“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 is 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, South African Reserve Bank and Johannesburg Stock Exchange (“JSE”).
4. The Code is intended to supplement, and not to replace or modify, applicable statutes or JSE 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, National Treasury and the South African Reserve Bank.

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 National Treasury may, in consultation with the South African Reserve Bank, reprimand the Primary Dealers concerned. If the breach is sufficiently serious to cast doubt

on the competence of the institution or its integrity, the institution 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 JSE. Should this fail 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 Primary Dealers' own risk management approach and meeting legal obligations (e.g. on money laundering), for institution to undertake basic "know their counter-party" checks before dealing in any instruments covered by this Code.
12. Primary Dealers shall ensure that in dealings the RSA government bond market with clients, customers, and counterparties complies with all applicable laws pertaining to protection of personal information and data protection. The policies and procedures adopted to ensure compliance 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).

Telephone recording:

13. It is mandatory that all telephonic conversations by Primary Dealers are recorded.
14. Telephone recordings 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 cannot be tampered with.

15. Failure to tape will normally count against a Primary Dealer if it seeks arbitration.

Deals at non-current rates:

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

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.
19. During South African holiday periods, National Treasury will publish quoting obligation times which will be in line with the JSE hours.

After-hours dealing:

20. Primary Dealers 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. Afterhours dealings should be processed promptly on the next business day, in accordance with JSE rules.
21. Primary Dealers' management should ensure that, where allowed employees adhere to an approved personal account trading policy.

Entertainment, gifts and gambling:

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

Substance Abuse

23. Primary Dealer management should take all reasonable steps to educate themselves and their staff about possible signs and effects of substance abuse (including but not limited to drugs and alcohol). Substance abuse may lead to impaired judgment or decision making which may compromise a Primary Dealer or the market generally.

Dealing principles and procedures: a statement of best practice

24. Where counter-party approval is not forthcoming, the aggrieved party may approach the National Treasury. The National Treasury may in its discretion consult with JSE in adjudicating a dispute.
25. 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:

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

Mark-to-market:

28. The JSE uses data from the Bond Electronic Trading Platform (ETP) for Primary Dealers for mark-to-market (MTM) purposes. Between 16h25 and 16h35, a random snapshot of the bid and offer rates will be taken, and the mid computed as the official MTM.

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 discussions, 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, National Treasury and the South African Reserve Bank.
-