

3 March 2008

**SCHEDULE
OF
RULES IN RESPECT OF THE APPOINTMENT OF AND
ROLE OF A PRIMARY DEALER IN RESPECT OF
DEBT INSTRUMENTS ISSUED BY
THE GOVERNMENT OF THE REPUBLIC OF BOTSWANA
AS AT 3 MARCH 2008**

1 DEFINITIONS

In the Rules the following terms shall have the meanings defined herein:

- 1.1 **Auction Process** – shall mean the auction process and procedure set forth in Rule 11 hereto, which may be amended by the Bank from time to time, to be followed in the sale and issue of Notes.
- 1.2 **Bank or the Bank** – shall mean Bank of Botswana.
- 1.3 **Client** – shall mean all institutions, parastatals or individuals which are not Primary Dealers which purchase or sell Notes or engage in repurchase agreements in respect of Notes with a Primary Dealer.
- 1.4 **Benchmark Note** – shall mean a Note which is most frequently traded and which is selected by the Bank for the purposes of market making, from the Bank by written notice to Primary Dealers;
- 1.5 **Notes**- means debt instruments, including bonds, stock, or bills issued by the Government, pursuant to the provisions of the SBTB Act.
- 1.6 **Primary Dealer** – shall mean any institution which acknowledges to be bound by and comply with these Rules, and appointed by the Bank in terms of the Rules from time to time.
- 1.7 **Dealer Committee** – a committee formed by the Primary Dealers for the time being and the Bank for the purpose of promoting the smooth operation of the Note market and to provide a forum for the exchange of information and resolution of problems.
- 1.8 **Government** – shall mean the Government of the Republic of Botswana;

3 March 2008

- 1.9 **Secondary Market** – shall mean trading in Notes, outside the regular options, between Primary Dealers, amongst one another, between Primary Dealers and Clients and between Clients amongst one another.
- 1.10 **SBTB Act** – shall mean the Stocks, Bonds and Treasury Bills Act Cap 56:07 of the laws of Botswana.
- 1.11 **Primary Market** – shall mean the undertaking of transactions for the subscription for Notes between the Primary Dealers and the Bank, when the Notes are issued.

2 **APPOINTMENT OF PRIMARY DEALERS**

- 2.1 Qualifications for Primary Dealers shall be determined by the Bank from time to time and are subject to periodic review.
- 2.2 The Bank may at any time appoint any person as a primary dealer, subject to such person complying with the criteria laid down by the Bank, from time to time, for a person to qualify as a primary dealer, and such other party confirming, in writing, to the Bank that it agrees to be bound by these Rules.
- 2.3 Forthwith upon appointment by the Bank of such other party, as contemplated in Clause 2.2, as a Primary Dealer, the Bank shall notify all the then existing Primary Dealers of that appointment.
- 2.4 The Bank may, in its sole and absolute discretion, vary the criteria for appointment as a primary dealer, and should any of the then existing Primary Dealers not comply with such amended criteria at such time, or within a period of six months from the date upon which the criteria change (or such other period as the Bank may stipulate), the Bank shall be entitled, but not obliged, to terminate the appointment of such Primary Dealer after such six month, or other, period.

3 OBLIGATIONS OF PRIMARY DEALERS

- 3.1 For so long as its appointment as Primary Dealer subsists, a Primary Dealer shall:
- 3.1.1 maintain, on an ongoing basis, a minimum capital of P45 million in respect of Tier 1 capital, as defined in the Basle Capital Accord;
 - 3.1.2 maintain appropriate dealing and communication systems, e.g: Reuters and SWIFT;
 - 3.1.3 foster dealing expertise and compliance with international ethics and norms;
 - 3.1.4 report daily to the Bank on market activity in Notes (volume, price and residency of counter party investors) and on general market developments;
 - 3.1.5 maintain adequately trained staff at the front, middle and back office and to support the Bank in its treasury operations;
 - 3.1.6 disseminate auction information to investors, act in the Secondary Market as facilitators and perform Secondary Market activities, including continuous and meaningful price making;
 - 3.1.7 participate in the Bond Auctions Process(es) according to Rule11 or any amendment thereto;
 - 3.1.8 participate, promote and maintain a Secondary Market, as more precisely defined in the applicable market notes or code of conduct established by the Bank in consultation with the Dealer Committee from time to time;

3 March 2008

- 3.1.9 promote markets for the Notes by adequate analysis, research and publications; and
 - 3.1.10 be obliged to provide on daily basis, to an official at the Bank, both bids and offers for all of the Benchmark Notes; such information to be provided either by Reuters, or telephonically.
- 3.2 For so long as it remains a Primary Dealer, a Primary Dealer classified by the Bank as a Tier I Primary Dealer shall be obliged to trade with other Tier I Primary Dealers and in this regard:-
- 3.2.1 maintain the ISDA Documentation and/or Global Master Repurchase Agreements, as a prerequisite to transact in repurchase and/or derivatives transactions;
 - 3.2.2 show a price to other Tier I Primary Dealers in the Secondary Market in a minimum of P2,000,000 of Notes and the spread between the bid yield and ask yield, which should not exceed 20 basis points;
 - 3.2.3 show to other Tier I Primary Dealers two way prices in the Benchmark Notes as per the requirements hereinbefore contained, between 09H15 and 15H00 on any business day that the market on Notes is open;
 - 3.2.4 be obliged to participate in the Buy/Sell repurchase market of Notes.
- 3.3 For so long as it remains a Primary Dealer, a Primary Dealer classified by the Bank as a Tier II Primary Dealer shall be obliged to trade with other Tier II Primary Dealers and in this regard:
- 3.3.1 show a price to other Tier II Primary Dealers in the Secondary Market in a minimum of P2,000,000 of Notes and the spread between the bid yield and ask yield, which should not exceed 20 basis points;

3 March 2008

3.3.2 show to other Tier II Primary Dealers two way prices in the Benchmark Notes as per the requirements hereinbefore contained, between 09H15 and 15H00 on any business day that the market on Notes is open;

3.4 At all times, while its appointment as Primary Dealer subsists, a Primary Dealer shall

3.4.1 be bound by and comply with the terms and conditions of any Programme Memorandum, Supplementary Programme Memorandum and Pricing Supplement issued by the Government, or the Bank in respect of any Notes;

3.4.2 adhere to and comply with any selling or transfer restrictions imposed by or undertaken by Government, or the Bank whether in any Programme Memorandum, Supplementary Programme Memorandum or Pricing Supplement, or otherwise in respect of any Notes.

4 **UNDERTAKINGS**

In acknowledging it is bound by these Rules and undertaking to comply therewith, each Primary Dealer represents, warrants and undertakes that it shall observe all applicable laws and regulations in any jurisdiction in which it may directly or indirectly offer, sell, re-sell, re-offer or deliver confirmation of the holding of Notes or distribute the Programme Memorandum or any advertisement or offering material and not do any of the foregoing in any country or jurisdiction, except under circumstances that will result in compliance with all applicable laws and regulations, and in addition, in respect of any country other than Botswana, shall not under any circumstances so offer, sell or re-sell, or re-offer or permit to be so offered, sold, re-sold, or re-offered any Notes unless the aggregate principal amount of the Notes sold, re-sold, or re-offered exceeds BWP1,000,000 (One Million Botswana Pula).

5 RIGHTS OF A PRIMARY DEALER

For so long as the appointment of a Primary Dealer subsists, a Primary Dealer shall be entitled to:

- (i) participate subject to compliance with Rule 11 in Note auctions;
- (ii) participate, subject to any rules established by the Bank in this regard in Note issues, other than by auction;
- (iii) participate, subject to any rules established by the Bank in this regard in buy-backs and exchange auction;
- (iv) a two-way pricing, from other Primary Dealers of the same Tier, in the interbank market;
- (v) preferred status as a counterparty for the Government, in Notes, subject to applicable credit approvals and documentation under the Global Master Repurchase Agreement or ISDA documentation, as the case may be, or under any applicable documentation agreed by the Bank and the Primary Dealers.

6 INDEMNITY

By its acknowledgment that these Rules are binding and its undertaking to be bound thereby, each Primary Dealer hereby indemnifies and holds the Government of Botswana and the Bank harmless against any claims, orders, awards, judgments, penalties, fines or findings made against either of them, or any damages suffered by or sustained or awarded against either of them by or at the instance of any authority or person, arising out of a breach by the Dealer of the obligations placed upon it by the provisions of Rules 4 and A.

Comment [m1]: it is not clear what 'A' refers to. Could be a typo

7 PRIMARY DEALER COMMITTEE

The Bank will regularly schedule meetings of the Primary Dealer Committee with the Primary Dealers for the purpose of (i) receiving inputs as regards the promotion of and

market of Notes and recommendations regarding future debt Note issues and (ii) consulting with regard to codes of conduct, and amendments of these Rules.

8 **SECONDARY MARKET**

8.1 **Monitoring**

The Bank shall be responsible for monitoring the activities of Primary Dealers in the Secondary Market.

8.2 **Information**

Each Primary Dealer shall provide the Bank and any relevant market authority with the data in the manner to be specified by the Bank or other market authority on the transactions carried out by it and gives its consent to the publication of price information by the Bank or relevant market authority and/or a successor publisher of data on an aggregate or consolidated basis.

8.3 **Trading on the secondary market**

8.3.1 The Primary Dealers shall provide firm prices to other Primary Dealers of the same Tier in Secondary Market trading in Notes in accordance with good trading practice, to ensure a functioning market making system and the liquidity of the Notes.

8.3.2 A Primary Dealer shall allocate sufficient resources to facilitate a high standard of work quality and commitment to trading the Notes.

9 **REPORTING AND TECHNICAL REQUIREMENTS**

9.1 **Primary Market Reporting**

3 March 2008

The Primary Dealers shall report on the activity regarding the Primary Market placement of Notes following auctions, as requested by the Bank and relevant market authority.

9.2 **Secondary Market Reporting**

The Primary Dealers shall report all trades in Notes in the Secondary Market in the form prescribed by the Bank.

9.3 **Other Reports**

The Primary Dealers shall submit to the Bank daily position statements for the Primary Dealer's trading account based on daily trading and such other reports that may reasonably be requested by the Bank, from time to time.

10 **SURVEILLANCE**

10.1 **General**

The Bank shall closely monitor each Primary Dealer's performance against the Agreement to ensure a satisfactory level of activity by the Primary Dealer in the Secondary Market to provide continuous liquidity for the investing public.

10.2 **Ranking Dealers**

The Bank shall publish a table showing each Primary Dealer's share in the Secondary Market, on a monthly basis.

11 **AUCTION PROCESS MECHANISM AND RULES**

11.1 For the purposes of these Rules the following terms shall have the meanings defined herein:

11.1.1 "**auction process**" shall mean the process outlined in this Rule 11;

3 March 2008

11.1.2 **“Dutch/Uniform Price Auction”** shall mean an auction in terms of which all bidders whose tenders are accepted, are allocated Notes at the same price for a given Note;

11.2 **Offering Mechanism**

Notes will be offered to the market through uniform price auction arranged by the Bank. Such auction will take place in accordance with an auction calendar, provided by the Bank, to the market from time to time for guidance.

11.3 **Auction Terms**

11.3.1 Primary Dealers will be required to submit a maximum of ten bids of differing yields to maturity in an auction for any particular Note. Each bid submitted shall be an amount of not less than P5,000,000.

11.3.2 Tier I Primary Dealers shall be obliged to bid for an equal share of all the Notes on offer in an auction.

11.3.3 Any partial allocation of the Notes sold in auction will be done in amounts of no less than P1,000,000, and any rounding of amounts of Notes that are partially allocated will be calculated by the Bank and distributed to the Primary Dealers, at the discretion of the Bank.

11.3.4 Tier II Primary Dealers shall be obliged to bid for not less than P10,000,000 of Note on offer in an auction, and not more than the maximum that shall be determined by the Bank prior to the auction .

11.3.5 Bids in respect of Notes which are not Treasury Bills shall be made on a yield to maturity basis in multiples of 0,005%.

3 March 2008

- 11.3.6 Bids in respect of Notes which are Treasury Bills shall be based on price, rounded to three decimals.
- 11.3.7 Primary Dealers shall not bid directly or indirectly on behalf, or in concert with, any other Primary Dealer and each Primary Dealer shall so certify to the Bank, on an annual basis.
- 11.3.8 Tenders shall be submitted to the Bank via Reuters. The Reuters Dealing Code that will be used is Pula. Should for any reason the Reuters Dealing System not be functional, then bids should be submitted to the Bank, physically. The Bank shall not bear any liability whatsoever for any errors or tenders received or for delays in the transaction of tenders or bids.
- 11.3.9 The Bank reserves the right to accept or reject all tenders of bids in whole or in part, including without limitation the right to accept less than the minimum amount specified in any invitation for tender.
- 11.3.10 Auctions will typically be held on Fridays with settlement of accepted bid on the auction date plus three business days, i.e. on the following Wednesday. In the event the following Wednesday is a public holiday, then the day for settlement would be the next succeeding business day.
- 11.3.11 The deadline to receiving bids is 10H00 on the day of the auction. The auction results will be made available by 12H00 (noon) on the Reuters System, on the day of auction.
- 11.3.12 Pre-announced amounts of Notes to be offered on auction will be regarded as firm.

3 March 2008

11.3.13 Invitations to tender will be made by the Bank on the Reuters System five business days prior to the auction and will include the following information:

- Notes to be auctioned;
- amount;
- closing time for bids;
- date of auction;
- time of announcement on results of the auction.

11.3.14 The announcement of results of auction by the Bank shall include the following information:

- total amount of bids received;
- total number of bids received;
- total amount of bids allotted;
- partial allocation if any;
- highest bid received;
- lowest bid received;
- yield to maturity of all bids awarded.

11.3.15 Unless otherwise specified, the uniform pricing method of allocation shall be followed in determining the allotment of Notes pursuant to an auction.

11.3.16 Each Primary Dealer shall report to the Bank by no later than 15H15 on the day of auction its closing aggregate positions in the Note(s) auctioned that day which report shall:-

11.3.16.1 be made via the Reuters Dealing System;

11.3.16.2 set out the aggregate principal amount of Note(s) held by the Primary Dealer for own account;

11.3.16.3 set out the aggregate principal amount of Note(s) held by the Primary Dealer for its Clients.

12 **SUSPENSION OR TERMINATION OF A PRIMARY DEALER**

- 12.1 In addition to the rights of the Bank under Rule 2.4 where the Bank is of the opinion that a Primary Dealer is in breach of any of the terms of these Rules, or is not participating in the Primary Market or Secondary Market to a level which could reasonably be expected of it, the Bank shall give to the Primary Dealer written notice of the breach, or level of participation complained of, and require that Primary Dealer to remedy the breach or rectify the level of participation within such reasonable period as the Bank in the notice shall specify.
- 12.2 In the event the Primary Dealer fails to remedy the breach or rectify the level of participation within the time period stipulated by the Bank (or such longer period as the Bank and the Primary Dealer may have agreed upon), the Bank shall be entitled, but not obliged, either
- 12.2.1 to suspend the appointment of the Primary Dealer for such period and on such conditions as the Bank may determine; or
- 12.2.2 to terminate the appointment of the Primary Dealer.
- 12.3 In the event a resolution of shareholders of a Primary Dealer is taken for its winding up, or a petition presented to the High Court for its winding up (provisionally or finally, voluntarily or compulsorily), unless otherwise agreed by the Bank, the appointment of that Primary Dealer shall terminate on and with effect from the date of resolution or presentation of the petition.
- 12.4 In the event of a party ceasing to be a Primary Dealer in terms of Rule 12.2.2 or in Rule 2.4, it shall transfer its register of Clients which hold Notes or interest in Notes and its records in respect of each such Client to another Dealer elected by

3 March 2008

the Client, in the absence of an election, to another Primary Dealer determined by the Bank, with the effect that the transferee Primary Dealer will henceforth be the party who will maintain the record of beneficial ownership of that Client's holdings in Notes, and if the Sub-custodian Agreement in respect of the Client was not ceded to the transferee Primary Dealer, it shall enter into a Sub-custodian Agreement with the Client within 30 days of such transfer, which sub-custodian Agreement which shall supersede the previous sub-custodian agreement between the Client and the transferor Primary Dealer.

12.5 A Primary Dealer may, on not less than three months written notice to the Bank and all other Dealers, terminate its appointment as a Primary Dealer provided that no such notice will take effect until all Sub-custodian Agreements which that Primary Dealer has with its Client have been transferred to another Primary Dealer, or terminated.

12.6 The provisions of this clause do not detract from any rights which the Bank, or any other Primary Dealer has a result of a breach by a defaulting Primary Dealer of its obligations to the Bank or any other Primary Dealer in respect of transactions concluded by it with the Bank or other Primary Dealer while it was acting as a Primary Dealer.

13 **REVIEW AND AMENDMENT**

13.1 These Rules shall be subject to review by the Bank on an annual basis.

13.2 In such review the Bank shall consult with the Dealer Committee, and following such consultation be entitled to amend the Rules in such manner as the Bank, in its discretion deems fit.

13.3 Notwithstanding Rule 13.1 and 13.2, the Bank shall be entitled to amend any of these Rules at any time, when the Bank is of the opinion that immediate amendment is necessary.

3 March 2008

13.4 The Bank shall notify Primary Dealers in making of any amendment to these Rules and in that notice stipulate the date upon which the amendment shall come into effect and, if different, the date by which Primary Dealers are to comply with the amended Rule(s).

14 **APPLICABLE LAW AND JURISDICTION**

14.1 These Rules (including the implementation, interpretation and application of its provisions, and the respective rights and obligations of the parties thereof shall be interpreted and governed in all respects by the laws of the Republic of Botswana.

14.2 Save as otherwise provided herein, the parties hereby consent and submit to the non-exclusive jurisdiction of the High Court of Botswana for the purpose of all or any legal proceedings arising from or concerning this Agreement.

15 **CESSION AND ASSIGNMENT**

A Primary Dealer shall not be entitled to cede, assign or transfer all or any of its rights and/or obligations in terms of these Rules to any other person, without the prior written consent of the Bank.

16 **SEVERABILITY**

If the provision of any Rule is held to be illegal, invalid or unenforceable for any reason, such Rule shall be deemed to be pro non scipto, but without affecting, impairing or invalidating any of the remaining Rules, which shall continue to be of full force and effect.

3 March 2008