

TABLE OF CONTENTS

Introduction 2

Existing Primary Dealership Arrangements 2

New Primary Dealership Arrangements 3

Obligations of Primary Dealers 4

Obligations of the Reserve Bank of Zimbabwe 5

Privileges of Primary Dealers 5

Rules and Regulations 6

Time Frames 8

Annex: Criteria for Determining Tender Quotas 9

1. INTRODUCTION AND BACKGROUND

- 1.1 A Primary Dealer is a financial institution appointed by the Reserve Bank to exclusively participate in the primary tender of Government and Central Bank securities.
- 1.2 In this regard, a Primary Dealer plays a specialist role in Government and Central Bank securities markets and acts as an intermediary between authorities and other market players.
- 1.3 The main objective of setting up a system of primary dealership is largely to promote the development of a vibrant secondary market for Central Bank and Government securities.
- 1.4 A well functioning primary dealership arrangement is critical for the effectiveness of monetary policy, as well as for Government financing requirements.
- 1.5 The existing primary dealership arrangements have fallen short of adequately fulfilling this twin objective, thereby necessitating this review.

2. EXISTING PRIMARY DEALERSHIP ARRANGEMENTS

- 2.1 Prior to 1998, the Reserve Bank of Zimbabwe operated a primary dealership system in which Discount Houses were the only primary dealers.
- 2.2 The system, however, did not meet the expectations of the Central Bank, as most discount houses took advantage of their privileged status to fleece other market players, by placing exorbitant margins for their intermediary role.
- 2.3 This hampered smooth operations of tenders for Government securities and other debt instruments, and militated against the development of secondary markets.
- 2.4 In view of this, the Reserve Bank, in November 1998, broadened the category of Primary Dealers to include commercial and merchant banks, in addition to the existing discount houses.
- 2.5 Notwithstanding the broadening of Primary Dealers, however, the primary market for Government securities and Central Bank instruments has remained largely under-subscribed, while the secondary market has remained shallow and underdeveloped.
- 2.6 There is a tendency by Primary Dealers to tender on their own behalf and to hold instruments to maturity, as opposed to international best practice, where primary dealers are largely market makers through promoting secondary market trading.

- 2.7 A number of existing Primary Dealers do not participate in all Government or Central Bank tenders, resulting in under-subscription of tenders and tender results that do not correctly reflect the dictates of market fundamentals.
- 2.8 In some cases, the Reserve Bank has had to open up some of the tenders directly to institutional investors, corporate bodies and members of the public, in an effort to circumvent the collusive and uncompetitive tendencies of some Primary Dealers.
- 2.9 The overall effect of the current primary dealership arrangements has been unsatisfactory subscription of Government and Central Bank paper on the primary market, as well as limited trading and development of securities on the secondary market.
- 2.10 Against this background, the Reserve Bank of Zimbabwe is reviewing the existing framework, as well as the rules and guidelines for Primary Dealership in Zimbabwe.
- 2.11 This review of the primary dealership arrangements, thus seeks to, among other objectives, redefine the eligibility criteria for primary dealership, provide a binding framework of obligations, responsibilities and privileges of Primary Dealers, as well as establish rules and guidelines for primary dealership.
- 2.12 The overriding objective of this review is to facilitate the development and deepening of efficient primary and secondary market for securities and financial instruments in the economy.

3. NEW PRIMARY DEALERSHIP ARRANGEMENTS

3.1 Eligibility

- 3.1.1 Initially, that is between January 2006 through to end March 2006, all deposit taking institutions registered under the country's banking regulations and hooked onto the Zimbabwe Electronic Transfer Settlement System (ZETSS), are eligible for Primary Dealership.
- 3.1.2 With effect from 1 April 2006, only those institutions who would have successfully applied, qualified and duly licensed, would operate as Primary Dealers.
- 3.1.3 Institutions may, however, be suspended or expelled from primary dealership arrangements in cases where they would have flouted rules and regulations of the new system.

3.2 Capital Adequacy

- 3.2.1 Prospective Primary Dealers must comply with the minimum capital requirements, as stipulated from time to time, under the Reserve Bank's prudential and supervisory requirements on capital adequacy.

3.3 Management Capacity

- 3.3.1 Prospective Primary Dealers must have a strong management team, as required under the Reserve Bank's prudential and supervisory requirements on management capacity.

3.4 Support for Tenders

- 3.4.1 Eligible institutions shall be required to subscribe a minimum of its market share of total liabilities to the public, on the tenders announced by the Reserve Bank.
- 3.4.2 The primary tender quotas shall be based on each institution's liabilities to the public as at the previous month.
- 3.4.3 The Reserve Bank will advise each Primary Dealer of its tender quota at the beginning of each month, which will stay fixed until reviewed at the beginning of the following month.
- 3.4.4 Compliance with the stipulated quotas will be assessed on a daily basis, and institutions that fail to satisfy their quota by close of each business day may be allocated the shortfall of their requirement, at the weighted average rate of the last tender of that day.
- 3.4.5 Failure to take up allocated instruments may result in suspension from primary tenders or expulsion from primary dealership arrangements altogether.
- 3.4.6 Eligible Primary Dealers are, however, advised that the Reserve Bank may revert to direct private placement of instruments, should performance of the primary dealership remain unsatisfactory.
- 3.4.7 It is, therefore, incumbent upon participating Primary Dealers, to ensure that tenders are fully or reasonably subscribed to, so as to forestall direct competition with the Reserve Bank for deposits.

4. OBLIGATIONS OF PRIMARY DEALERS

- 4.1 Primary Dealers are expected to fully participate in and support all primary tenders for Government of Zimbabwe and Reserve Bank of Zimbabwe securities.

- 4.2 Primary Dealers must submit competitive bid amounts at market related yields.
- 4.3 A Primary Dealer must ensure that their actions do not, in any way, contribute to an undue concentration of tenders, display an element of collusive behaviour, expose itself or other institutions to undue market risk, or act in any manner that undermines the integrity of the tender system.
- 4.4 Primary Dealers must also play a facilitatory role in the secondary market through providing accurate information pertaining to prices, yield rates, dealing volumes, market conditions and any other relevant market developments.

5. OBLIGATIONS OF THE RESERVE BANK OF ZIMBABWE (RBZ)

- 5.1 The RBZ, as the issuer of Government and own securities, shall galvanize the highest standards of professionalism, integrity, consistency, transparency and fairness in all its dealings with primary dealers.
- 5.2 The RBZ shall announce its daily or weekly tenders in advance, specifying the amount on offer at each tender.
- 5.3 The RBZ shall ensure that participation in primary tenders is restricted only to eligible primary dealers.
- 5.4 Issuance of securities shall be at the initiative of the RBZ, and the Bank shall, under no circumstances, issue securities at the request of particular Primary Dealers.
- 5.5 Invitations to tenders shall be through telephone, Reuter screens, or any other forms of communication channels agreed to by all Primary Dealers.

6. PRIVILEGES OF PRIMARY DEALERS

- 6.1 In return for the obligations specified in the primary dealership arrangements, Primary Dealers shall enjoy a wide range of privileges, including the following:
 - (i) Exclusive rights to bid at all tenders for Government and Central Bank securities.
 - (ii) The right to submit bids through exclusive channels agreed to, by the Reserve Bank.
 - (iii) Primary Dealers shall also be consulted from time to time by the Central Bank, on matters relating to the structure of the markets, as well as on tender rules and regulations, thus offering them an opportunity to influence the policy on primary dealership.

7. RULES AND REGULATIONS FOR PRIMARY DEALERSHIP

7.1 Tender Rules and Procedures

7.1.1 Bids must be received by the latest time as specified in the Reserve Bank's tender announcement.

7.1.2 Tenders/bids submitted after the deadline will not be accepted.

7.1.3 Each bid must specify the following:-

- (i) the name of the tenderer;
- (ii) the maturity/tenor being bid for;
- (iii) the yield quoted, up to 4 decimal places; and
- (iv) the quantity/amount of bid.

7.1.4 All bids submitted will be irrevocable/irretrievable.

7.1.5 The Reserve Bank of Zimbabwe reserves the right to accept or reject a portion of any or all tenders.

7.2 Allotment and Announcement of Tender Results

7.2.1 The Reserve Bank retains the sole discretion in the allotment of tendered securities to individual bidders.

7.2.2 The Reserve Bank will make a decision on the cut-off price and immediately announce the results to the market via the communication channels at its disposal, to tenderers and other interested parties.

7.2.3 The results will ordinarily set out the following:-

- (i) Total amount bid;
- (ii) Amount allotted;
- (iii) Highest price/bid;
- (iv) Lowest price/bid; and
- (v) Weighted average rate (yield).

7.2.4 With immediate effect, all accepted bids will be allotted at the weighted average rate.

7.3 Settlement/Take Up of Allotted Tenders

- 7.3.1 Shortly after the announcement of the results, the Reserve Bank's Back Office will contact each successful tenderer by telephone to confirm the nominal amount of bills allotted and/ or the relative purchase consideration.
- 7.3.2 This will be followed by award advices, after full payment through Zimbabwe Electronic Transfer and Settlement System (ZETSS) of the amount allotted.
- 7.3.3 Award advices will be collected from the Enquiries Desk/Counter located on Level Minus One in the RBZ Banking Hall, between 8:00am and 4.30pm.

7.4 Maturing Reserve Bank and Government Securities

- 7.4.1 Primary dealers must present their maturing securities, including premature redemptions, between 8:00am and 12:30pm on the day before the maturity date.
- 7.4.2 No transfers will be entertained on the day of maturity of the security.
- 7.4.3 Any treasury bills presented on the day of maturity will be paid value the next business day.

7.5 Breach of Rules and Regulations

- 7.5.1 Violation of tender rules and regulations will result in suspension from primary tender auctions or expulsion from the primary dealership arrangements.
- 7.5.2 The Reserve Bank may also terminate a Primary Dealer's participation on the auctions at any time, if it so deems necessary in the interest of financial stability.
- 7.5.3 A Primary Dealer may also voluntarily withdraw from primary dealership by notifying the RBZ in writing.
- 7.5.4 A Primary Dealer which voluntarily withdraws from the primary dealership arrangements, will be considered for readmission one (1) year after the date of voluntary withdrawal.
- 7.5.5 A Primary Dealer convicted of a crime or which has pleaded guilty to a crime under Zimbabwean law, for activities that directly/indirectly relate to its relationship with the RBZ will automatically be expelled from the primary dealership arrangements.

8. TIME FRAMES

- 8.1 January 2006-March 2006:** all registered financial institutions are eligible to participate on the new Primary Dealership arrangements.
- 8.2 End-February 2006:** all applications for Primary Dealership must have been received by the Reserve Bank.
- 8.3 Mid-March 2006:** completion of the Primary Dealership licensing process.
- 8.4 End-March 2006:** the current Primary Dealership entitlements expire.
- 8.5 2nd of April 2006:** the new Primary Dealership arrangements become operational, for licensed Primary Dealers.
- 8.6 After the 2nd of April 2006,** applications and licensing of new entrants will be considered on an on-going basis.

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GOVERNOR
RESERVE BANK OF ZIMBABWE**

24 JANUARY, 2006

ANNEX

CRITERIA FOR DETERMINING TENDER QUOTAS FOR PRIMARY DEALERS

	Total Liabilities to the Public (Z\$Billion)	Proportion to Total	Take-Up Quota per Institution
COMMERCIAL BANKS			
Commercial Bank A	4,513.10	19.0%	19.0%
Commercial Bank B	3,827.60	16.1%	16.0%
Commercial Bank C	3,346.80	14.1%	14.0%
Commercial Bank D	3,133.20	13.2%	13.0%
Commercial Bank E	2,837.00	11.9%	12.0%
Commercial Bank F	700.10	3.0%	3.0%
Commercial Bank G	694.10	2.9%	3.0%
Commercial Bank H	531.20	2.2%	2.0%
Commercial Bank I	506.30	2.1%	2.0%
Commercial Bank J	461.00	1.9%	2.0%
Commercial Bank K	217.60	0.9%	1.0%
Commercial Bank L	66.50	0.3%	0.3%
Commercial Bank M	13.10	0.1%	0.1%
Commercial Bank N	102.90	0.4%	0.4%
MERCHANT BANKS			
Merchant Bank A	79.90	0.3%	0.3%
Merchant Bank B	68.30	0.3%	0.3%
Merchant Bank C	64.30	0.3%	0.3%
Merchant Bank D	57.10	0.2%	0.2%
DISCOUNT HOUSES			
Discount House A	76.20	0.3%	0.3%
Discount House B	34.00	0.1%	0.1%
Discount House C	19.90	0.1%	0.1%
Discount House D	3.40	0.0%	0.1%
Discount House E	3.20	0.0%	0.1%
FINANCE HOUSES			
Finance House A	140.80	0.6%	0.6%
Finance House B	90.70	0.4%	0.4%
Finance House C	27.40	0.1%	0.1%
Finance House D	13.20	0.1%	0.1%
BUILDING SOCIETIES & POSB	2,142.80	9.0%	Voluntary
Total	23,771.70	100.01%	

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