

Understanding in respect of Primary Dealers

in Government Securities/Bank of Mauritius Bills

This understanding establishes a formal relationship between the Bank of Mauritius (Bank) and primary dealers and provides an operational framework to which both parties shall adhere with the objective of broadening the Government securities/Bank of Mauritius Bills market, improving its liquidity and creating a reliable benchmark yield curve. Institutional Requirements

1. A primary dealer must be an institution which is licensed and supervised by the Bank.
2. Primary dealers must at all times meet the minimum capital requirements as specified by the Bank. In this respect licensed banks engaged in primary dealings will be required to maintain a minimum risk weighted capital adequacy ratio of 10 per cent at all times.
3. Primary dealers must have a strong management team with competent trading personnel and an efficient back-office operation with the capability of maintaining an up to date register of individual customer holdings of eligible Government securities/Bank of Mauritius Bills, split along various maturities. Primary dealers should ensure that contingency plans are put in place to cater for cases of system failure.
4. To ensure that primary dealers contribute towards the professionalism and sophistication of the securities market staff directly involved in market activity should comprise at least two dealers, one with three years or more of relevant dealing experience and the other with one year or more of dealing experience. Dealers are also expected to hold dealing certificates from the Association Cambiste Internationale.
5. Under no circumstances will a trading relationship be maintained with a primary dealer that is unable to restore or maintain its capital position to the stipulated minimum level within three months.
6. The appointment of a primary dealer or the termination of a primary dealership will be effected by the Bank following consultation with the relevant party. Thirty days' notice must be given in writing by either party in respect of termination.

Obligations of Primary Dealers

7. Primary dealers will be required to fulfill the following obligations:
 - (a) participate actively at auctions of Government securities/Bank of Mauritius Bills by bidding at market related yields on a competitive basis. In accordance with established practice the Bank of Mauritius, by reference to its liquidity forecasting framework, will

strive to ensure that the auction amounts as determined by it will reflect monetary conditions.

(b) quote continuous 2-way prices under all market conditions on a range of eligible Government Securities/Bank of Mauritius Bills held by primary dealers out to two years residual maturity. See paragraph 9 below. The minimum deal size is a nominal value of Rs100,000 and for the initial stage of establishment of the primary dealer system the maximum spread shall be 30 basis points. This spread is expected to narrow as activity in the secondary market grows.

(c) provide feedback on market activity and developments and also on daily closing prices of eligible securities to the Bank of Mauritius.

(d) actively contribute to the development of the domestic securities market.

(e) not engage in anti-competitive or collusive practices to the detriment of the market.

Benefits for Primary Dealers

8. In return for the set of obligations listed above, primary dealers will enjoy the following range of benefits in both the primary and secondary markets.

Primary Market

(a) the right to bid at auctions of Government securities/Bank of Mauritius Bills . As the secondary market becomes established consideration will be given to attributing to primary dealers the exclusive right to bid at auctions.

(b) the exclusive right to submit bids on behalf of third parties at auctions.

(c) the right to submit bids on Reuters Dealing Screen.

Secondary Market

(d) access to Bank refinancing instruments such as repos under existing procedures in situations where primary dealers by virtue of their market making functions must carry long or short positions.

(e) the right to switch eligible securities with the Bank at each mid-month to facilitate portfolio restructuring at market prices.

(f) access to timely sharing of information from the Bank on market activity and developments.

(g) participate at monthly meetings with Bank of Mauritius to review developments in the domestic market and discuss structural and operational issues relating to the market.

Eligible Securities

9. In the secondary market primary dealers will until further notice, provide continuous 2-way pricing for Treasury Bills/Bank of Mauritius Bills out to two years residual maturity, split into bands as follows:

<u>Band</u>	<u>Duration in days</u>
I	Up to 30
II	31 – 60
III	61 – 90
IV	91 – 135
V	136 – 180
VI	181 – 240
VII	241 – 300
VIII	301 - 364
IX	365 - 485
X	486 - 606
XI	607 - 728

The bands will be reviewed in the light of experience.

Trading and Settlement

10. Transactions will be cleared and settled electronically in a Delivery-V-Payment (DVP) basis over the MACSS and Bank Book-Entry system. The trading hours and cut-off times for submission of data on dealing transactions and statements in respect of Own Account and Customer Account are as follows:

Day T+O	10.00 – 14.00 hours	Trading hours for customers
	14.00 – 15.45 hours	Submission to Bank of Mauritius through MACSS on a continuous and timely basis of net settlement details over the range of eligible securities split between Own Account and Customer Account. Also provide details of daily closing prices of eligible securities to the Bank. Failed trades, that is transactions which are likely to fail to settle on the contract date, will be highlighted together with reasons for failure.

Day T+1	09.00 – 10.00 hours	Buying parties must send their settlement instructions before 10.00 a.m. i.e settlement on delivery-v-payment by 10.00 hrs
Day T+1	10.00 – 10.30 hours	Bank to send statements through MACSS to primary dealers showing positions for the day after settlement for both Own Account and Customer Account.

Surveillance

11. With regard to the fulfillment of the commitment that primary dealers pledge to undertake, the Bank will conduct an annual review which will, inter alia, take account of each primary dealer's performance against its undertaking to participate actively at primary auctions, the extent of its underwriting role, the provision of continuous meaningful two way pricing and supply of feedback on market activity. Failure to live up to its undertaking to over time meet its commitment as a primary dealer will be one of the criteria for determining its continuation as primary dealer.

Ranking

12. The Bank will have in place a primary dealer ranking system, which will be computed according to the value and volume of secondary market activity transacted by each primary dealer. The ranking and assessment exercise will be done on a six-monthly basis, during which primary dealers will be classified according to dealing activity listed in paragraph 9 above. The ranking system is intended to encourage greater competition among the primary dealers and in turn ultimately contribute towards the development of the domestic market.

Code of Conduct

13. All transactions conducted between primary dealers, customers and Bank will fall under the umbrella of the Mauritius Code of Conduct.

Master Repurchase Agreement

14. All repurchase transactions conducted between the Bank and primary dealers will be subject to the Mauritius Master Repurchase Agreement as signed by all parties.

Contact Persons

15. Both the Bank and primary dealers to exchange and subsequently maintain up to date a list of contacts of staff in the respective institutions (front and back offices) to deal with queries or problems which may arise.

Over the counter sales of Treasury Bills

16. Over a time frame to be agreed between the Bank of Mauritius and primary dealers the former will cease over the counter (OTC) sales of Treasury Bills on the understanding that this activity will be assumed by Primary Dealers.

Review Clause

17. The Memorandum of Understanding will be subject to review in the light of experience. In December 2002 paragraph 9 was amended to incorporate band IX, X and XI. In May 2003, in paragraph 10, Day T+2 was deleted and replaced by T+1. With effect from 22 August 2003, wherever the words 'Government Securities' appear, the words Bank of Mauritius Bills have been inserted just after.

Bank of Mauritius

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