



**BANK OF MAURITIUS**

**GUIDELINE ON THE  
OPERATIONAL FRAMEWORK FOR  
PRIMARY DEALERS**

**(Revised)**

**02 May 2018**

## **TABLE OF CONTENTS**

- 1. Introduction**
  - 1.1 Purpose**
  - 1.2 Authority**
  - 1.3 Scope of application**
  - 1.4 Effective Date**
  - 1.5 Interpretation**
- 2. Application**
- 3. Selection Criteria**
- 4. Appointment**
- 5. Obligations of Primary Dealers**
- 6. Monitoring by the Bank**
- 7. Benefits**
- 8. Code of Conduct**
- 9. Termination**
- 10. Review Clause**

## **1. INTRODUCTION**

### **a. Purpose**

The Guideline sets out the operational framework for primary dealers.

### **b. Authority**

The Guideline is issued under the authority of Section 50 of the Bank of Mauritius Act 2004 and Section 100 of the Banking Act 2004.

### **c. Scope of Application**

The Guideline will apply to all primary dealers appointed by the Bank under Section 6(1)(x) of the Bank of Mauritius Act 2004.

### **d. Effective Date**

The Guideline shall take effect as from 02 May 2018

### **e. Interpretation**

In this Guideline,

“bank” has the same meaning as in the Banking Act 2004;

“Bank” means the Bank of Mauritius established under the Bank of Mauritius Act 2004;

“Bank of Mauritius securities” means Bank of Mauritius Securities issued under section 6(1)(m) of the Bank of Mauritius Act 2004; and includes Bank of Mauritius Bills, Notes and Bonds and Shariah-compliant instruments.

“Government of Mauritius securities” has the same meaning as in the Public Debt Management Act 2008;

“primary dealer” means a bank that is appointed by the Bank to transact in Government of Mauritius securities and/or Bank of Mauritius securities through purchases and sales of securities directly from the Bank and purchase and sale from/to other buyers;

“securities” means Government of Mauritius securities and Bank of Mauritius securities.

## **2. APPLICATION**

**a.** Any bank, including existing primary dealers may, at the time this guideline becomes effective, apply to the Bank to become a primary dealer. Applications to that effect shall be made in writing to the First Deputy Governor of the Bank, duly supported by the following:

- (i)** documentary evidence with respect to the selection criteria set out under Section 4.0 below;

- (ii) a business plan; and
  - (iii) any such other information or document as may be specified by the Bank.
- b. Where the Bank approves or rejects an application from a bank to become a primary dealer, it shall notify the applicant of its decision within a period of 1 month from the date the complete application is submitted.

### **3. SELECTION CRITERIA**

The selection of primary dealers will be based on the following criteria:

- (a)
  - (i) a minimum Tier 1 capital of Rs4 billion;
  - (ii) An average bid of Rs200 million of securities at primary auction over the last six months;
- (b) Evidence of secondary market trading would be an added advantage.

### **4. APPOINTMENT**

- a. Primary dealers will be appointed for a period of one year, renewable annually.
- b. The Bank will appoint primary dealers on such terms and conditions as the Bank may deem necessary.
- c. The number of primary dealers will be restricted to a maximum of 5 or such other number as the Bank may, from time to time, determine.

### **5. OBLIGATIONS OF PRIMARY DEALERS**

- a. Primary dealers will be required to fulfill the following obligations:

**5.1.1** Participate actively at auctions of securities by bidding at market related yields/prices on a competitive basis.

**5.1.2** Be subject to a bidding commitment based on a percentage of the tender amount, which the Bank will compute and communicate on the basis of the bank's Tier 1 capital.

- (a) The bidding commitment shall be:
  - (i) 30 per cent of the tender amount for banks, which have Tier 1 capital of Rs 8 billion

or above;

(II) 20 per cent of the tender amount for banks, which have Tier 1 capital less than Rs 8 billion.

**(b)** The minimum amount per bid for any auction of securities shall be either Rs50 million or the minimum bidding commitment of each primary dealer, whichever is the lower.

**(c)** The maximum number of bids per bidder shall be:

➤ 3 bids per tenor for securities up to 1-year maturity; and

➤ 5 bids for securities exceeding 1-year maturity.

**5.1.3.** Underwrite collectively the whole amount of securities, or part thereof, at primary auctions proportionate to 5.1.2 above.

**5.1.4.** Actively contribute to the development of the domestic securities market.

**5.1.5.** Not to engage in anti-competitive or collusive practices to the detriment of the market's interests.

**5.1.6.** Conduct at least 12 training programs with wholesale/retail investors over a one- year period to promote awareness among investors about the attractiveness of Government securities as an alternate investment instrument.

**5.1.7.** Promote investment in securities by offering such instruments for sale at all their retail outlets.

**5.1.8.** Meet, at all times, the minimum capital requirements as specified by the Bank.

In this respect, licensed banks engaged as primary dealers will be required to maintain the minimum risk-weighted capital adequacy ratio as specified under Section 20(2) of the Banking Act 2004.

**5.1.9.** Have a strong management team with competent trading personnel and an efficient back-office with the capability of maintaining an up-to-date register of individual customer holdings of eligible securities split along the whole range of maturities.

The register shall be available to the Bank for inspection in whatever manner at all times.

**5.1.10.** Maintain a high sense of professionalism and contribute to the sophistication of the securities market.

Staff, who is directly involved in market activity, must comprise at least two dealers duly registered with the Bank, one with three or more years of relevant dealing experience and the other with a minimum of one year relevant dealing experience. Either the Treasurer or one of the two dealers should hold the Association Cambiste Internationale (ACI) Dealing Certificate, or any treasury related

qualification. Primary dealers should encourage their dealers to acquire the ACI Dealing Certificate or any treasury related qualification within the next three years.

- 5.1.11.** Have in place suitable technological infrastructure and systems for efficient participation in the primary issues and trading on the secondary market.
- 5.1.12.** Have Disaster Recovery sites as well as appropriately documented contingency plans to cater for cases of system failure.

Following interruption in their trading, primary dealers must be able to resume activities, at most, within 4 hours from the time the break occurs. In the event that operations did not resume within the 4 hours, the primary dealer must immediately provide a written explanation to the Bank, informing the Bank about the reason for the delay and the expected time of resumption. The bank will apply good value for any outstanding transactions.

- 5.1.13.** Submit to the Bank details of their transactions in a prescribed electronic format at intervals to be determined by the Bank.
- 5.1.14.** Maintain separate accounts for their customers.
- 5.1.15.** Provide two-way quotes at all times, in securities of all tenures. The minimum deal size will be for a nominal value of Rs50,000. Prices quoted on the secondary market will be valid for up to Rs25 million.
- 5.1.16.** Have the securities in their portfolio to be able to provide the two-way quotes.
- 5.1.17.** Publish, even if there is no demand for securities, their two-way quotes on a continuous basis. The two-way quotes must be displayed at their retail outlets and on Reuters/Bloomberg.

## **5.2** *Spread in two way quotes:*

- a.** No primary dealer is allowed to strike any deal outside the range of the stated two-way quotes. Any off-market deals will be subject to the imposition of such monetary penalty as the Bank may determine.
- b.** The spread of the two-way quotes shall be up to a maximum, as specified by the Bank. The Bank can call primary dealers, at its discretion, to adjust the spread in case of undue deviation from the market's benchmark.

## **5.3** *Turnover Ratio*

- Primary dealers must hold a minimum of 60 per cent of their total portfolio for trading.
- A turnover ratio based on transactions carried out on the secondary market will be used to gauge

the performance of PDs. A turnover ratio of 60% based on secondary market turnover should be achieved over the quarter. Instruments held in a primary dealer's portfolio for more than 180 days will not be reckoned as a trading instrument for the computation of the turnover ratio.

**Turnover ratio is computed as follows:**

**Turnover Ratio = Purchases and sales on the secondary market over the quarter divided by Average stock held for trading over the quarter**

#### 5.4 *A Success ratio*

A Success ratio of a minimum 65 per cent will be required to be achieved over a quarter, based on the bidding commitment.

**Success ratio is computed as follows:**

**Success Ratio = Amount accepted at Primary auctions over the quarter divided by Bidding Commitment over the quarter**

#### 5.5 **Quarterly Report**

Primary Dealers must produce to the Bank a detailed quarterly report of their activities on both the Primary and Secondary markets.

### 6. **MONITORING BY THE BANK**

- a) The Bank will monitor the turnover and success ratios of each primary dealer.
- b) The Bank will monitor the transactions of primary dealers on a real-time basis. All primary dealers will have to report secondary market transactions on daily basis to the Bank within the set cut off time.
- c) Both the Bank and primary dealers will exchange and, subsequently, maintain an up- to-date list of contacts of staff in the respective institutions (front and back offices) to attend to queries or issues that may arise. Any change thereon shall be promptly communicated in writing to the other party.

- d) The Bank will not maintain any trading relationship with a primary dealer that is unable to restore or sustain its capital position to the stipulated minimum level within three months.

## **7.0 BENEFITS**

- 7.1 In return for the set of obligations listed above, primary dealers will enjoy the exclusive benefits in both the primary and secondary markets.

### **Primary Market**

Primary dealers will obtain the exclusive rights to bid at auctions of securities.

### **Secondary Market**

- a. Primary dealers will have access to the timely sharing of information from the Bank on market activity and developments.
- b. Primary dealers will participate at meetings on a regular basis, or as and when required with the Bank to review developments in the domestic money market and discuss structural and operational issues relating thereto.

## **7.2 Liquidity Refinance for Primary Dealers**

The Bank, at its discretion, will conduct Repo operations for a period not exceeding 21 days to provide liquidity support to primary dealers. These Repo operations will be conducted on securities that banks hold in their trading books. The rate of interest applicable on such facilities will be the policy rate, the key Repo Rate (KRR), plus/minus a spread to be determined by the Bank.

Primary Dealers shall approach the Bank for this facility only after exercising the option of interbank borrowings and/or interbank Repo operations. The liquidity facility would be made available to finance shortfalls arising by virtue of primary and secondary dealing activities of securities.

## **8.0 CODE OF CONDUCT**

All transactions conducted between primary dealers, customers and the Bank should be in line with the Mauritius Code of Conduct for Foreign Exchange and Money Markets.

## **9.0 TERMINATION**

- 9.1 The termination of a primary dealer may be effected by the Bank;



- (a) after the annual review or earlier, and following consultation with the relevant party;
- (b) immediately following the revocation of the banking licence; or
  
- (c) immediately, in circumstances where the Bank may deem necessary in the interest of the public.

**9.2** Thirty days' notice shall be given where appropriate, in writing, by either party in respect of a termination under (9.1) above.

## **10.0 REVIEW CLAUSE**

The Guideline, which replaces the existing Terms and Conditions of primary dealers in Government of Mauritius Treasury Bills/Bank of Mauritius Bills, will be subject to periodic review in the light of market developments

**Bank of Mauritius**

**2 May 2018**