



## **Terms and Conditions governing Primary Dealers in Government of Mauritius Treasury Bills/Bank of Mauritius Bills**

The under-mentioned terms establish a formal relationship between the Bank of Mauritius (Bank) and primary dealers and provide an operational framework to which both parties shall adhere with the objective of broadening the Government of Mauritius Treasury Bills/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 that 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 minimum risk weighted capital adequacy ratio as specified under section 20 (2) of the Banking Act 2004.
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 of Mauritius Treasury Bills/Bank of Mauritius Bills, split along various maturities.
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 duly registered at the Bank, one with three years or more of relevant dealing experience and the other with a minimum of one year of 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 achieve the ACI Dealing Certificate or any treasury related qualification within the next three years.
5. Primary dealers should have in place suitable technological infrastructure and systems such as Reuters/Bloomberg, including links to the Bank's electronic auctioning systems and MACSS, for efficient participation in the primary issues and trading on the secondary market.  
Primary dealers should also have Disaster Recovery sites with well documented contingency plans to cater for cases of system failure.

6. 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.
7. The appointment of primary dealers will be held on an annual basis starting from the effective date of the Terms and Conditions, or as and when the need arises. The termination of a primary dealership will be effected by the Bank after the annual review or earlier and following consultation with the relevant party. Thirty days' notice must be given in writing by either party in respect of termination.
8. For enlistment as a new primary dealer, an institution shall submit an application in writing, duly supported by documentary evidence in respect of the eligibility criteria as set out above as well as a business plan, to the First Deputy Governor of the Bank.

### **Obligations of Primary Dealers**

9. Primary dealers will be required to fulfill the following obligations:
  - (a) Participate actively at auctions of Government of Mauritius Treasury Bills/Bank of Mauritius Bills by bidding at market related yields on a competitive basis. In accordance with established practice the Bank, by reference to its liquidity forecasting framework and taking account of government requirements, will strive to ensure that the auction amounts as determined by it will reflect monetary conditions.
  - (b) Collectively bid for the full tender amount of Government of Mauritius Treasury Bills (GMTB) put on auction by the Bank. The bidding commitment of each primary dealer shall be a percentage of the tender amount, computed by the Bank on the basis of their Tier 1 capital. The percentage will be subject to review in the event that the aggregate commitment falls below seventy five per cent of the tender amount, as a result of any decrease in the number of primary dealers.
  - (c) The minimum amount per bid for any auction of Government of Mauritius Treasury Bills shall be either Rs15.0 million or the minimum bidding commitment of each primary dealer, whichever is less. The maximum number of bids per bidder shall be five.
  - (d) Achieve a minimum success ratio of sixty per cent of their bidding commitment. The success ratio will be monitored on a quarterly basis and may be subject to review as market develops.
  - (e) Promote the market and efficient price discovery by quoting continuous two-way prices under normal market conditions on a range of eligible Government

of Mauritius Treasury Bills/Bank of Mauritius Bills held by primary dealers up to one year residual maturity (See paragraph 11 below). The minimum deal size is a nominal value of Rs100,000 and prices quoted on the secondary market shall be valid for up to Rs25.0 million. The maximum spread between the buying and selling yields on the secondary market for same value date shall be 20 basis points. This spread is expected to narrow as activity in the secondary market grows.

- (f) Provide feedback on market activity and developments and also on daily closing prices of eligible securities to the Bank.
- (g) Actively contribute to the development of the domestic securities market.
- (h) Not engage in anti-competitive or collusive practices to the detriment of the market.

### **Benefits for Primary Dealers**

10. 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 exclusive right to bid at auctions of Government of Mauritius Treasury Bills/Bank of Mauritius Bills.
- (b) The right to submit bids on behalf of third parties at auctions. The minimum bid amount for account customer shall be Rs15.0 million.
- (c) The exclusive or privileged access to non-competitive bids, which shall be counted towards the success ratio.

#### *Secondary Market*

- (d) Access to the Bank refinancing instruments such as repurchase transactions under existing procedures in situations where primary dealers by virtue of their market making functions must carry long or short liquidity 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 meetings on a monthly basis or as and when required with the Bank to review developments in the domestic market and discuss structural and operational issues relating to the market.

### **Eligible Securities**

11. In the secondary market primary dealers will provide continuous two-way pricing for Government of Mauritius Treasury Bills/Bank of Mauritius Bills out to one year residual maturity, split into eight bands as follows:

<b><u>Band</u></b>	<b><u>Duration in days</u></b>
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

The bands will be reviewed in the light of market developments.

### **Trading and Settlement**

12. Transactions will be cleared and settled electronically in a Delivery-V-Payment (DVP) basis over the MACSS and the Bank recording systems. 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.
	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**

13. 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 bidding commitment, the provision of continuous meaningful two-way pricing and supply of feedback on market activity.

### **Ranking**

14. 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 quarterly basis, during which primary dealers will be classified according to dealing activity listed in paragraph 11 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**

15. All transactions conducted between primary dealers, customers and the Bank will fall under the umbrella of the Mauritius Code of Conduct for Foreign Exchange and Money Markets.

### **Master Repurchase Agreement**

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

### **Contact Persons**

17. Both the Bank and primary dealers shall 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 Government of Mauritius Treasury Bills**

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

### **Effective Date**

19. The Terms and Conditions shall be effective 08 July 2014.

### **Review Clause**

20. The Terms and Conditions, which hereby replace the existing Memorandum of Understanding in respect of Primary Dealers in Government Securities/Bank of Mauritius Bills, will be subject to review in the light of market developments.

**BANK OF MAURITIUS**

**Date: 08 July 2014**