

**MM 0005
(December 2005)**

CENTRAL BANK OF THE GAMBIA

GUIDELINES FOR PRIMARY DEALERSHIP IN MONEY MARKET INSTRUMENTS

NOVEMBER 2005



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1.0) INTRODUCTION

1.1 PURPOSE

Unless otherwise specified in a Notice, these set of Regulations in respect of wholesale auction of Treasury Bills, Central Bank Bills and other instruments (if available) - the “Primary Dealer System”, including the appendices, regulate the trading of such securities and any other securities issued by the Government of The Gambia that, by the terms of the Notice, are made subject to these Regulations.

1.2 TERMINOLOGY

“**Primary Dealer**” (PD) means an institution authorized to trade in Government securities and Central Bank bills with the Central Bank of The Gambia.

“**Auction**” means a bidding process that the Central Bank uses to allocate and sell Treasury bills and Central Bank bills.

“**Bid**” means an offer to buy a stated face value of Treasury bills or Central Bank bills in an auction.

“**Bidder**” means a person or entity who bids in an auction.

“**Book Entry**” Treasury Bills will be issued in “book-entry” form. This means that, the electronic record of holdings of securities kept by the Central Bank will be adequate proof of ownership of Treasury Bills by the registered owner.

“**Book Value**” is the face value of securities less any discount amount.

“Business Day” means any day other than weekends and public holidays when the Central Bank is open to provide all or substantially all of its banking functions.

“Call” means redemption, of a security, in whole or in part prior to maturity.

“Central Bank” means the Central Bank of The Gambia.

“Central Bank bills” are securities issued at a discount, are redeemed at their face value at maturity and have maturities of not more than one year. Central Bank bills are direct obligations of the Central Bank of The Gambia. They are issued under the Central Bank of The Gambia Act 1992, and are subject to these Regulations, and the applicable Notice.

“Regulations” means these regulations governing the operation of Primary Dealers in Treasury Bills, Central Bank Bills and any other securities in existence and any appendices and supplements as amended from time to time.

“Discount Rate” means an annualised rate of return to maturity on bills based on the face value of the bill.

“Face value” means the stated value of a bill at original issuance.

“Issue date” means the date on which a bill is issued, interest will begin to accrue from that date.

“Maturity date” means the date on which a bill becomes due and payable and stops earning interest.

“Multiple-price auction” means an auction in which each successful bidder pays the price at which they bid.

“Notice” means an offering announcement.

“Public Offering” means the face value of securities offered to the public in an auction. This amount is specified in the Notice.

“Security” means a Treasury bill or Central Bank bill as described in these Regulations or any other obligation issued by the Government of The Gambia or the Central Bank, that by the terms of the applicable Notice, is made subject to these Regulations.

“Treasury bills” are securities issued at a discount, are redeemed at their face value at maturity and have maturities of not more than one year. They are direct obligations of the Government of The Gambia. They are issued under the laws of The Gambia and are subject to these Regulations, and the applicable Notice.

“Yield” means an annualised rate of return to maturity on bills based on the book value of the bill.

1.3 AUTHORITY

Gambia Government Treasury Bills, are issued and redeemed at the Central Bank of The Gambia (hereinafter referred to as “Central Bank”) as from July 16, 1986 under the Local Loans Act 1963 as amended by the Local Loans (Amendment) Act 1977 and by Resolution of the House of Representatives on July 4, 1986.

Under Section 54 b (iii) of the Central Bank of The Gambia Act 1992, the Central Bank is authorised to issue securities acknowledging indebtedness of the Bank

having such terms and conditions as the Board shall determine and to trade in such securities.

1.4 THE ROLE OF CENTRAL BANK

The Central Bank, as fiscal agent of the Government of the Republic of The Gambia and on its own behalf is authorised under Sections 43, 46 and 50 of the Central Bank of The Gambia Act 1992 to conduct all activities necessary to carry out the actions contained in these Regulations and any Notice.

The securities are issued under the general Conditions of Issue and Redemption of Treasury and Central Bank Bills (Amended November 2002).

2.0) BACKGROUND

The money market is the arrangement that exists for lending and borrowing money in the short-term. It is a market for low-risk, highly liquid short term debt securities. The main instruments traded on the Gambian money market include short and medium term government debt instruments (Treasury bills, Discount Notes and Stocks) and Central Bank Bills. Securities on the money market are issued by the Bank either on its own account or on behalf of the government. Securities issued by the Bank in its own account (CBG Bills) are issued for monetary policy purposes i.e. to help mop up excess liquidity in the economy. Treasury bills and notes which are issued on behalf of government are for the financing of government temporary cash shortfalls.

The Bank introduced the weekly treasury bills tender in late 2002. The tender was opened to banks and the public at large. Although significant progress has been made in the development of the money market in the Gambia, the market is still evolving. The Bank has initiated moves to broaden the market and limit access to rediscounting at the Bank. This is with the view to develop a vibrant secondary market in bills

The Bank intends to introduce the Wholesale Auction with a view to achieving the development of the secondary market. At the moment very little trading in bills takes place on the secondary market and this can be ascribed to the following reasons:

- I) Continued access of non-bank sector to the Bank for primary purchases
- II) The availability of rediscounting facilities at the Bank.

Selected Commercial Banks and firms would be permitted to participate in the weekly wholesale auction. This is expected to increase competition among dealers and therefore contribute to a more efficient, dynamic and vibrant secondary market. The non-bank sector will be expected to obtain its requirement from the dealers.

2.1) PRIMARY DEALER SYSTEM - OBJECTIVES

The Primary Dealer System has been developed for the following reasons:

1. To facilitate market efficiency by making government securities easier to buy and sell. The change provides the potential for further broadening the base of public participation in money markets through Primary dealers. Investors generally accept lower yields when securities can be bought and sold easily. This benefits government by reducing the cost of issuing securities.
2. To encourage secondary market trading (.e. develop market making capabilities) of government securities.
3. To promote demand for government securities. Government plans to introduce new types of securities including long term bonds. Primary dealers will promote the purchase and trading of these new instruments.
4. To reduce administrative costs associated with issuing government securities by assisting in the distribution of government securities to the investing public.
5. To facilitate efficient liquidity management, and open market operations of monetary policy management.

3.0) LICENSING CRITERIA OF PRIMARY DEALERS

The Central Bank of The Gambia will not evaluate any application for a primary dealer license until the application has fulfilled the following minimum requirements.

- 1) Maintain a minimum total capital (as defined by the Bank) requirement of D10 million.
- 2) Comply with all liquidity requirements of the Bank and be considered in good standing with the Bank with regards to consistently maintaining their reserve accounts and all other regulatory requirement of the Bank.
- 3) Have shown consistent participation in previous auctions. This is a continuing requirement.
- 4) Agree to maintain markets in the secondary market and show a minimum amount of trading over a period of time.
- 5) Have staff and organization to participate as a primary dealer.
- 6) Have the capability to prepare timely reports.
- 7) Agree to be bound by the guidelines, code of conduct, and the licensing requirements, rules privileges, and obligations for primary dealers of Government securities.
- 8) Intending applicants must submit the application in writing, addressed to the General Manager, Central bank of The Gambia, 1-2 Ecowas Avenue, Banjul.

The Bank reserves the right to reject any application in accordance with the provisions of the CBG Act (1992). It also reserves the right to amend the licensing requirements.

On appointment, PDs must meet the following conditions:

- 1) Operate a current account at the Bank for the sole purpose of dealing in Government securities in the case of a non-bank PD institution.
- 2) Primary Dealers shall submit the following to commence operations.
 - I) Memorandum and Articles of Association
 - II) A Letter of Understanding to abide by the rules and regulations in the Treasury Bills market and the provisions of these guidelines (see Appendix A).

4.0) INSTITUTIONAL ARRANGEMENT

- I) PDs must be supervised by the Bank on all issues of primary dealership.
- II) PDs are required to have liquid assets (cash, bank deposits, overdraft facility, or freely disposable government securities).

- III) PDs must have a good management team with the capability of maintaining an up to date register of individual customer holdings of eligible government securities, split along various maturities.
- IV) Non-bank PDs must hold at all times not less than 5% of outstanding bills issued on behalf of clients and pledged to the Bank. This is to serve as a safety valve in the event of a PD defaulting in settlement either at issue or maturity.
- V) The appointment of a PD or its termination would be effected by the Bank following consultation with the relevant party. A thirty-day notice must be given in writing by either party in respect of termination.
- VI) PDs must undertake to apply administrative and institutional arrangements that allow transparent and safe operation of the company.
- VII) PDs are required to regularly report their activities on the government and other securities.

4.1) SCOPE OF OPERATIONS

PDs are allowed to operate in the weekly Treasury Bills auctions. Their dealings in the secondary market will evolve overtime.

5.0) PROCEDURE FOR BIDDING IN THE PRIMARY MARKET

- a) PDs must submit non-competitive bids on behalf of their clients and may accept competitive bids from customers applying for more than **one million (D1.0 million)**. Non-competitive bidders shall be allocated bills at the weighted average price of competitive bids accepted.
- b) Dealers are required to submit with their bids, a list of the applicants together with their names and addresses and amounts applied for.
- c) Primary Dealers are not allowed to bid on their own behalf on a non-competitive basis.
- d) All bids above **one million Dalasi** (D1.0 million) must use competitive bidding procedure and shall be reviewed by the Bank as the market evolves.

- e) Investors with bids equal to or more than **five million Dalasi** (D5.0 million) are allowed to submit and settle their bids directly to Central Bank.
- f) Each tender application to the Bank for the purchases of securities shall be made on a prescribed form obtainable at the Open Market Operation (OMO) Unit of Banking Department of the Central Bank
- g) Dealers are responsible for the settlement of customer bids which they have submitted and are liable to the Central Bank for any losses incurred as a result of sales failing to settle in the clearing system.
- h) The Central Bank reserves the right to accept or reject any tender or portion thereof.
- i) The minimum bid on non-competitive basis is D25,000.00 and all bids of D1,000,000.00 and below must use non-competitive bidding.
- j) Each tender must state the face value of the bills bid and must be for a multiple of D5,000.00

6.0) OPERATION OF ACCOUNT WITH CENTRAL BANK (NON-BANK PDs)

- a) The accounts are operated for the sole purpose of conducting securities related transactions. No other business or transaction is permitted to pass through the accounts.
- b) The accounts are required to be properly maintained at all times. The accounts shall not be overdrawn for any reason.

6.1) REPAYMENT OF MATURED BILLS

- a) PDs must submit to the Central Bank a repayment schedule showing all Treasury/Central Bank Bill holdings for repayment on each date (Maturity date). All matured Bills duly endorsed to the Central Bank must be attached to the schedule for the purpose of repayment.
- b) The Central Bank accounts of the dealers are credited with proceeds of the matured bills in favor of their investors.

7.0) COMMISSIONS/BROKER FEES

- a) PDs shall be paid by the Bank, brokerage fees of $\frac{1}{4}\%$ (i.e. a factor of 0.0025) of the total value of bids submitted and allotted on account of their clients.
- b) Commissions shall be paid after every maturity.
- c) PDs may also earn income by trading the Securities they hold in the Secondary market. In this case, the income is in the form of a spread between the yield on the securities they sell to third parties and what yield they obtain from the Central Bank.

8.0) SECONDARY MARKET

- a) PDs must quote on continuous basis, bid (buy) and ask (sell) prices of government securities and be ready to trade at all times.
- b) The Bank may participate in the Secondary Market.

8.1) REDISCOUNTS

- a) Securities may be rediscounted over the counter in the money market and between PDs anytime. The Bank will only rediscount bills from PDs and commercial banks as a last resort, provided the bill is held at least 80% of its maturity period.
- b) PDs must rediscount bills from their clients if they (clients) wish provided the bill is held at least 80% of it's entire life.
- c) All PDs shall report the daily composition of their portfolio to the Bank on a prescribed form. Each PD must also display their rediscounting rate to the public.

9.0) CODE OF CONDUCT AND MARKET PRACTICES

- a) All appointed dealers are required to provide an active retail market in Treasury Bills which will encourage a large number of individuals to hold and trade in government securities. As part of the efforts to promote the retail market and transparency, dealers are expected to accord equal treatment to both their individual customers and institutional clients. At all times, dealers are expected to endeavor to execute the order of their customers, especially small ones, before they fulfill their own orders.

- b) The Bank will request additional information, as deemed necessary, from any primary dealer whose participation in auctions is judged unsatisfactory.
- c) Generally, dealers are bound by the codes of ethics and conduct that are relevant to professionals and businesses as stated in the country's enacted laws. In addition to other terms and conditions of issue and redemption of Treasury Bills that may come into force from time to time.
- d) A dealer is not allowed under any circumstance to commit any act that constitutes a breach of confidentiality such as disclosing the name, size of transaction of a client to another dealer or a third party.

10.0) OBLIGATIONS OF PRIMARY DEALERS

10.1 GENERAL REQUIREMENTS

- a) PDs are required to participate actively at auctions of government securities by bidding at market related yields on a competitive basis on their own account.
- b) PDs must submit any non-competitive bid and can accept competitive bid from their customers

- c) PDs must not engage in anti-competitive or collusive practices to the detriment of the market.
- d) PDs must not engage in any activities that will disrupt the Government securities market.
- e) PDs must avail themselves to market participants and members of the investing public to receive and transmit auction bids on a timely basis.
- f) All bids must be tagged with primary dealer Identity Number (ID).

10.2 REPORTING REQUIREMENTS

- a) PDs must submit weekly statistical reports on their securities, trading activities to the Bank, on a prescribed format to be issue by the Central Bank.
- b) PDs must make available to the Bank their audited annual financial statements.
- c) PDs must file market information data reports to the Bank, in a timely manner according to a prescribed schedule.

More specifically, all primary dealers must file a weekly report on the following trading items:

Week-end positions:

- (a) Final position in cash
- (b) Final position held in each type of security
- (c) Final position held in short sales
- (d) Final position in funds placed
- (e) Final position in liabilities

Forecast for following week:

- (a) Anticipated demand for securities by type, tenor and price
- (b) Anticipated supply of securities by type, tenor and price
- (c) Other anticipated cash inflows and out flows.

11.0 APPENDICES

Appendix I: UNDERTAKING

To
The General Manager
Central Bank of The Gambia
Banjul

By

WHEREAS THE Central Bank has agreed in principle to appoint us as a Primary Dealer in Government securities in accordance with the Notice No. _____ dated _____.

AND WHEREAS as a precondition to our being authorized as a Primary Dealer we are required to furnish an undertaking covering the relevant terms and conditions,

AND WHEREAS at the duly convened Board of Directors meeting of _____ on _____, the Board has authorized me(us) to execute and submit an UNDERTAKING to Central Bank as set below:

NOW, THEREFORE, in consideration of Central Bank agreeing to admit us as a Primary Dealer, I/we hereby undertake and agree:

1. To accomplish the transactions in securities through a separate unit and maintain separate accounts therefore. We also undertake to maintain separate accounts in respect of our own position and customer transactions (Applicable to non-bank PD).
2. To maintain infrastructure in terms of both physical apparatus and skilled manpower for efficient participation in primary issues, trading in the secondary market, and for providing portfolio advice and education to investors.
3. To maintain sound communication network system for securities business.
4. To put in place an efficient internal control system for fair conduct of business and settlement of trades.
5. To bid for securities in primary issues to the extent not less than what is required by the Central Bank as minimum.
6. To respect the need for confidentiality in our dealing with the central bank, other dealers and customers, we shall not divulge confidential information nor attempt to persuade or coerce others into revealing confidential information.

7. To observe high standards of just and equitable principles of trade. All communications with the other shall be based upon principles of fair trading and good faith and shall provide a sound basis for evaluating the facts.
8. To maintain and preserve such information, records, books and documents pertaining to our working as Primary Dealer, as may be specified by Central Bank from time to time.
9. To permit Central Bank to inspect all records, books, information, documents and make available the records to the inspectors and render all necessary assistance.
10. To comply with the requirements to submit prescribed returns to Central Bank, report on transactions and market information, and such other statements and returns as are prescribed either specifically or generally by Central Bank vide any of its instructions/notices/directives.

We understand that we are subject to all prudential and regulatory guidelines issued by Central Bank. We do hereby confirm that the above undertaking will be binding on our successors and assigns.

Dated this _____ day of _____.

Name: _____ Designation _____ Signature _____

Witness: _____