



BANK *Of* ZAMBIA

**CODE OF CONDUCT FOR ZAMBIAN GOVERNMENT
SECURITIES (ZGS) REPOS TRANSACTIONS**

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CHAPTER I

1.0 INTRODUCTION

A high standard of conduct and professionalism is vital to the development of any market and a Code of Conduct is vital to control behaviour and ethics of market players. It is therefore the aim of this code of conduct is to promote efficient market practices by encouraging high standards of conduct and professionalism in the Zambian Government Securities Repo Market.

The Zambian Repo Market players operated without a code of conduct and interbank Repos transactions were undertaken without any formal regulation. However, with the deepening of the financial markets, the need for a code of conduct is inevitable to guide players in the Repo market on the regulatory regime and ethics.

PURPOSE

- a) The purpose of this code is to set out standards of best practice for the Zambian Government securities (ZGS) Repurchase Agreement market so as to uphold its professionalism and integrity for it to function in a sound and orderly manner.
- b) This Code is intended to apply to the full range of activity in ZGS repo by all participants, that is commercial banks, pension funds, insurance companies, brokerage firms and individuals. It will cover both the market professionals, that is, acting as principals in the ZGS repo market and brokers intermediating in the ZGS repo market, end users repoing from their own portfolios.

SCOPE

The code will cover among others, repo and reverse repo transactions, over the counter and exchange traded transactions, market practice and aspects of high standards and integrity and professionalism. The code also covers aspects of price quotes, confirmations, compliance and dispute resolutions.

DEFINITIONS

The code puts strong emphasis on conduct and practice that must prevail in the market, and the terminology used. Market terminology forms an integral part of the code and it is expected that all dealers are conversant with the terminology used.

A Repo transaction is defined as a transaction wherein the securities are sold at a particular price by one party(Seller) to the other (Buyer) with commitments on the

Seller's part to repurchase the equivalent securities from the buyer (and a corresponding commitment on the part of the Buyer to sell the equivalent securities back to seller) on a certain date and at a certain price, both such date and price being fixed as a part of the same transaction. Securities are equivalent to other securities for the purpose of this framework, if they are (i) of the same issuer; (ii) part of the same issue; and (iii) are of identical type, nominal value, description as those other securities.

Reverse Repo Transaction is defined as a transaction wherein the securities are bought at a particular price by one party (Buyer) from the one (seller) with a commitment on the Buyer's part to sell the Equivalent Securities back to the Seller (and to corresponding commitment on the part of the Seller to repurchase the Equivalent Securities from the Buyer) on a certain date and at a certain price both such date and price being fixed as a part of the same transaction. Securities are equivalent to other securities for the purpose of this accounting framework, if they are (ii) part of the same issue; and (iii) are of identical type, nominal value, description and amount as those other securities.

- i) For the purposes of this Code, ZGS refers to both Zambian Government bonds and Government Treasury bills.
- ii) For the purposes of this Code, "buyer" refers to the party who is buying securities under the f
- iii) First leg of a repos and "seller" refers to the party who is selling securities under the first leg of the repos.

CHAPTER II

2.0 RIGHTS AND OBLIGATIONS

- a) All participants in the government securities shall not under any circumstance enter into government securities repos transactions specifically to limit the availability of specific government securities with intentions of creating a false or distorted market in that security.
- b) The Bank of Zambia reserves the right to amend the standards of best practice set forth in this Code. All participants shall be informed in advance of any changes.

CHAPTER III

3.0 PRELIMINARY ISSUES,

The code assumes that preliminary issues will be undertaken *a priori*. All participants should address the issues highlighted hereunder before undertaking repo transactions in the *Zambian Government Securities (ZGS)*. Participants are obliged to review these matters regularly.

- a) Participants should ensure that there are no legal impediments to their participating and undertaking ZGS repo transactions and that where appropriate they have obtained any necessary permission from their regulatory authorities.
- b) Where a custodian plans to repo a client's securities, it is important and fundamental that they obtain the necessary authority for this activity from the client using a legal agreement. Such agreement should set down the basis on which repo activity may be entered into and specify the collateral that may be taken. It may form part of safe custody agreement.
- c) Participants should ensure that they have adequate systems and controls for the business they intend to under take. These should include:
 - i. Adequate internal controls to ensure that any transaction in ZGS repos have been properly authorised before cash or securities are released;
 - ii. Suitable procedures for drawing up and maintaining a list of those authorised to borrow or lend securities;
 - iii. Suitable credit risk control systems, which cover the risk arising from ZGS repo transactions;
 - iv. Clear and timely records available to management showing inter alia the value of the collateral given/taken (in aggregate and by counterparty to enable accurate monitoring of credit risk) and;
 - v. Adequate systems to account, for tax purposes.
- d) Before undertaking a ZGS repo transaction with a new counterparty, participants should ensure that they have agreed documentation.
- e) Participants should ensure that all new participants have read and understood the contents of this Code.

- f) Participants should ensure that they clearly state that they are acting as a principal or an agent in any repo transaction.

CHAPTER IV

4.0 BUSINESS HOURS, PAYMENTS AND CONFIRMATIONS.

Business Hours

The Repo market shall operate within the following business hours:
08:45 hours to 16:00 hours from Mondays to Fridays.

After hours/ Off Premises Dealing.

Repo deals entered into after normal hours or from off premises, either by mobile phone or any other equipment should only be undertaken with the approval of management who should issue clear written guidelines to their staff on the kinds of deals which are permitted and the limits applicable to such trades, specifying their normal trading hours. Management should also list the names of the dealers authorised to deal in off-premises or after-hours transactions and stipulate the procedure for the prompt reporting and recording thereof.

Settlement.

Settlement of repos will be done within normal business hours which are 08:45 hours to 16:00 hours from Mondays to Fridays and will have a T+2 settlement period. Any transactions that are outside of this normal practice should be specified before hand. Participants are encouraged to ensure same-day settlement. However, participants may settle outside same-day settlement arrangement and any such transactions should be specified beforehand.

Maturity (end) dates for trades that require settlement on a weekend, or non-settlement date for the underlying security will automatically roll forward to the next good settlement date for those underlying securities. Market participants are encouraged to both inquire and specify the exact maturity (end) dates for transactions prior to execution

Standard Market Lot Size

The standard market lot size shall be ZMK 500 million. Parties who wish to transact a repo for a different amount should specify the amount when requesting for, or providing quotes.

Intra-day Repo Deals:

Funds are to be given to the borrowing party within half an hour of transactions. Repayments have to be made by 10:00 hours on the maturity day or by 16:00 hours on the same day.

Same Day Repo Deals:

Deals, valued same day, transacted before 14: 30 hours are to be settled by 16 00 hours.

Repo Calculations

All repo calculations shall be on the 365 day basis.

Purchase Price

Unless otherwise agreed between the buyer and seller, the purchase price shall include the accrued interest. The prevailing market prices shall be used as a guide when determining the purchase price of the securities, which will be known as the “Dirty price”

Price Quotations.

All Repo transactions shall be quoted on a yield basis.

Confidentiality and Integrity

The preservation of confidentiality and maintenance of integrity at all times by all participants are essential for the proper conduct of business in ZGS repo market.

Participants in ZGS repo market shall at all times treat names and identities of parties to transactions as confidential to the parties involved. It is incumbent upon all participants to actively ensure that their own behaviour contributes to the confidential nature of the transactions.

Dealer to Dealer trades

Dealers involved in dealer to dealer principal trades shall only disclose certain information regarding the trade.

Name Give up trades

The identity of parties to a transaction shall only be disclosed:

- i) when a broker to the trade has disclosed that it is the acting solely as an agent and

- ii) after the trade is complete

The identities shall only be disclosed to the counterparties to that trade.

Completed trades

When discussing completed trades, brokers and dealers shall only communicate to the parties to the trade the security description, repo rate, size and time of the relevant trade and number of sellers and buyers involved in the trade.

CHAPTER V

5.0 MARKET MARKING, MARGINING AND SETTLEMENT.

Market Marking.

All commercial banks shall show a commitment to participate actively as market makers and stand ready to deal at their quoted prices for at least the standard market lot size. This does not necessarily mean that commercial banks are obliged to provide quotations regardless of constraints on their balance sheets on an everyday basis. However the Bank of Zambia expects commercial banks to provide quotations on most occasions and to keep Bank of Zambia informed of any constraints in doing so.

Commercial banks shall undertake, as a matter of good practice, to provide liquidity to the ZGS repo market by providing a quotation of ‘ bid – ask’ spread of not more than ZMK 50.0 under normal conditions, for repos of general collaterals with tenors ranging from overnight to 3 months. For repos of specific issues and/or longer tenor the spread will be left to negotiation between the parties. These specifications are subject to review at a latter stage when ZGS repo market becomes more developed, or when the commercial banks deem necessary.

Margins

Initial margin

- a) Participants in ZGS repo market should negotiate suitable initial margin reflecting both their assessment of their counterparty’s creditworthiness and the market risks (e.g duration of the collateral) involved in the transaction.
- b) All repo transactions should be marked to market on a daily basis (and participants should consider the need to do so within the day if there has been large market movement). Such valuations should include both interest accrued on the cash and coupon accrued on the securities outstanding.

- c) It is an essential protection for participants in ZGS repo transactions that whenever a mark to market valuation reveals a material exposure to their counterparty, over and above any agreed initial margin, they should ensure cash or collateral is moved in order to eliminate the exposure and restore the initial position.
- d) Participants in the ZGS repo transactions should monitor their net exposure to their counter parties on a daily basis.
- e) Participants should integrate any exposure on ZGS repo into their credit risk control systems. These should ensure, inter alia, that appropriate exposure limits are established and reviewed on a regular basis for all counterparties.
- f) Participants should minimise daylight and settlement exposure by settling ZGS repo transactions, including the substitution of collateral, through assured payments.

Margin calls

Unless the parties to the trade otherwise agree, margin calls in all repo transactions shall be met with transfers of collateral or cash, or to re-price the existing transaction. In the event that the party being marked chooses to meet it margin call with collateral, this will be met with transfer of collateral, which consists of equivalent securities or is reasonably acceptable to the counterparty.

Notification and settlement of margin calls

Margin call made before 11:00 hours should be settled on close of business on the same day and margin calls made after 11:00 hours should be settled by next business day.

Price source

The Bank of Zambia daily ZGS closing price is recommended as a basis for mark to market. However, if there should be significant overnight or intraday price movements, the daily mark to market price source shall be agreed between the two counterparties. Any issues with regard to the price should be resolved amicably by referring to prevailing market prices.

Margin thresholds

It is recommended that there be no standard margin threshold although counterparties may agree to thresholds based on their mutually agreed credit assessments.

Confirmation Of Deals.

Market participants shall ensure that a written or electronic confirmation covering both legs of ZGS repo transactions is issued.

Participants shall ensure that any confirmations they receive are checked carefully as soon as possible, normally on the day of receipt, and that any queries on their terms are promptly conveyed back to the issuer. The following information should always be on the confirmation ticket:

- Name of counterparty
- Deal date
- Purchase date
- Repurchase date
- Purchase price
- Repurchase price
- Purchased securities
- Maturity date of the securities

Obligation to make coupon payments.

A repo seller is entitled to receive all interest and other incomes (“income”) on securities subject to repurchase transactions to the same extent it would have been entitled to receive such income had it not entered into repurchase transactions on the securities. In the event of an “income” payment made by issuer, the buyer must manufacture the “income” and pay to the seller on the same business day.

Payment against delivery

Unless otherwise mutually agreed to between the buyer and seller, settlement shall be on the basis of payment against delivery of the security transacted.

Settlement date

The settlement of a transaction shall be effected on the value date of the transaction within the time stipulated by guidelines, if any, issued by the Bank of Zambia

Interest claim arising from delay in settlement (fails)

Where the dealer has caused any delay in settlement, the counterparty shall have the right to claim from the dealer the loss of interest, if any, on the net amount of the transaction, calculated in accordance with the latest guidelines on late payment.

In the settlement of interest claim, both parties involved shall observe the rule of non-profit through undue enrichment.

6.0 CHAPTER VI

DISPUTES, DIFFERENCES AND MEDIATION

Where disputes arise, it is essential that the management of the parties involved take prompt action to resolve or settle the issue quickly and fairly with a high degree of integrity and mutual respect.

In situations where the dispute cannot be resolved between the parties and where all normal channels have been exhausted, the Bank of Zambia shall mediate in the dispute. The mediation will be guided by this Code of Conduct.

Legal Agreement

ZGS repo transactions shall be subject to a legal agreement between the two parties concerned. In this regard all participants in the ZGS repo market are obliged to sign the Global Master Repurchase Agreement for Zambia. This agreement shall provide for the absolute transfer of title of securities and should provide for daily mark to market transactions in the ZGS repo market.

Default and Close –out.

In the event of a default, the procedures will have to be done in accordance with the Global Master Repurchase Agreement for Zambia. In particular:

- a) The non-defaulting party shall do everything within its power to ensure that the default market values used in the close-out calculations are, and can be shown to be, fair; and
- b) If the non-defaulting party decides to buy or sell securities consequent to the close-out, it shall make every effort to do so without unnecessarily disrupting the market.