

BANK OF SIERRA LEONE



GUIDELINES FOR PRIMARY DEALERSHIP IN GOVERNMENT SECURITIES

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TERMINOLOGY

“**Primary Dealer**” (PD) means an institution authorized to trade in Government securities with the Bank of Sierra Leone.

“**Auction**” means a bidding process that BSL uses to allocate and sell Treasury securities.

“**Bid**” means an offer to buy a stated face value of treasury securities in an auction.

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

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

“**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.

“**The Bank**” means the Bank of Sierra Leone.

“**Regulations**” means these regulations governing the operation of Primary Dealers in Treasury securities.

“**Discount Rate**” means an annualised rate of return to maturity on treasury 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.

Market Maker means an entity or individual that quotes both a buy and a sell price in a financial instrument or commodity held in inventory hoping to make a profit on the bid-offer spread or turn.

“**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.

Secondary Market means a market where investors purchase securities or assets from other investors rather than from the issuing entity.

“**Security**” means a Treasury bill or other debt instrument as described in these Regulations or any other obligation issued by the Government of Republic of Sierra Leone that by the terms of the applicable Notice is made subject to these Regulations.

“**Treasury Bills**” are securities issued at a discount and redeemed at their face value at maturity.

“**Treasury Bonds**” are fixed income securities issued at face value or discount or premium and redeemed at their face value at maturity.

Wholesale Auction System means an auction system where the issuing entity of securities receives bids for authorized dealers on behalf of themselves and their clients. The authorized dealers will later retail the securities to their clients.

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

Introduction

Primary Dealer (PD) system is an agreement between two major stakeholders in the domestic government debt market: the issuer on one hand and a group of dealers on the other. The basic objective of setting up a primary dealership system is to cover government's borrowing needs as cheaply as possible. To accomplish this objective, the primary market needs to be broad and efficient and the secondary market, deep and liquid. Under this framework, parties concern pursues a common strategy in support of the functioning and development of the primary and secondary markets.

Under this framework, all PDs will be obliged to participate in the wholesale primary auction. The PDs will be accorded privileges to perform specific obligations and functions to support an efficient, dynamic and vibrant money market. At the moment very little trading in government securities takes place on the secondary market. In that regard, the Bank of Sierra Leone has thought it fit to introduce a Wholesale Auction system with a view to achieving the development of the domestic debt market.

Primary Dealer System (PDS) – Objectives

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

- i. To facilitate market efficiency by making government securities easier to buy and sell. The change provides the potential for further broadening of 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.
- ii. To facilitate secondary market trading (i.e. develop market making capabilities) of government securities.
- iii. Improve knowledge of the debt market and provide better access to end investors.
- iv. Decrease market and refinancing risks as it lowers the cost and associated risks.
- v. Create an environment that will support the use of indirect instruments by the Bank.
- vi. 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.
- vii. To facilitate efficient liquidity management, and open market operations of monetary policy management.

Responsibilities of Primary Dealers (PDs)

The following responsibilities shall be performed by PDs:

1. Act as a channel between the issuer and investor in the primary market by participating in auctions.
2. Act as Market Makers and Distributors: some dealers can canvass investors' interest and distribute securities ahead of auctions through when-issued markets.
3. Provide immediacy of liquidity to both primary and secondary market.
4. Act as providers of asset transformation and market-making services: willing to hold inventories of Government securities and they can allow investors to swap between various outstanding issues of Government securities on a continuous basis helps bring liquidity to the market.
5. Promote continuous market and efficient price discovery.
6. Educate investors about the attractiveness of Government securities as an investment (agents and relationship managers).
7. Advise the Government and the Bank: this is helpful in formulating and adopting appropriate strategies that will develop and promote products related to Government securities and the entire market.
8. Must show a commitment to participate actively as market makers over the long-term. PDs must quote on continuous basis two way prices.

General Criteria for a Primary Dealer

The Bank of Sierra Leone will evaluate and ensure that the following minimum requirements/criteria are satisfied before an Applicant is allowed to function as a Primary Dealer:

- i. Only financial institutions authorized by the Bank of Sierra Leone shall be eligible to participate in the wholesale auction for Government Securities and for the purpose of these Guidelines financial institutions so authorized shall be referred to as **“PRIMARY DEALERS” (PDs)**.
- ii. PDs can participate in the primary market auction as principal on their own account and as agents on behalf of their customers/clients. PDs will help mitigate the risk by ensuring greater participation and liquidity in both the primary and secondary markets.
- iii. Adequate Management Capacity – A strong management team, competent trading personnel and an efficient back-office operation. Evidence of personal and professional capabilities of Directors and Chief Dealers may be required before approving an application for a Primary Dealership.
- iv. Supporting Auctions and Market Making - PDs shall be obliged to guarantee liquidity in the Government securities market. They shall be required to submit bids at auctions in order to ensure that all primary market auctions of government securities are fully

- subscribed. In the event of an under subscription **PDs shall take up the under subscribed amount at the lowest accepted bid price of the auction.**
- v. Comply with all liquidity and other regulatory requirements of the Bank.
 - vi. Agree to buy and sell Government securities in the secondary market over a trading period of time.
 - vii. Agree to prepare accurate and timely reports.
 - viii. The appointment of a PD or its termination would be effected by the Bank following consultation with the relevant party. A thirty-day notice will be given by the Bank prior to termination.
 - ix. Agree to be bound by the Guidelines, code of conduct, and the appointment requirements, rules, privileges, and obligations for Primary Dealers of Government securities.
 - x. The Bank reserves the right to amend the requirements.
 - xi. PDs must operate a current account at the Bank.
 - xii. On appointment, Primary Dealers shall submit the following to commence operations:
 - A Letter of undertaking to abide by the rules and regulations in the Government securities market and the provisions of these Guidelines (see Appendix A).

Institutional Requirements

- i. Must be supervised by the Bank on all issues of primary dealership.
- ii. Required to have liquid assets (cash, bank deposits, or freely disposable Government securities) at specific levels that may from time to time be prescribed by the Bank.
- iii. Must have a good risk management system with the capability of maintaining an up to date register of own and individual customer holdings of eligible government securities, split along various maturities.

Government Securities

Government securities (bills, bonds and notes) constitute direct, unsecured and unconditional obligations of the Government of Sierra Leone. Treasury bills are auctioned weekly and bonds are issued less frequently, at least once every month. At issue, the cost on Government securities will be credited to the Consolidated Revenue Fund (CRF) and upon maturity, the principal will be charged to the CRF. Treasury bills are auctioned in multiple prices at discount and bonds at face value with interest coupons. The issuance of these securities takes place in the primary market and all of them can be traded in the secondary market. These Government Securities include the following:-

- Treasury Bills
- Treasury Bonds
- Treasury Notes
- Any other securities that may be issued

The Government securities are issued to finance Government operations.

Bank of Sierra Leone Instruments

These include Bank of Sierra Leone instruments of less than 91 days maturities and others that may be issued for Open Market Operations. The Bank of Sierra Leone shall issue these securities in its Open Market operations for liquidity management purposes.

Currency

Securities under these guidelines will be denominated in the local currency, the Sierra Leonean Leones (SLL). All payments in respect of subscriptions and redemption will be made in Leones.

Role of the Central Bank

The Bank of Sierra Leone as fiscal agent of the Government of the Republic of Sierra Leone will issue government securities on behalf of the Government as stipulated in Section 45 of the Bank of Sierra Leone Act 2011.

Under Section 45 (i (ii)) of the Bank of Sierra Leone Act 2011, the Bank is authorized to issue securities of the Government which have been publicly offered for sale.

Financial Instruments

The Ministry of Finance and Economic Development (MoFED) through the Bank shall publish an auction calendar for the issuance of Government securities on a three-month basis. The calendar so published may be reviewed from time to time.

Based on the published calendar, the Bank shall announce periodically but not less than a week before an auction, the amounts and specific details of the financial instruments available at the next auction and their maturity profiles.

For the issuance of medium and longer-term Government securities, a separate notice or prospectus reflecting information on the securities on offer as well as the terms and conditions of the offer shall be published in the print and electronic media and on the Bank's website.

Also, for short-dated Government securities, a notice reflecting information on the securities on offer as well as the terms and conditions of the offer, inviting bids for the securities to be issued, in advance of the auction shall be published in the print and electronic media and on the Bank's website.

Application Procedure for Auction

An advertisement inviting bids for the securities to be issued shall be placed in the national news papers and on the Bank of Sierra Leone website (www.bsl.gov.sl) in advance of the auction by the Bank of Sierra Leone.

Auctions for Government securities shall make provisions for bids to be made on competitive or non-competitive basis.

Each tender application for the purchase of securities shall be submitted electronically through the SSS auction system by PDs.

PDs shall submit bids on the basis of the demand from their customers and their own requirements.

For each security, PDs may quote a single bid rate or series of bid rates indicating the amount required for each bid rate. However, no interest rate shall be submitted for non-competitive bids.

Submission of bids through the auction system ends at 9:00am on auction day, after which time the bidding screen shall be closed and made unavailable to PDs.

The auction shall be held on Thursday at 10:00am unless otherwise advised by the Bank. However, if the Thursday happens to be a public holiday the auction will be held on the next business day.

Pricing and Allotments

Competitive Bids

- i. All investors wishing to participate in the treasury bills/bonds transactions must be registered on the SSS (Scripless Securities Settlement) system.
- ii. PDs shall submit bids on behalf of clients on competitive or non- competitive basis. PDs shall also submit bids on their own behalf on a competitive basis, however, PDs are not allowed to bid on their own behalf on a non- competitive basis.
- iii. Competitive bids shall be for one amount and at the desired price or interest rate expressed as a percentage. An entity or person should submit no more than three competitive bids at different prices or interest rates.
- iv. Competitive bids for the auction will be ranked in descending order of price or ascending order of discount/interest rate.
- v. All bids above **one hundred million Leones (Le100 million)** must use competitive bidding procedure. This amount shall be reviewed by the Bank as the market evolves.
- vi. The minimum bid amount is **One million Leones (Le1, 000,000)** face value and thereafter in multiples of one hundred thousand Leones (**Le100, 000**) face value. The Bank of Sierra Leone reserves the right to change the number of bids and minimum amount required, as and when deemed necessary. Advance notice will be provided for any such changes made.
- vii. PDs are responsible for the settlement of customer bids which they have submitted and are liable to the Bank in accordance with settlement rules reflected in the Guidelines or as from time to time published by the Bank.
- viii. PDs must not engage in anti-competitive or collusive practices to the detriment of the market.

- ix. The Bank will request additional information, as deemed necessary, from any PD whose participation in auctions is judged unsatisfactory.
- x. Generally, PDs are bound by the codes of ethics as stated in the country's enacted laws.
- xi. All bids must be tagged with Primary Dealer Identity Number (ID).
- xii. Competitive bids which are accepted and which are made at the prices above the lowest accepted price or below the highest accepted rate will be satisfied in full. Competitive bids which are accepted and which are made at the lowest accepted price or highest accepted rate may be satisfied in part only or on pro rata basis.
- xiii. Where allotments are made by the uniform allotment price method (which shall be restricted to the issue of **BONDS**), all successful bidders will purchase the bonds at that price, irrespective of the price quoted. Competitive bids which are accepted and which are made at prices above the uniform allotment prices or rates below the highest accepted rate would be satisfied in full. Competitive bids which are accepted and which are made at the uniform allotment price may be satisfied in part only.
- xiv. In making a competitive bid, each PD represents and undertakes that it has not discussed its bids or the bid of anyone else with any other person. The foregoing does not relate to any discussions, instructions or reporting between a PD and any third party solely in relation to the bid that the third party wishes to make through the agency of the PD.
- xv. The Bank may accept or reject to recognize any or all bids or tender. The Bank may not issue more bills/bonds than the amount advertised or specified in any prospectus or notice. The Bank further reserves the right to waive any provision or provisions of, any prospectus, notice or application form for any or all bidders up until the time a bid is accepted and the price settled.

Non-Competitive Bids

Only individuals are eligible to submit non-competitive bids. PDs, firms, institutions and insurance companies are not allowed to submit non-competitive bids.

Each PD shall make all reasonable efforts to inform its individual clients of the option of submitting a non-competitive bid and to explain the consideration regarding that choice.

Individuals may submit no more than one non-competitive bid for each instrument sold at each auction. Individuals are not allowed to submit non-competitive bids for the same security through multiple dealers at the same auction.

A non-competitive bid must be for not less than Le1, 000,000 nominal of bills/bonds, and must be in multiples of Le100, 000 nominal securities. Adequate notice will be given to all participants for any change in the minimum bid amount.

No more than 10% of the securities on offer will be offered non-competitively.

If the total amount of non-competitive bids exceed 10% of the offer amount at any auction, the Bank reserves the right to pro-rate those non-competitive bids.

Non-competitive bids, which are accepted, will be allotted at the non-competitive sale prices, i.e. the average of the prices or rates at which the competitive bids were accepted.

The SSS System will advise each PD of its allotment after each auction.

Commissions/Charges/Brokers Fees

- i. PDs shall be paid by the Bank, brokerage fees on the total value of bids submitted and allotted on account of their clients.
- ii. Commissions shall be paid at issue.
- iii. PDs submitting orders on behalf of clients at an auction should therefore not levy any charge for such a service.
- iv. PDs may also earn income by trading the securities they hold in the Secondary market. For securities that will be listed on the Sierra Leone Stock Exchange (SLSE), commission or fees regarding secondary market transactions will be in accordance with the rules of the SLSE.

Changes in the Pricing for Treasury Bills and Bonds

The Bank reserves the right to change the pricing mechanism for future auctions as and when deemed necessary. Adequate notice will be given to all participants for any change in the pricing mechanism.

Payment and Settlement

Treasury Bills

Settlement time of all successful treasury bills submitted will be Same Day Settlement/ shall be done on the basis of Delivery Versus Payment (DVP).

Settlement time of undersubscribed portions of treasury bills taken up will be **T+2**.

All payments for securities shall be made through the settlement accounts of the settlement partners at the Bank. Successful bidders' current accounts at the Bank will be debited with the aggregate settlement price for all successfully bids at the auction. Successful bidders must ensure that their current accounts are sufficiently funded to meet the settlement obligations arising for all successful bids on their own behalf and on behalf of their clients.

On the issue and settlement date, the Bank shall:

- i. Simultaneously debit the PDs cash account by the amount the PD is required to pay for the new securities and the new securities sold credited to the securities account of the successful bidder.
- ii. The SSS System shall update the Register accordingly.

The holdings of each securities holder shall be recorded by electronic book entry on the Scripless Securities Settlement System.

Treasury Bonds

Settlement time for treasury bonds with maturity of one year will be same day settlement or shall be done on the basis of Delivery Versus Payment (DvP). For medium to long term treasury bonds transactions, the Bank shall apply a T+2 settlement system. Successful bidders' current accounts at the Bank will be debited with the aggregate settlement price for all successful bids at the auction.

Bidders must ensure that their current accounts are sufficiently funded to meet the settlement obligations arising for all successful bids.

Settlement Defaults

When a person or an entity fails to comply with the requirements of these Guidelines, any prospectus or Notice, the Bank will consider the circumstance of such failure and determine an appropriate remedy. Such remedy may include prohibiting the person or entity from participating in future auctions for its own account, for the account of others or both. The Bank may also refer such occurrences to the appropriate regulatory agency for enforcement action. In determining whether or not there has been any such failure, the Bank may request investors, bidders and PDs to supply such information as the Bank may reasonably require for its determination. Any such determination shall be deemed conclusive by the Bank.

In the event of non-availability of funds to make payments for successful bids at issue, all PDs must ensure that they have readily available securities which will be used as collateral to settle such payment obligations. The volume of such securities will be determined by the Bank.

Notification of Results

The detailed results of any auction shall be available immediately after the auction on the auction module available to all PDs on auction day.

The Bank will publish a detailed report and analysis of each auction in both the electronic and print media and on the Bank's website (www.bsl.gov.sl) by close of business on the first business day following the auction date.

Underwriting Commitments

The Bank may invite PDs to underwrite any unsold securities at the auction within two working days after the auction at the lowest accepted price or uniform rate at that auction that is, in the case of treasury bonds.

The minimum value of securities underwritten **shall be on pro rata basis (equal proportions) amongst PDs in that auction.**

Registration of Applicants

Government securities shall only be sold to PDs who have been registered and hold securities account with the SSS System.

Registration of Government Securities Holders

A register of the Government securities in electronic book entry form shall be maintained by the Scripless Securities System (SSS). An entry in the Register in the name of an investor shall constitute prima facie evidence that the investor is the legal owner of the securities referred to against their name.

The Register shall contain the following:

- i. The Issue Date of the securities
- ii. The Serial Number of the securities
- iii. The amount, type and maturity of each security held by each investor and the date the investor became registered as owner of the security.
- iv. The name of the owner.
- v. Whether the investor is holding the securities as nominee for a beneficial owner.

Although the Register shall not be open to the public, the SSS shall meet all reasonable written requests for information about the securities held by the investor, on payment to the SSS of a prescribed fee that will be published.

The Register shall be closed for the purpose of making payments on existing bonds and Notes three (3) business days prior to an interest payment date and maturity date.

Redemption of Matured Securities

On maturity date, the Bank shall credit the maturity proceeds to the current accounts of PDs held at the Bank. Also, at maturity the investor will be paid the face value less withholding tax where applicable.

Withholding Tax (WHT)

Income earned on securities investment is subject to tax as per current tax regulations. The tax is deducted at source upon maturity. Currently, the withholding tax rate is 15% for taxable clients.

All participants that are exempted from paying withholding tax must provide a tax exemption certificate from the National Revenue Authority (NRA).

$$\text{WHT} = \text{Tax Rate (\%)} * \text{Interest Earned}$$

Miscellaneous Rules and Procedures

1. Bids once submitted to the Bank of Sierra Leone, shall not be withdrawn
2. Inadequately completed bids shall not be eligible for the auction.
3. Bank of Sierra Leone shall publish weekly reports and analysis of the auction, giving details of:
 - i. The range and amount of bids received,
 - ii. The range and weighted average discount and/or interest rate of successful bids for each security.
 - iii. The amount of each security sold.
 - iv. The amount of the auction dedicated respectively to finance government and the redemption of maturing securities and the activities of the Bank in connection with its open market operations
4. The Bank shall also announce publicly the results of any additional auctions held in connection with its OMO operations.
5. The Bank shall monitor and review the operations of the wholesale auction arrangement and make necessary modifications to ensure the smooth running of the new arrangements. Adequate notice shall be given to all PDs for any change in the operations.

Secondary Market

Rediscounts

Securities may be rediscounted in the money market and between PDs anytime. Presumably, bonds may also be rediscounted in the capital market given that they are not money market instruments. PDs can only rediscount securities to the Bank provided the security has been held at least 80% of its maturity period.

PDs must display in their offices and newspapers rediscounting rate to the public.

Market Share

PDs are expected to achieve and maintain a market presence sufficient to earn them an appropriate share of secondary market turnover. The Bank expects all PDs to achieve and maintain trading volumes of at least 1/3 of its proportional market share of all secondary market activities on a 6-month rolling average.

Market Making Procedures

All Dealers must show a commitment to participate actively as market makers over the long-term. PDs must quote on continuous basis two way prices, that is, bid (buy) and ask (sell) prices of Government securities and be ready to trade at all times. Quotes by Dealers are considered firm, unless otherwise stated.

Business Hours - Secondary Market Trades

Regular Trades: The normal business hours for regular trades are as follows:

9.00am to 4:30pm from Mondays to Fridays

Cash Trades: The normal business hours for cash trades (same day settlement) are as follows:

9.00am to 4:30pm from Mondays to Fridays

Code of Conduct and Market Practices

- i. PDs are required to provide an active retail market 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.
- ii. PDs must explain to a customer the nature of the transaction and the risks associated with making the investment for all securities and ensure that their orders are executed in a manner that obtains the best possible results for the customer.
- iii. PDs shall at all times execute the order of their customers, especially small ones, before they fulfill their own orders.
- iv. 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.
- v. PDs must ensure that bidders are allotted with the full value of bids won in an auction.
- vi. PDs must ensure that pro-rated bids are allotted to customers on a pro-rata basis based on the amount available at the cut off rate/price.
- vii. PDs must not charge commission or any other fees for bids submitted on behalf of customers. Any PD who levies additional charges for bids on behalf of customers will pay a penalty of **Le500, 000** per transaction. This amount shall be reviewed as and when deemed necessary
- viii. Cost of securities purchased on behalf of a customer should be debited to his or her account on the date of the auction and the customer advised accordingly.
- ix. Proceeds for matured securities on behalf of customers should be credited into the account of the client upon maturity and the customer advised accordingly.
- x. PDs shall not co-mingle client assets with theirs under no circumstances, and shall prepare its financial statements in a manner that complies with this requirement.

Diligence

- i. A PD must ensure that Directors and employees of the firm who advice on or execute securities transactions use clear and unambiguous language at all times. When dealing with retail customers, a PD should use as plain language as possible.
- ii. A PD acting as principal in relation to a customer order must inform the customer before hand and must be able to provide evidence that the transaction is executed in a manner that obtains the best possible result for the customer. Any dispute that arises between parties to a transaction must be resolved quickly and fairly with integrity and at the utmost respect for the position of each party to the dispute.
- iii. A PD must establish, implement and regularly review its risks management framework, clearly specifying authorities, limits, and policies. Duties and reporting

lines must be maintained between front and back offices of the firm and effective communication must be maintained between all levels of employees and across functions. The risk management framework must be approved by the Directors and they must be held accountable for its implementation.

Conflict of Interest

- i. A PD must act for the benefit of its customers and must not place its interest or the interests of its Directors and employees ahead of customers' interests.
- ii. A PD must not undertake business with or on behalf of a customer where it has directly or indirectly a conflicting interest unless it has disclosed to the customer the nature and extent of the interest before the customer enters into any relevant transaction. A conflicting interest may be between the primary dealer and its customers or between the customer and another customer

Entertainment and Gifts

- i. The receipt of any gift or offers of entertainment from or to clients, brokers or other professional parties should be advised to Management in line with the PD's internal policies.
- ii. Entertainment or gifts, which are deemed to be 'excessive' (any gift above the Dealers' internal policy) in nature, will not be seen to be in line with market practice.
- iii. The receipt of cash is prohibited. This however, does not include normal fees and charges for services rendered.
- iv. All gifts must be logged and tapped in line with dealers' internal policies on gift declaration.

Confidentiality

- i. Each PD is to maintain strict confidentiality in respect of its dealings with its customers
- ii. A primary dealer must ensure that its present and past Directors and employees do not disclose, or apply pressure on others to disclose information relating to transactions that have been completed, or are in the process or in the course of negotiation, except with the express consent of the customer, or to the Bank in the exercise of its authority, or as required by law.
- iii. A primary dealer must ensure information regarding its own trading intentions and inventory positions are kept confidential. Any attempt to signal a primary dealer's bid or strategy at auction or to obtain such information from other dealers is a violation of this code.
- iv. A breach of confidentiality must be investigated immediately by the Bank's compliance officers and disciplinary measures taken when appropriate. Where necessary, the dealer's internal control procedures must be modified to prevent repetition of the breach.

Honesty and Fairness

- i. A primary dealer must at all times in the conduct of its business act in good faith
- ii. A Primary Dealer must have reasonable grounds to believe that any investment advice provided to its customers is suitable for them, taking into account the information disclosed by each customer and any information available to the firm.
- iii. Transactions for customers must be given preference over those of the primary dealers or its Directors and employees.
- iv. A Primary Dealer must not trade as principal, and must ensure that its Directors and employees do not trade on their own accounts, ahead of a significant purchase or sale of Government securities for a customer, with the intent to profit by trading in the securities thereafter.
- v. A Primary Dealer must ensure that its Directors and employees do not use material undisclosed information for their own gain or for the advantage or the disadvantage of others ('insider dealing'). At the least, all bids at auction for customers are to be kept confidential from individuals submitting bids as principal for the primary dealer and are to be submitted separately.
- vi. A Primary Dealer must ensure that its Directors and employees do not move or attempt to move prices artificially for their own benefit ('market manipulation').
- vii. A Primary Dealer must ensure its Directors and employees do not undertake trading in a client account that would be excessive in size or frequency given the financial resources and character of that account.
- viii. A Primary Dealer must ensure that its Directors and employees do not engage in any improper conduct that may damage the confidence of investors in or hamper the sound development of the market for government securities.

Documentation

- i. Before providing any service to a customer relevant to the Government securities market, a Primary Dealer must enter into a signed written agreement with the customer that is clear and readily understandable and sets out the rights and obligations of the parties and a description of the services to be provided. Such contracts could form part of the application forms signed by the customer.
- ii. A primary dealer should give its customers timely information that is fair, clear, and not misleading about:
 - a) The essential features of any transaction in which a customer is to engage and concerning the execution of their orders,
 - b) The proper identification and up to date record keeping reflecting confirmation of any assets (cash, Government securities) belonging to the customer that the firm is holding or has under control,
 - c) All risks that a customer may need to know to make an informed investment decision.

Sanctions and Penalties

1. The Bank shall oversee all breaches of the provisions of the codes of conduct, all regulatory breaches as documented in the Auction Guidelines as well as other laws, regulations and specific guidelines issued by the Bank of Sierra Leone.

The auction committee which supervises the codes of conduct shall oversee all disputes among PDs including any disputes arising out of a breach of a regulatory nature.

Sanctions shall include but not limited to a temporal reduction or suspension of some or all of the PDs rights and/or privileges and the termination of his appointment. The Bank of Sierra Leone may make the sanctions public in the manner it deems appropriate.

2. Breaches of the codes and regulations reported by a Primary Dealer or discovered by the Central Bank may be addressed in one of a variety of ways, depending on the severity of the infraction, the harm done to the integrity of the market for government securities, and the financial cost, if any, to customers or other primary dealers. Self reporting of breaches to the regulations or code of conduct may be given favorable consideration in the determination of sanctions and penalties.
3. Penalties and Sanctions include, but not limited to:
 - a) Written warning
 - b) Withdrawal of a firm's status as PD.
 - c) Suspension of a PD for a period of time.
 - d) Public notice that a primary dealer has been put on a probationary status.
 - e) Referral of evidence of criminal activity to the appropriate authorities.
 - f) Monetary fines levied against PDs in accordance with the 2011 Banking Act of Sierra Leone.
4. The Bank of Sierra Leone reserves the ultimate right in deciding the degree and measure of sanction and/or penalties to impose on offending parties.
5. PDs may appeal fines and license revocations.

All appeals should be filed with the Governor of Bank of Sierra Leone within ten (10) working days of receipt of the notice to the PD advising of such penalties. Every appeal should be accompanied with evidence that sanctions and/or penalties imposed are either unwarranted or excessive. However, all decisions on such matters reside with the Bank of Sierra Leone and the imposition of penalties shall not be delayed pending the results of an appeal, unless the Governor grants such delay.

Reporting Requirements

- i. PDs must submit weekly and end month statistical reports on their securities, trading activities to the Bank, on a prescribed format to be issued by the Central Bank.
- ii. PDs must make available to the Bank their audited annual financial statements.
- iii. PDs must file market information data reports to the Bank, in a timely manner according to a prescribed schedule.

APPENDIX I

UNDERTAKING FOR PRIMARY DEALER AUTHORIZATION

To:

The Governor
Bank of Sierra Leone
Siaka Stevens Street
Freetown

By: _____

WHEREAS THE Bank of Sierra Leone 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 Bank of Sierra Leone as set below:

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

1. To participate in every Government securities primary market auction and shall submit a bid for not less than five (5) percent of the announced amount.
2. To offer to underwrite/take up the undersubscribed portions in equal proportion on prorated basis.
3. To quote two-way prices in every Government securities secondary market activities, that is, bid (buy) and ask (sell) prices of Government securities and be ready to trade at all times. Quotes by Primary Dealers are considered firm, unless otherwise stated.
4. To maintain infrastructure in terms of both physical apparatus and skilled manpower for efficient participation in primary market issues, trading in the secondary market, and for providing portfolio advice and education to investors.
5. To maintain sound communication network system for securities business.
6. To put in place an efficient internal control system for fair conduct of business and settlement of trades.
7. To respect the need for confidentiality in our dealing with Bank of Sierra Leone, other Dealers and customers, we shall not divulge confidential information nor attempt to persuade or coerce others into revealing confidential information.
8. To observe high standards of just and equitable principles of trade. All communications with the other party or parties shall be based upon principles of fair trading and good faith and shall provide a sound basis for evaluating the facts.

- 9. To maintain and preserve such information, records, books and documents pertaining to our working as Primary Dealer, as may be specified by Bank of Sierra Leone from time to time.
- 10. To permit Bank of Sierra Leone to inspect all records, books, information, documents and make available the records to the inspectors and render all necessary assistance.
- 11. To comply with the requirements to submit prescribed returns to Bank of Sierra Leone, report on transactions and market information, and such other statements and returns as are prescribed either specifically or generally by Bank of Sierra Leone via any of its instructions/notices/directives.

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

Name: _____ **Designation** _____

Signature: _____ **Date** _____

Witness:

Name: _____ **Designation** _____

Signature: _____ **Date** _____