

## **MEDIA RELEASE: MINISTRY OF FINANCE**

Embargo: 09:00 on Tuesday, 31 March 1998

### **APPOINTMENT OF A PANEL OF PRIMARY DEALERS FOR THE MARKETING OF GOVERNMENT'S CAPITAL MARKET DEBT INSTRUMENTS**

#### **Panel of Primary Dealers**

On 3 February 1998 the Department of Finance announced that it recommended that the following institutions be appointed to a panel of primary dealers for the marketing of government's domestic capital market debt instruments as from 1 April 1998, subject to these institutions being able to fully conform to a set of qualifying criteria.

ABN-AMRO Bank	J P Morgan
Barclays Bank of South Africa	Merrill Lynch
Deutsche Morgan Grenfell	Nedcor Investment Bank
First National Bank	Rand Merchant Bank
Genbel Securities Bank	Standard Bank of South Africa
Investec Bank	Societe Generale

All the recommended institutions have conformed to the qualifying criteria and have been appointed as primary dealers in government bonds from 1 April 1998. All the abovementioned institutions have been subjected to an independent special audit by the Registrar of Banks. The audit revealed that no bank's primary dealer operation will result in any prudential or systemic risk to the financial markets.

#### **Qualifying Criteria**

The qualifying criteria for the appointment of primary dealers can be summarised as follows:

- Primary dealers must be local banking institutions or foreign banks with branch offices in South Africa which are subject to official supervision by the Registrar of Banks;
- Primary dealers must be members of the Bond Exchange of South Africa;
- Primary dealers or home country banks must meet the maximum Tier I and II capital standards under the Basle Capital Accord;
- Primary dealers must have at least R1 billion of Tier I capital as defined in the Basle Capital Accord;
- In those instances where primary dealers do not conform to the requirement in respect of the minimum capital requirement of R1 billion, the controlling shareholder must provide a letter of comfort i.r.o. the maintenance within the group of the minimum capital requirement;
- Market making operations by primary dealers should not impose prudential and systemic risk to the financial markets; and

- Primary dealers are required to continuously quote firm bid and offer yields in selected bench-mark government bonds and to participate meaningfully in regular auctions in government bonds.

### **Auctions in Domestic Government Bonds**

On 1 April 1998 the Department of Finance will formally switch from the current tap system of marketing its capital market debt instruments to an auction system. From 1 April 1998 primary dealers will enjoy exclusive dealing rights with the issuer in respect of all domestic government bond issues. It is therefore an obligation of primary dealers to participate actively in the auctions by bidding market related yields on a competitive basis.

The following rules will be applicable to auctions, which will in general be conducted every Tuesday, except where public holidays require alternative days:

- auctions will close at 11:00 and only primary dealers will be allowed to participate;
- each primary dealer will be required to bid in total for a minimum of 10% and will not be allowed to bid for more than 40% of the total amount on offer;
- in the case where auctions are short bid individual primary dealers falling short of the minimum 10% participation requirement will receive an allotment on a pro-rata basis to non-bidders at the lowest yield bid received;
- the number of bids per primary dealer will not be restricted;
- the auction-system is in the process of being automated through a Bloomberg's system in order to achieve an accurate and quick allocation. (planned date of automation is 1 June 1998). As an interim solution, bids are to be submitted by telephone, fax and or e-mail; and
- the day after the auction, mostly on Wednesdays, the details of amounts and bonds that will be offered at the next auction, will be announced.

An auction calendar for the 1998/99 financial year is attached.

### **Rules in respect of primary dealers**

A set of rules which provide the framework of obligations to which primary dealers, the Department of Finance and the South African Reserve Bank will have to adhere, has been drawn up. These rules which will establish a formal relationship between all parties, are attached.

### **Code of Conduct**

In addition to a primary dealer's responsibility to ensure a minimum level of demand in the primary market, it also has a responsibility to ensure liquidity in the secondary market.

The secondary market principles and procedures are defined in a document called Code of Conduct of which a copy is attached.

All primary dealers are obliged to quote a two-way price in the R162, R175, R150, R184, R153, R157 and R186 government bonds between 08:30 and 16:30 during normal market conditions, subject to counterparty credit considerations. The minimum bid size is R10 million and the maximum bid-offer spread is 2 basis points in the more liquid bonds and 3 basis points in the less liquid bonds.

### **Enclosures**

- 1) Rules in respect of primary dealers
- 2) Code of Conduct
- 3) Auction calendar of government bonds

### **Enquiries**

Coen Kruger  
Lesetja Kganyago  
Johan Redelinghuys  
Tel: (012) 323-1703