



CENTRAL BANK OF THE GAMBIA

GUIDELINES FOR PRIMARY DEALERSHIP IN GOVERNMENT SECURITIES

AUGUST 2024

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1.0 BACKGROUND

Since July 16, 1986, the Central Bank of the Gambia has been responsible for the issuance and redemption of Gambia Government securities in compliance with the Local Loans Act of 1963, as amended by the Local Loans (Amendment) Act 1977, and by the Resolution of the House of Representatives on July 4, 1966. Pursuant to the Central Bank of The Gambia Act, as amended in 2018, specifically Section 46 and 6054 b (iii), the Central Bank is empowered to issue securities acknowledging its indebtedness, with terms and conditions determined by the Board, and to engage in the trading of such securities.

The Central Bank has updated the primary dealer guidelines with a strong commitment to strengthening the wholesale primary market and boosting the development of the secondary market. This initiative, driven by the Bank's dedication, aims to establish an efficient and effective primary dealership system for all investors and facilitate the development of a secondary market through the organization of the Wholesale Auction system. This Guideline supersedes the existing Terms and Conditions of primary dealership guidelines from November 2005.

2.0 PURPOSE

The Guidelines sets out operational framework for primary dealers, in line with the Central Bank policy framework.

3.0 AUTHORITY

The Guideline is issued under the authority of the Central Bank of Section 46 and 60 of the Central Bank of The Gambia Act amended 2018.

4.0 SCOPE OF APPLICATION

The Guideline will apply to all primary dealers appointed by the Bank under Section 42 and 46(C) of the Central Bank of Gambia Act 2018.

5.0 EFFECTIVE DATE

The Guideline shall take effect from January 2025.

6.0 TERMINOLOGY AND DEFINITIONS

In this Guidelines the following definitions will apply:

“Auction” a bidding process by which the MoF sells Government securities to the public using the Primary Dealer System.

“Accrued Interest” – refers to securities that pay periodic interest and are bought and sold in the secondary market. Interest calculations will be based on actual days of accrued interest and actual number of days in the period coupon interest is due.

“Auction Re-opening” - the auction of an additional amount of an outstanding security.

“Banks” - a joint stock company conducting banking business and licensed under the Banking Laws and regulations of the Gambia and the Central Bank.

“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 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.

“CBG” - 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 amended 2018, and are subject to these Regulations, and the applicable Notice.

“Competitive Bid” – bids that quote a price or yield with an amount of over D1 million submitted by a participant in an auction.

“Discount” - the difference between the face value and the principal amount of a Treasury Bill or Treasury Bond.

“Discount Rate” - an annualized rate of return to maturity on bills based on the discount from its face value.

“Face value” - means the stated value of a bill at original issuance and the value of a Government Bond at maturity.

“Government Securities” - Treasury Bills and Government Bonds issued by the MoF on behalf of the Government of Gambia

“Issue date” means the date on which the Government Security is issued, and from which date interest begins to accrue.

“Maturity date” means the date on which a bill becomes due and payable and ceases to earn interest.

“Multiple-price auction” means an auction in which a successful competitive bidder pays the nominal price derived from the yield or the discount rate that was bid.

“Minimum Bid Amount” - the smallest amount of a Government Security that will be issued to a bidder as set forth in these rules.

“MoF or Ministry” – the Ministry of Finance.

“Non-Competitive Bids” - means a bid to purchase securities at the weighted average yield, or discount rate of accepted competitive bidders for amount of D1 million and below

“Notice” means an offering announcement.

“Par” - equal to 100, or the nominal or Face Value of a Government Bond.

“Par Amount” - the Face Value of a Government Bond at original issue.

“Premium” - the difference between par and the price of the security when the price is greater than par.

“Primary Dealers” - are those institutions authorized to submit bids in the auction on their own account and on behalf of its clients.

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

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

“Securities” means a Treasury and sukuk bills, Bond 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.

“Scriptless Securities Settlement System (SSS)” means the trading platform (called Depo/X) used for the auctioning of securities and depository for the [bonds] and bills.

“Treasury Bonds” are medium to long-term debt instruments issued by the Government of the Gambia which carry a fixed coupon (interest rate) which is paid on the face value, on half-yearly basis. They are direct obligations of the Government of The Gambia.

“Treasury bills” are short-term securities (with tenors of 91-day, 182-day and 364-day) issued by the government of the Gambia 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 or Yield to Maturity” means an annualized rate of return or the present value of bond’s cash flow to maturity, as expressed in percentage.

GENERAL CONDITIONS FOR PRIMARY DEALERS

7.0 PRIMARY DEALER ELIGIBILITY AND SELECTION CRITERIA

1. The CBG, in consultation with the Ministry of Finance will regulate the Primary Dealers regarding their rights and obligations for all Government securities transactions.
2. Primary Dealers are committed to participating in the Primary Market and developing Secondary market trading activities.
3. Primary Dealer activities include the outright purchase and sale and lending of Government Securities. A separate regulation shall be developed on the lending of government securities which shall include a master repurchase agreement form.
4. Primary Dealers will be authorized by the CBG and registered as Primary Dealers.
5. The CBG will approve application for Primary Dealer status based on their compliance with the following:
 - 5.1 Capital and Liquidity requirements as established by the CBG and be considered in good standing with the Bank with regards to consistently maintaining their reserve accounts and all other regulatory requirements of the Bank.
 - 5.2 Trading expertise- must have proven expertise in trading of government securities, risk management procedures and compliance frameworks.
 - 5.3 Maintain a staff and organizational structure dedicated to performing the requirements of a Primary Dealer.
 - 5.4 Have the capacity to prepare timely reports.
 - 5.5 Agree to be bound by the guidelines, code of conduct, the licensing requirements, and the rules, privileges, and obligations of a Primary Dealer in Government securities.
 - 5.6 Intending applicants must submit their application in writing, addressed to the First Deputy Governor, Central bank of The Gambia, 1-2 Ecowas Avenue, Banjul.

5.7 The Bank reserves the right to reject any applicant in accordance with the provisions of the amended CBG Act (2018). It also reserves the right to amend the licensing requirements.

5.8 Primary Dealers will submit a Memorandum and Articles of Associations.

5.9 Primary Dealers will execute a Letter of Understanding to abide by the rules and regulations in the Government Securities market and the provisions of these guidelines.

5.10 Other criteria may be deemed appropriate by the CBG.

8.0 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 the government by reducing the cost of issuing securities.
2. To encourage secondary market trading (i.e. develop market-making capabilities) of government securities.
3. To promote demand for government long term bonds. Primary dealers will promote the purchase and trading of these 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.

9.0 OBLIGATIONS OF PRIMARY DEALERS

Primary dealers will be required to fulfill the following:

1. Participation in auctions-Primary Dealers will be required to actively participate in all auctions of securities by bidding at market-related yields/prices on a competitive basis to meet a minimum bidding requirement (proportional share). The minimum bidding requirement is the share of auction target amount to be covered

by each PD. The proportional share is calculated as 100 divided by the total number of PDs.

2. Primary Dealers collectively commits to submit bids in each auction for at least all the securities offered in the auction.
3. Each Primary Dealer must commit to collectively underwrite the whole amount of securities in each auction for its proportional share of the total amount of securities offered in the auction. This will be priced at the weighted average rate for the respective profiles.
4. Primary Dealers must submit bids for their proprietary account and all other customers' bids must be submitted separately. These bids will be treated as customer bids and not considered as part of the Primary Dealers underwriting obligation.
5. All primary dealers must bid competitively in all auctions.
6. A Primary Dealer commits to accept and submit bids on behalf of customers in each auction and to promote investment in securities by offering such instruments for sale in the retail outlets.
7. Primary dealers shall act as market makers in government securities, quoting two-way prices on designated securities and helping ensure transparent price discovery at any point in time.
8. Advisory role-PDs may provide advice or insights to the government on market conditions, auction strategies or debt management.
9. Not engage in anti-competitive or collusive practices to the detriment of the market's interests.

10.0 PRIVILEGES OF PRIMARY DEALERS

In return for the set of obligations listed above, primary dealers are granted certain privileges, which may include:

- I. Exclusive access to auctions-PDs will obtain the right to bid in primary auctions of government securities.
- II. Participation in open market operations- PDs will have access to central bank operations such as CBG bills.

- III. Access to market information- PDs may receive timely market-sensitive information from the Bank to help them in their trading and distribution roles.
- IV. Primary dealers will have the opportunity to participate in meetings on a regular basis, or as and when required, with the Bank/ MoFEA to review developments in the domestic money market and discuss structural and operational issues relating thereto.
- V. Recognition and status-PDs are often recognized as key market participants, enhancing their reputation and standing in the financial community.

11.0 OBLIGATIONS OF THE MINISTRY OF FINANCE

The Ministry of Finance Debt Management Office will regularly meet with Primary Dealers for the purpose of receiving advice and recommendations regarding future debt issuances.

The Ministry of Finance Debt Management Office will meet with individual Primary Dealers to discuss matters concerning the dealer or general market conditions. The Treasury will make regularly scheduled public announcements concerning future auctions' timing, amounts and maturity which may include:

1. A three-month issuance calendar estimates of borrowing plans on rolling basis.
2. A monthly announcement of the following month's issuing plans.
3. Specific auctions and bond prospectuses no later than one week prior to the auction date.

12.0 PRIMARY DEALER REQUIREMENTS

Institutions selected as Primary Dealers are required to:

1. Have liquid assets (cash, bank deposits, overdraft facility, or freely disposable government securities).
2. Maintain 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.
3. Provide administrative and institutional arrangements that allow transparent and safe operation of the company.
4. Regularly report their activities on the government and other securities.
5. Operate a current account at the Bank for the purpose of dealing in government Securities.
6. Adopt and publish policies and procedures for its Primary Dealer activity.
7. Provide the Bank with audited annual financial statements.
8. Provide the Bank weekly reports of its market activities and, as requested, market information reports.
9. Submit bids from their customers
10. Not engage in anti-competitive or collusive practices to the detriment of the market.
11. Not engage in any activities that will disrupt the Government securities market.
12. Avail themselves to market participants and members of the investing public to receive and transmit auction bids on a timely basis.

13.0 PRIMARY DEALER MARKET ACTIVITY

In performing their duties as Primary Dealers in the Primary and Secondary markets Primary Dealers will:

1. Not submit a non-competitive bid on their own behalf.

2. Submit with their bids a list of applicants together with their names and amount applied for.
3. Accept responsibility 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.
4. Meet certain pre-established standards for submitting winning bids and bids for non-Primary Dealer investors.
5. 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)**.
6. Provide dealing quotes, (bid (buy) and ask (sell), prices on a continuous basis on current benchmark government securities.
7. 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.

14.0 PRIMARY DEALERS REPORTING OBLIGATIONS

Primary Dealers will provide the Bank with the following reports and information as required:

1. Final position in cash
2. Final position held in each type of security
3. Final position held in short sales
4. Final position in funds placed
5. Final position in liabilities
6. Anticipated demand for securities by type, tenor and price
7. Anticipated supply of securities by type, tenor, price and other anticipated cash inflows and out flows.

15.0 CODE OF CONDUCT AND MARKET PRACTICES

A code of conduct governs the behavior and ethical standards expected from PDs, ensuring they act responsibly and in the best interest of the market.

1. Fair trading- PDs must engage in fair and transparent trading practices, avoiding market manipulation or unfair advantage. As part of the efforts to promote the retail market, dealers are expected to provide 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.
2. Market integrity- Dealers are responsible for upholding market integrity by refraining from practices that could harm liquidity, price discovery or investor confidence.
3. Confidentiality- PDs must protect the confidentiality of sensitive information related to auction activities.
4. Professional conduct- PDs are expected to maintain high standards of professional and ethical behavior in all dealings with clients, regulators and the market.

16.0 ENFORCEMENT AND SANCTIONS

To ensure compliance with the obligations and code of conduct, the Bank shall establish measures including:

- I. Monitoring- regular monitoring of PD performance and compliance with obligations
- II. Sanctions for non-compliance ranging from fines to suspension or revocation of PD status
- III. Performance evaluation based on auction participation, market-making activities and regulatory compliance.

17.0 NON-COMPLIANCE AND TERMINATION

When a PD fails to comply with the provisions of this guideline, the case will be reviewed, and appropriate action will be taken ranging from disciplinary measures to termination.

1. The termination of a primary dealer may be effected by the Bank following consultation.

(a) after the annual review or earlier, and following consultation with the relevant party.

(b) immediately following the revocation of the banking license; or

(c) immediately, in circumstances where the Bank may deem necessary in the interest of the public.

2. Thirty days' notice shall be given where appropriate, in writing, by either party in respect of a termination under (1) above.

18.0 REVIEW CLAUSE

This Guideline will be subject to periodic review in the light of market developments.

19.0 APPENDICES

Appendix 1: GOVERNMENT TREASURY BILLS AND SUKUKS SECURITIES

In accordance with the Ministry of Finance's request, CBG issues Treasury Bills and Sukuks in three main categories as described below:

- a) 91 Days
- b) 182 Days
- c) 364 Days

Primary Dealers and Primary Participants shall be allowed to submit multiple bid applications. At least Primary Dealers must submit separate bids on behalf of its customers and separate bids for its own proprietary account. No single bidder may be awarded more than fifty percent (50%) of the amount of the issue offered on each auction date. In the event where the bidder is bidding for both client and their own book, and where it is clearly so, then that client may receive up to 50% of the allotment and the primary dealer investing for its own book may also receive up to 50% of the allotment.

The minimum competitive bid amount for a Treasury Bill is one million and five thousand (1,005,000.00) GMD Face Value. Each tender application to the Bank for the purchase of securities shall be through a designated PD.

The minimum noncompetitive bid amount for a Treasury Bill or sukuk bill is fifty thousand [50,000.00] GMD Face Value and all bids of one million [1,000,000.00] GMD Face Value and below must use non-competitive bidding.

Each tender must state the face value of the bills and must be a multiple of five thousand [5,000.00] GMD Face Value.

Auctions are usually conducted on Tuesdays with settlement on Wednesdays. No bid application can be withdrawn after 11:00 AM on the auction day. All bids are irrevocable unless notification is received by the CBG before 11:00 AM on the tender day. In the event Government Securities mature on a public holiday, the payment date will be the next Business Day.

Currency: Securities issued shall be denominated in the local currency-Gambia Dalasi (GMD) except when explicitly stated by the MoF. All payments in respect of subscription and redemption shall be made in Dalasi.

Pricing Mechanism and Allotment: Multiple-price method.

The CBG based on the official notification of the Ministry of Finance will issue Treasury bills and Sukuks up to the amount advertised on each maturity category at Face Value.

Competitive bids will be ranked and sold in descending order of price or ascending order of interest rate and allocations for accepted bills will be made at their respective quoted yields.

Non-competitive bids will be awarded at the weighted average price of accepted competitive bids for each profile.

The Ministry of Finance, in consultation with CBG reserves the right to reject any or all bids that are not consistent with market fundamentals.

Announcement of Results:

A consolidated summary of the auction results shall be published on the CBG website and on the MoF website after each auction with details of the amount received and allotted per security; the range of rates received, and the range of rates accepted and the weighted average price and interest rate for each security.

Settlement Procedure:

Settlement Day for all Treasury bills awarded is T+1 or one business day after the auction date or the next Business Day.

Settlement of securities awarded shall be executed through the bank's current accounts at CBG.

Customers should ensure that funds are deposited with a Primary Dealer prior to the submission of bid applications by the Primary Dealer.

Appendix 2: GOVERNMENT TREASURY BONDS

The CBG at the direction of the MoF will issue Government treasury bonds in three maturities as described below:

- a) 2 Year
- b) 3 Year and
- c) 5 Year

Government Bonds Auction Procedures:

Government Bond auctions are held at the discretion of the MoF. The specific dates of the bond auction shall be announced and published at least two weeks in advance prior to auction day on the CBG and MoF websites.

Bids must be received no later than 11:00 am on the auction date. No bid application can be withdrawn after 11:00 am on the auction day. All bids are irrevocable unless notification is received by the CBG before 11:00 am on the tender day.

Pricing Mechanism and Allotment: Market-Determined Weighted Average Yield of competitive bids accepted as well as par-value issuance method with pre-determined coupon rate.

Government Bonds will be auctioned as announced by the MoF. The date of settlement for a Government Bond may coincide with a maturity date of an existing bond to ensure potential for rollover.

Investors shall be allowed to submit multiple bids. The Primary Dealers must submit separate bids on behalf of their customers and separate bids for their own proprietary account. No single bidder may be awarded more than fifty percent (50%) of the amount of each issue subject to the sole discretion of the MoF and the CBG.

The Ministry of Finance in consultation with CBG reserves the right to reject any or all bids that are not consistent with market fundamentals.

The MoF will determine a bond's coupon based on the average weighted yield of all awarded bids at auction rounded down to the nearest two (2) basis points. Bonds may also be issued at a pre-determined coupon rate.

Announcement of Results:

The Ministry will review the auction results and either accept or reject the sale of Government Bonds. Individual results of the auctions shall be announced to Primary Dealers within two (2) hours of the auction closing. Results will also be announced on the CBG website. Award notices will be issued to successful bidders on the next business day.

A consolidated summary of the auction results shall be submitted for publication on the MoF website on the following Business Day after each auction.

Settlement Procedures:

Settlement Day for all Government Bonds awarded is on T+1 or one day after the auction date or the next business day.

Settlement of Government Bonds awarded shall be through the respective Primary Dealer's current account at the CBG.

Customers should ensure that funds are deposited with a Primary Dealer prior to the submission of bid applications by the Primary Dealer.

Maturity Proceeds:

At maturity, the Central Bank will credit the accounts at CBG of the dealers and each dealer will credit their customer accounts the same day.

Appendix 3: CENTRAL BANK BILLS

CBG bills are issued for Open Market Operation (OMO) purposes, for the management of market liquidity. They are the direct obligations of the Central Bank and the tenor ranges from 7 days to 70 days.

Appendix 3: UNDERTAKING

To
The First Deputy Governor
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 dealings 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 the Central Bank, report on transactions and market information, and such other statements and returns as are prescribed either specifically or generally by Central Bank via any of its instructions/notices/directives.

We understand that we are subject to all prudential and regulatory guidelines issued by the 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: _____