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P O Box 30080  
Lusaka 10101

August 10, 2001

CB Circular No. 22/2001

**To: All Commercial Banks**

Dear Sirs and Madams

**GOVERNMENT SECURITIES OFF TENDER OPERATING AGREEMENT**

Further to CB Circular No. 21/2001 dated 9<sup>th</sup> August 2001, find attached the Government Securities Off Tender Operating Agreement to be signed between Bank of Zambia and prospective Agent(s).

Kindly study the agreement. If the provisions of the agreement are acceptable and you are willing to undertake off tender transactions on behalf of the Bank of Zambia, Kindly contact the Director – Financial Markets department by **24<sup>th</sup> August 2001**. The contact details are as follows: telephone number 225008 and facsimile number 221189/226707.

Yours faithfully

**Dr Abraham Mwenda**  
**Deputy Governor - Operations**



## **GOVERNMENT SECURITIES OFF TENDER OPERATING AGREEMENT**

**AN AGREEMENT** made on this day of..... 20.....  
between

(1) The Bank of Zambia situate at Bank Square, Cairo Road, Lusaka, Zambia  
(hereinafter referred to as the "the Bank")

And

(2) ..... (hereinafter referred to as the  
"Agent")

### **WHEREAS**

- (a) The Bank has opened the window for the sale of government securities on a non-competitive basis (off tender).
- (b) The Bank shall issue government securities in electronic form in the Book Entry System (BES).

**IT IS AGREED** as follows:

### **1. a. Interpretation**

In this agreement, except in so far as the context otherwise requires: -

- i. "Business day" refers to a day on which the Bank of Zambia will be open for business other than a Saturday, Sunday or a public holiday in Zambia.
- ii. "Government securities" refers to Treasury bills and Government bonds issued by the Government of the Republic of Zambia.
- iii. "Agent" means a financial institution registered under the Banking and Financial Services Act (BFSA) of 1996 and the BFSA

(Amendment) Act no.18 of 2000 with a clearing account at the Bank of Zambia.

- iv. "Book Entry System (BES)" refers to the computerized system used by the Bank to process and maintain government securities records. The BES can also be referred to as the Central Depository System (CDS).
- v. "Book Entry System member" refers to a registered entity of the BES who can operate its own account for such purpose as selling or purchasing securities, pledging/accepting collateral and Repos/reverse transactions.
- vi. "Book Entry System accounts" refers to accounts where government securities are maintained.
- vii. "Off tender window" refers to the facility operated by the Bank where Government securities are sold on a non-competitive basis.
- viii. "Off tender Guidelines" refers to the rules and guidelines set by the Bank for the purpose of issuing government securities on a non-competitive basis.
- ix. "Settlement bank" refers to any commercial bank licensed under the BFSa of 1996 and the BFSa (Amendment) Act no. 18 of 2000 and currently operating a clearing account with the Bank.

- b. The off tender guidelines shall in all cases be reviewed consistently within the provisions of this agreement.

## **2. Acceptance as an Agent**

With effect from this day of .....20..... the financial institution

named.....

has been granted permission to act as an Agent on the sale/redemption of government securities on behalf of the Bank of Zambia on a non – competitive basis.

## **3. Book Entry System Accounts.**

- a. Book Entry System accounts may be maintained under this agreement for all clients whose names are as set out in 1.a (v) above.
- b. An agent shall operate three different accounts in the BES.

- i. "Own holdings account" for securities held on the agent's own behalf.
- ii. "Customers account" for securities held on behalf of customers.
- iii. "Collateral account" for securities pledged as collateral to other members of the BES.

#### **4. Liability of the Agent**

The Agent shall be liable to the Bank of Zambia and to its customers for all obligations under this agreement as follows: -

- i. The Agent shall be liable to the Bank for the proceeds of the government securities purchased under the off tender window.
- ii. The Agent shall be liable to the customers for the proceeds of the maturity of government securities purchased on the off tender window.

#### **5. Operation of the Off Tender Window**

- i. Subject to the provisions of this agreement, the Bank agrees with the Agent that it will operate an off tender window once a week on Fridays to sell Treasury bills on a non-competitive basis. Bond off tender window sales shall also be held every four to six weeks on Fridays after the previous auction. If Friday is a public holiday, the Agent shall be informed accordingly.
- ii. The Bank agrees that it shall provide the Agent with all such information relating to its own and customers' account holdings through the issuance of weekly statements and upon request.
- iii. The Bank agrees that it shall sell government securities on the off tender window at the weighted average price for Treasury bills and the weighted average annual yield rate for Government bonds struck on the previous tender.
- iv. The Bank agrees to allocate in full or in part any application submitted.
- v. The Bank agrees that securities issued under the off tender shall be credited to the customers' account of the Agent in the BES. An award notice shall be issued to the Agent by 15.00 hours on the Friday securities are being sold.
- vi. The Bank shall notify individual customers through the Agent of the actual amount of securities credited to the Agent's customer account.
- vii. The Bank shall not issue any physical certificates. All securities shall be held in book entry form.

- viii. The Bank agrees to rediscount Treasury bills issued on the off tender window held by the Agent in line with the ruling rediscount policy. The Bank shall not rediscount Treasury bills issued on the off tender window presented directly by individuals.
- ix. The Bank agrees to credit the rediscount proceeds to the Agent's current account held at the Bank.
- x. The Agent agrees to carry out the function of facilitating off tender government securities transactions on behalf of investors who cannot deal directly with the Bank of Zambia.
- xi. The Agent shall also sell Treasury bills or bonds on behalf of the Bank of Zambia as and when requested to do so.
- xii. The Agent agrees that it shall submit one application per maturity category showing the consolidated amount of all individual customers. The Agent further agrees to attach to each application a list of the names, identity number of the individual customers and amounts of securities to be purchased. The attached list of the individual customers once submitted to the Bank shall be final.
- xiii. The Agent shall submit the application form (s) to the Bank by 10:00 hours on Friday. The following are the application forms to be used, **BOZ FORM TB 1OT** (28 days), **BOZ FORM TB 2OT** (91days), **BOZ FORM TB 3OT** (182 days), **BOZ FORM TB 4OT** (273 days), **BOZ FM-RS-BA 1OT** (12 Months), **BOZ FM-RS-BA 2OT** (18 Months) and **BOZ FM-RS-BA 3OT** (24 Months). These forms can be obtained from the Bank of Zambia, Financial Markets Department.
- xiv. The Agent agrees to communicate to its customers all information provided by the Bank such as statements, award and rediscount notices and changes to the guidelines.
- xv. The Agent agrees to accept a minimum bid amount of One Million Kwacha (K1,000,000.00) thereafter in multiples of K1,000,000 up to a maximum of Twenty Nine Million Kwacha (K29,000,000.00) per customer per maturity category.
- xvi. The Agent agrees that all transactions with the Bank shall be settled through direct credits or debits to the Agent's current account held at the Bank.
- xvii. The Agent agrees to pay on maturity date, the maturity proceeds to its customers accordingly.

- xviii. The Agent agrees to facilitate secondary trading of government securities issued on the off tender to individual customers.
- xix. The Agent agrees that secondary trading of all Government bonds shall be conducted through the Lusaka Stock Exchange (LuSE).
- xx. The Agent agrees to submit to the Bank a return every Monday by 10.00 hours indicating individual customer holdings of Government securities.

#### **Transaction Charges**

- xxi. The Agent agrees to charge its customers a **maximum of two (2) percent handling fee** on the discount earned for Treasury bills and the total coupon income for Government bonds.
- xxii. The Agent agrees not to charge any other fees or commissions for its benefit other than the one stipulated in this agreement.
- xxiii. The Bank shall not charge the Agent handling fees for off tender transactions.

#### **Tax Charges**

- xxiv. The Agent agrees that tax charges shall be according to the tax regulation as stipulated in the statutory instrument. The Bank shall deduct tax from the Agent at redemption and issue one withholding tax certificate. The Agent shall in turn deduct tax from its customers and issue withholding tax certificates accordingly.

#### **Confidentiality**

The Agent shall at all times during the continuance of this Agreement and after its termination:

- a) use its best endeavours to keep all information which is disclosed to the Agent by the Bank pursuant to or in connection with this Agreement (whether orally or in writing, and whether or not such information is expressly stated to be confidential or marked as such) hereinafter referred to as 'Restricted Information', confidential and accordingly not to disclose any Restricted Information to any other person; and
- b) not to use any Restricted Information for any purpose other than the performance of its obligations under this Agreement.

#### **Duration and Termination**

- i) This Agreement shall come into force on the date hereof and, shall continue in force for a period of ..... year(s) and thereafter unless or until

terminated by either party giving the other written notice expiring at or at any time after the end of that period.

- ii) Either party shall be entitled forthwith to terminate this Agreement by written notice to the other if that other party commits any repudiatory breach of any of the provisions of this Agreement and, in the case of a breach capable of remedy, fails to remedy the same within 30 days after receipt of a written notice giving full particulars of the breach and requiring it to be remedied.
- iii) Either party shall be entitled to terminate this Agreement by written notice to the other if:
  - a) that other party commits a breach of this Agreement (not being a repudiatory breach of this Agreement);
  - b) an encumbrancer takes possession or a receiver is appointed over any of the property or assets of that other party;
  - c) that other party makes any voluntary arrangement with its creditors or becomes subject to an administration order;
  - d) that other party goes into liquidation (except for the purposes of amalgamation or reconstruction and in such manner that the company resulting therefrom effectively agrees to be bound by or assume the obligations imposed on that other party under this Agreement);
  - e) anything analogous to any of the foregoing under the law of any jurisdiction occurs in relation to that other party; or
  - f) that other party ceases, or threatens to cease, to carry on business.
  - g) The Bank shall terminate the agreement if the Agent has been found guilty of fraudulent activities, its operating license has been suspended or for any other reasons.

#### **Arbitration and Proper Law**

- a) Any dispute arising out of or in connection with this Agreement shall be referred to arbitration in Zambia of a single arbitrator appointed by agreement between the parties or, in default of agreement, nominated on the application of either party by the President for the time being of the Law Association of Zambia.
- b) This Agreement shall be governed by and construed in all respects in accordance with the Laws of Zambia, and each party hereby submits to the non-exclusive jurisdiction of the Zambian Courts.



## Notices and Service

- a) Any notice or other information required or authorized by this Agreement to be given by either party to the other may be given by hand or sent (by telex, cable, facsimile or comparable means of communication) to the other party at the address given below.
- b) Service of any legal proceedings concerning or arising out of this Agreement shall be effected by causing the same to be delivered to the Company Secretary of the party to be served at its principal place of business or its registered office, or such other address as may from time to time be notified in writing by the party concerned.

**The Director – Financial Markets**  
**Bank of Zambia**  
**Bank Square, Cairo Road**  
**PO Box 30080**  
**LUSAKA**

**The Director**

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.....”

## Other Conditions

The Bank reserves the right to suspend an Agent from further participation or undertaking of any off tender transactions if found not adhering to the off tender rules and procedures as stipulated in this agreement



**[Representative from the Bank]**

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**[Representative from the Agent]**

Name: \_\_\_\_\_

Title \_\_\_\_\_

Signature: \_\_\_\_\_

Date \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_

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