

CENTRAL SECURITIES DEPSOITORY (GH) LTD.

GUIDELINES ON SETTLEMENT GUARANTEE FUND

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1. INTRODUCTION

- 1.1 This document contains information relating to guidelines on the administration and application of the Settlement Guarantee Fund (SG Fund) to be applied by CSD as part of its clearing and settlement functions for post trade services.
- 1.2 CSD shall maintain a SG Fund to guarantee settlement of transactions arising out of default by any of the Depository Participants (DPs) in discharging their obligations.

2. OBJECTIVES OF THE SG FUND

- 2.1 To meet default obligations, shortfalls, deficiencies and or any other defaults during clearing and settlement.
- 2.2 To enhance investors' confidence in the securities market of Ghana.
- 2.3 To guarantee that settlements for DPs are executed as scheduled.

3. SCOPE OF THE SG FUND

- 3.1 The SG Fund shall cover transactions for both debt and equity traded securities for which clearing and settlement is done using delivery versus payment model.

4. COMPOSITION OF THE SG FUND

- 4.1 The SG Fund shall be composed of cash.
- 4.2 A Depository Participant (DP) shall upon admission by the CSD be required to contribute to the SG Fund before its trades will be accepted by the CSD.
- 4.3 CSD shall contribute 50% of the initial amount of the SG Fund whilst the additional 50% shall be contributed by the Depository Participants (DPs).
- 4.4 DPs contributions to the SG Fund shall be determined annually by CSD.
 - 4.4.1 DPs will be categorised into various groups.
 - 4.4.2 The categorisation of the groups will be based on the market share of DPs.
 - 4.4.3 The market share will be based on trading activities of DPs during the previous year.
- 4.5 After the SG fund has been established, the initial contribution of any new Depository Participant to the SG Fund shall be based on the formula below:

$$ICNDP = \frac{GH\text{¢} (I * CV)}{IV}$$

Where:

ICNDP = Initial contribution of a new DP

CV = Current value of the SG Fund

- IV = Initial value of the SG fund.
- I = is based on the initial contribution of DPs.
- 4.6 Returns from investment of the SG Fund.
- 4.7 Such other funds as the Board of Directors of the CSD may determine and
- 4.8 Any proposed increase the CSD shall advise the DPs to contribute to the SG Fund.

5. ADMINISTRATION

- 5.1 CSD shall have absolute discretion over the general administration of the SG Fund.
- 5.2 The Business Conduct Committee (BCC) established by the Board of Directors of the CSD shall have an oversight responsibility over the SG Fund.
- 5.3 In the event of the utilisation of the SG Fund for the purpose of meeting the shortage of a participant, the participant whose actions or omissions have caused the shortage shall be required to replenish the said SG Fund by close of next trading day.

6. REVIEW OF THE SG FUND CONTRIBUTION

- 6.1 The contributions of DPs to the SG Fund shall be reviewed annually.
- 6.2 The review will be based basically on the annual trading activities of the DP.
- 6.3 The CSD shall determine and notify each DP by the end of each calendar year, the required level of the DP's contribution for the ensuing year.
- 6.4 The CSD shall notify a DP of any proposed increase in his required contribution to the Settlement Guarantee Fund at the end of every financial year.
- 6.5 If the DP fails to pay any additional amount towards his contribution within 30 days, the CSD shall take disciplinary action against the Depository Participant as indicated in the CSD Operational Rules and the CSD Clearing and Settlement Rules.
- 6.6 If a DP's previous year's contribution to the SG Fund exceeds the required level of its contribution for the ensuing year, the DP shall not be allowed to withdraw the difference from the SG Fund.

7. APPLICATION OF THE SG FUND

- 7.1 Every DP admitted by the CSD, shall abide by the following Rules, Procedures and Guidelines:
 - 7.1.1 CSD Operational Rules
 - 7.1.2 CSD Operational Procedures

- 7.1.3 Clearing and Settlement Rules
- 7.1.4 Guidelines on Settlement Guarantee Fund and any
- 7.1.5 Other Agreements
- 7.2 The CSD shall apply the SG Fund under the following conditions.
 - 7.2.1 If any DP fails to discharge any of its settlement obligations under the Clearing and Settlement Rules of the CSD.
 - 7.2.2 If the Depository Participants cannot meet a financial obligation towards the CSD in connection with the SG Fund.
 - 7.2.3 A DP who fails to pay the deficiency remains liable to CSD for the full amount of such deficiency until the payment is effected in line with the Clearing and Settlement rules of the CSD.
- 7.3 No part of the Guarantee Fund shall be used by the CSD for any purpose other than:
 - 7.3.1 To facilitate clearing and settlement activities in terms of the CSD Rules and/or the Procedures;
 - 7.3.2 The investment shall be in Government Securities.
 - 7.3.3 To satisfy any liability of a Depository Participant to the CSD in respect of settlement obligations;
 - 7.3.4 For any adjustment or purpose permitted by these Rules; the Operational Procedures/Rules and Clearing and Settlement Rules.

8. EXCEPTION TO THE SG FUND

- 8.1 The SG Fund shall not cover losses that depository participants incur as a result of misconduct.

9. OPENING OF ACCOUNT

- 9.1 The CSD shall open an account with the Settlement Bank to be called the “CSD Settlement Guarantee Fund Account”.

10. MODE OF PAYMENTS OF DP’S CONTRIBUTION TO THE SG FUND

- 10.1 DPs shall make their contributions towards the SG Fund as directed by CSD from time to time.

11. PROFIT (INTEREST) ON CONTRIBUTIONS TO THE SG FUND

- 11.1 Interests accrued from investments of the SG Fund shall be apportioned to the contributors of the SG Fund at the end of each financial year.

- 11.2 The apportionment shall be on a pro rata basis depending on a DP's contribution.
- 11.3 The apportionment shall be carried out after the final report of an external auditor.

12. WITHDRAWAL FROM THE SG FUND

- 12.1 In the event that a DP withdraws its membership from the CSD hence the SG Fund, the current value of the DP's contribution will be remitted to her after all expenses and obligations related with the SG Fund have been fully catered for.
- 12.2 A DP's SG Fund deposit shall be paid to the DP, or his successor, where the DP ceases to be a depository member voluntarily, and the DP or his successor, has presented to the CSD such indemnities or guarantees as the CSD deems satisfactory

13. LIQUIDATION OF THE SG FUND

- 13.1 In the event that, the SG Fund is liquidated, the cash in the SG Fund shall be disbursed to the Depository Participants according to the proportions of their contributions.

14. DISPUTE RESOLUTION

- 14.1 Any dispute related to the SG Fund shall be reported to the Business Conduct Committee.
- 14.2 All disputes shall be resolved in accordance with the dispute resolution process as specified in Rule 53 of the CSD Operational Rules.

15. PENALTIES

- 15.1 Failure to settle money obligations on the due settlement day shall attract a penalty equivalent to GH¢ 2,000.00 or 5% of the value of the failed trade whichever is higher.
- 15.2 The affected DP shall pay the penalty by close of next trading day.
- 15.3 Failure to comply with 15.2 above shall attract an additional daily penalty fee of GH¢ 500.00.
- 15.4 In all cases, penalties collected from DPs during clearing and settlement shall accrue to the CSD.

16. DOCUMENT REVIEW

- 16.1 This entire document on the guideline of settlement guarantee fund shall be reviewed by CSD at the end of the first year of its implementation.

DEFINITIONS

Depository Participant (DP)

Depository Participants (DPs) are financial institutions, corporations and agencies appointed by CSD to act as intermediaries between the CSD and the general investing public in the securities market.

Settlement Bank

The entity that maintains accounts of settlement partners in order to settle obligations arising from securities transactions, both on its own behalf and for other market participants.

Settlement Day (Date)

The date on which partners to a securities transaction agree that settlement is to take place as set by the CSD. This intended settlement date is sometimes referred to as the contractual settlement date.

Settlement Guarantee Fund

means the clearing and settlement fund established by the CSD pursuant to the guidelines by which the Guarantee Fund is vested for the purpose of payment of the required amount(s) from time to time for satisfying DP(s)' settlement obligations in case of default of such DPs.

Settlement Partner

“Settlement Partner” means a bank appointed by a DP with the approval of the Central Securities Depository Gb. Ltd. to undertake the funds settlement obligations of the DP.

Custodian Bank

An entity, often a bank, that safekeeps securities for its customers and may provide various other services, including clearance and settlement, cash management, foreign exchange and securities lending.

T

“T” means the market day on which a security is purchased or sold by or on behalf of a depository participant

