Circulation of Government Bonds in Secondary Market

Chapter Three

Circulation of Government Bonds in Secondary Market

1- Banks (Public Debt Agent Banks) must meet all requirements (SWIFT messages, customers' contracts, and accounts system).

2- Government bonds will be circulated in the secondary market according to the following controls using the electronic system:

2/1 Transactions for Benefit of the Customers

Banks wishing to purchase or sell government bonds or to hold such bonds on behalf of the customers are required to apply to QCB for being authorized to act as an agent for government bonds. To act as an agent or a broker of government bonds, a bank should get QCB's approval and take procedures as following:

2/1/1 Written agreements shall be prepared to be signed by all customers wishing the bank to be a broker for purchasing or selling of government bonds. This agreement should include:

- Type of services, rights and commitments for each party;
- Commissions, fees, any other charges to be paid by customers; and
- Procedures of settling disputes between the two parties.

2/1/2 Policies and procedures related to execution of customers' orders, including the following:

- A written manual of all policies and procedures concerning customer transactions should be set;
- All customers' orders should be immediately recorded (with a stamp of registration date);
- Practical procedures of transmitting all customers' orders to the market immediately (by setting a mechanism to make sure dealing room receives and immediately perform the customer's orders);
- Notifying the customers of the processed operations, sending the confirmation to both two parties (seller and buyer) and sending the settlement instructions electronically; and
- Procedures of the non-performing operations (transactions that have not been settled).

2/1/3 Setting policies and control procedures on customers' transactions of government bonds, as following:
- Policies to avoid conflict of interests;
- Risk controls in terms of requiring payments or ensuring the pre-approval of granting the credit line; and before transaction is carried out.
- Ensuring the suitability of these investments for the customer.

2/1/4 Preparing the agreement to be signed by all customers who wish the bank to act as an agent for purpose of holding of government bonds. This agreement may be separate or included in the brokerage agreement.

2/1/5 Setting policies and procedures for agency, including:
- Performing of all transactions immediately;
- Adding all interests and base amounts immediately;
- Ratifying all transactions immediately and sending the statements to customers periodically;
- Setting proper control procedures including settling between the customer's account and the agent bank that holds the government bond at QCB, and periodically reviewing by independent internal auditor.

2/1/6 Comprehensive review on the system and procedures. Thus, banks should check that:
- The paid amounts, including the due interests, have been correctly calculated.
- Customers' government bonds have been held separately from those owned by the bank, so that, under no circumstances, the bank could not dispose of or use them for repurchase transactions or for any other purpose.

2/2 Main Transactions for Benefit of the Bank

Each bank, that wishes to be a market maker, through purchasing and selling government bonds for its own account, is required to get the approval of QCB. Each bank will need to demonstrate that the bank has efficiency, resources,
policies and procedures in order to perform these activities accurately and in a sound manner that does not potentially endanger the bank's resources and deposits of its customers to any risk. The following are the main elements that will be reviewed by QCB:

2/2/1 Risk management system:
- It should be able to identify, quantify and control types of risks (related to market, finance, credit, liquidity, settlement, operations and legal affairs) and all activities of the bank as a market maker of the government bonds, and
- Controlling Repo risk (such as default risk)

2/2/2 Internal control and operations:
- Separating work of the executive employees from that of support for the executive operations;
- A written manual, setting all policies and procedures related to market making activities;
- Transactions' documents saving system;
- Reporting systems that provide data on trading in the market, owned bonds and their interests based on the prices provided by independent sources, confirming the ownership data of these bonds, and reconciling the balances with QCB's periodical statements;
- Periodical review by the bank's internal auditor; and
- Support system for all the related procedures of the operational, control, risk management, as well as for analytic and trading support.

2/2/3 Qualified staff with an experience in market making activities.

2/2/4 Appropriate policies for market making activities, including:
- Policies of conflict of interests (for example, when the bank's employees perform market activities or use any undeclared data of purchasing and selling operations); and
- Applying principles of conduct with which the employees should be acquainted.