

## Guarantee Mechanisms for the Financial Markets of Cameroon

## 1 – THE PRINCIPLES OF FINANCIAL MARKET GUARANTEES

### 1.1 DIFFERENT TYPES OF RISK AND MANAGEMENT TOOLS

#### 1.1.1 CREDIT RISK

**Principle: Delivery systems against payment administered by the Central Depository eliminate credit risk.**

Credit risk appears when there is a time lag between the delivery of shares and securities and the settling of the account. In the case where a PSI (investment service provider), during a negotiation at the Stock Exchange, makes delivery of shares or securities to the purchaser without receiving full settlement in exchange, then a cash flow deficit occurs. Equally, if the PSI who wishes to buy pays for the shares or securities, but does not immediately take possession of the shares, then the seller is in possession of a cash advance.

Each PSI, therefore, cannot be sure that the settlement or the delivery will be made, and until it is made, the transaction cannot be said to have been successfully concluded. The PSI is therefore running a credit risk.

If, however, the system assures that payment and delivery take place simultaneously, the credit risk disappears.

#### Credit Risk and Systemic Risk

**Principle: The putting in place of market guarantee mechanisms allows the elimination of all credit risk and a large part of systemic risk.**

Credit risk occurs when the other party to a transaction goes bankrupt or becomes insolvent and is no longer in a position to honour his commitments regarding payment for delivery. In the absence of a guarantee mechanism, the payment in cash or the delivery of shares to which the insolvent party has committed himself or herself, may not necessarily take place. It is easy to imagine the losses that can be incurred in such a situation. The 'domino effect' of such a situation could lead the other parties to themselves become insolvent, and so on down the line. This is known as systemic risk.

These risks can be alleviated to a great extent if we allow each PSI to freely choose the other party with whom he or she does business. This allows the PSI, to a great extent, to evaluate and manage the risks that he or she runs. This is one of the principal characteristics of markets which are controlled by the price or where market transactions are subject to strong constraints in terms of equity.

The system in place at the Douala Stock Exchange differs from that of a market controlled by price. Here, the market is controlled by orders, where:

The choice of the other party is not possible

The system of negotiation determines the equilibrium price according to supply and demand, and thus automatically attributes a counterpart to each order to buy or sell.

Another constraint imposed is that all participants in the market must be banking establishments

The absence of a series of constraints, other than that the participants must be banking establishments, justifies itself by the nature of the activity of each participant. The principal function of a PSI is not to buy or to sell shares on behalf of their clients. The role of the PSI is to transmit to the Stock Exchange orders to buy or sell which are issued by their clients, in order that the supply and demand for shares and securities may meet. Within the framework of this activity, the PSI never needs to use his own equity.

The existence of a system of guarantees for all transactions carried out in the financial market is therefore essential. These guarantees effectively ensure that each transaction is successfully completed and that the risk of insolvency or bankruptcy of one participant does not involve any risk to the other participant in the transaction, (credit risk), nor to the market as a whole (systemic risk).

The main objective of this mechanism is that, if a failure to pay in cash by one participant is observed, his or her commitment concerning settlement and delivery, both now and in the future, will be subrogated.

## 2 MARKET RISK

**Principle: A successful conclusion to all transactions carried out in the financial market accompanies any market risk.**

This mechanism covers all transactions carried out on the financial market, whether they have been completed or are in progress. In the event that the PSI does not respect his commitments, this mechanism will ensure a successful conclusion to the transaction.

**Principle: the PSI must cover his or her market risk by means of an allocated deposit.**

Market risk cover is assured by means of a call for contributions from the PSIs. Each PSI, therefore, makes a contribution to this guarantee mechanism. The amount of the contribution is proportional to the market risk presented by the totality of market transactions in progress. In the event of insolvency on the part of a PSI, this guarantee will allow him or her to liquidate his provision.

For each PSI, market risk can be calculated daily in proportion to negotiations carried out.

Each PSI contributes to the guarantee mechanism in proportion to the risk he or she bears.

### 3) MEMBERS

**Principle: each PSI authorised to negotiate on the market must be a member of the market guarantee mechanism**

Each PSI must settle calls for contributions within the time periods set down by the mechanism. A PSI who does not respect these rules will no longer have access to the market.

### TRANSACTIONS COVERED

**Principle: Only transactions concerning shares and securities listed and traded on the Douala Stock Exchange shall be covered by the guarantee mechanism.**

### GUARANTEE MECHANISM PROCEDURES

**Principle: The guarantee mechanism only comes into play following insolvency. At the moment when any insolvency is observed, the mechanism will intervene in order to close out a position or positions.**

### FUNCTIONING OF THE MECHANISM

**Principle: The mechanism is managed by the PSI Association**

### ESTABLISHMENT OF CONTRIBUTIONS

There are 2 levels of contributions:

- a) An initial contribution, in the form of a fixed inclusive application fee of 10 million fcfa
- b) A regular contribution, the amount of which varies according to the volume of transactions

### MONITORING OF CONTRIBUTIONS

**Principle: The PSI Association will carry out controls at regular intervals of the level of contributions of each member.**

**INTERNAL RULES AND REGULATIONS GOVERNING THE GUARANTEE  
MECHANISM**

## **PART 1: GENERAL ARRANGEMENTS**

- 1) This handbook of internal rules and regulations, which conforms to law no. 99/015 of the 22<sup>nd</sup> December, 1999 concerning the organisation and the creation of the Cameroon Financial Market, and to clause 2 of the Articles of Association of the PSI Association, is intended to define:
  - Rules and regulations concerning the organisation of the guarantee mechanism
  - The amount of the initial contribution to be made by each PSI
  - The method used to calculate the periodic contributions made by each PSI
  - The periods at which these contributions shall be adjusted
  - The circumstances under which the Guarantee mechanism will come into force.
- 2) The present list of internal rules and regulations applies to each PSI who is entitled to negotiate on the Douala Stock Exchange and who, by this fact, participates in the post-market operations of delivery and settlement.
- 3)
  - 1) The Guarantee Mechanism, the subject of these rules and regulations, is aimed exclusively at covering net long or bull positions (PONA) shown by the PSIs at the close of the negotiating session.
  - 2) The Guarantee Mechanism has been put in place uniquely to deal with cash insolvency on the part of the PSI participating in negotiations at the Douala Stock Exchange.

## **PART 2: RULES FOR THE ORGANISATION OF THE GUARANTEE MECHANISM**

- 4)
  - 1) The Guarantee mechanism is managed by the PSI Association (APPSI)
  - 2) The Guarantee Mechanism takes the form of a deposit in a bank account.
  - 3) The bank account in which the funds will be deposited will record as credit:
    - Contributions from the PSIs, both initial and regular
    - Repayments by insolvent PSIs and advances to them granted by the Guarantee Mechanism
    - Any interest payments to be paid by the bank where the account is held

And as debit:

- Releasing of funds destined for the settlement bank intended to substitute for the Guarantee Mechanism to insolvent PSIs
- Balance transfers to the PSIs in relation to any adjustment in their level of contribution
- Account handling charges imposed by the bank where the account is held
- Charges incurred by the management and operation of the Guarantee Mechanism.

### **PART 3: INITIAL CONTRIBUTIONS, MARKET RISK AND REGULAR CONTRIBUTIONS**

#### **5) Amount of the initial contribution**

All PSIs who are members of the guarantee mechanism will make an initial non-recurrent contribution which shall be considered as an application fee. The amount of this inclusive initial contribution is fixed at 10,000,000 fcfa (ten million francs cfa)'

#### **6) Market Risk**

- 1) Each PSI negotiator at the Douala Stock Exchange is, in turn, either a vendor or a purchaser of shares and securities to other PSIs operating in the same Stock Exchange. When a PSI buys shares or securities, he or she must be able to pay all the sums due to the seller. When he or she sells, he is obliged to wait for the sums due to him.
- 2) Individual market risk appears at the moment when a PSI shows a net long or bull position (PONA) at the end of a negotiating session. This risk reflects the uncertainty as to whether the PSI has the ability to settle his account within the agreed period (4 days after the transaction.)
- 3) Market risk is reinforced by PSIs who show short or bear positions and, flowing from this, are waiting to be paid for the sales they have made.
- 4) Market risk can therefore be understood to be the maximum market capitalisation (Cmx) of a PSI of a share x that any given PSI can buy on the market. This capitalisation is inversely proportional to the market share (Pmx) of this share, that is to say:

$$RM = Cmx \frac{1}{Pmx}$$

This means that an increase in market share of a PSI on one share x converts into a lowering of market risk or settlement risk for the same share.

By way of illustration, consider the following hypothesis:

H1: The Stock Exchange begins its activities with 5 PSIs numbered PSI1, PSI2, PSI3, PSI4, PSI5.

H2: A single company is quoted on the market

H3: The total number of shares offered on the market is 1000

H4: The market price of the shares is 10,000 fcfa

H5: The market share of the PSIs is as follows:

**MARKET SHARE**

**MARKET RISK**

	QUANTITY OF SHARES	CAPITALISATION	PERCENTAGE	
PSI1	700	7,000,000	70%	3,000,000
PSI2	90	900,000	9%	9,100,000
PSI3	50	500,000	5%	9,500,000
PSI4	50	500,000	5%	9,500,000
PSI5	110	1,100,000	11%	8,900,000
TOTAL	1000	10,000,000	100%	

Regular contributions by the PSIs to the Guarantee mechanism take the form of deposits allocated to the cover of settlement risk. It then becomes apparent that deposits made by any given PSI must be sufficient to allow for the possibility of an increase in market share by that PSI. In our example, these possibilities are:

PSI1: 30%, PSI2: 91% PSI3: 95% PSI4: 95% PSI5: 89%

**7) Calculation of regular contributions**

Regular contributions (PRs) to be made by the PSIs to the Guarantee Mechanism are calculated as follows:

The average monthly growth rate of the share in the portfolio (Tcmx) is multiplied by the market risk (RM) for the PSI as follows:

**PR = Tcmx RM**

- 1) The monthly growth rate is calculated by the PSI Association taking into account the positions of shares at the beginning and at the end of each month. These figures are held in the Central Depository and are made available to the PSIs. The PSI Association will ask for this information on a regular basis.
- 2) We will illustrate this by use of the previous example, taking the case of PSI2. This PSI has a market share of 9% and a market risk of 9,100,000. If we further suppose that the monthly growth rate at the end of the month is 30%. It follows that, for the following month (M + 1), the PSI must make a contribution of 2,730,000 i.e. 30% of 9,100,000.
- 3) At the end of the month M + 1, it is necessary to recalculate the contributions needed for the following month (M + 2), again taking into account the growth rate during this period. Let us suppose that during M1 the growth rate was 20%. We can see that, between M and M + 1, the market share of the PSI increased from 9% to 11.7%. The market risk, which is inversely proportional to the market share, dropped from 9,100,000 fcfa to 8,830,000 fcfa. Using these figures as a basis, the contribution to be made by the PSI for M + 2 will be 1,766,000 fcfa. The PSI will be entitled to a reduction of 964,000 fcfa.
- 4) If, on the other hand, at the end of M + 1 the PSI2 only sold shares and the monthly growth rate (Tcmx) was negative (for example minus 5%), the market share of the PSI will move from 11.7% to 11.15% and his market risk from 8,830,000 to 8,888,500. His monthly contribution will therefore change from 1,766,000 fcfa to 2,210,425 fcfa.

#### **8) Payment of contributions**

- 1) Members of the Guarantee mechanism will receive from the PSI Association at the end of every month a statement showing the amount of contributions to be paid, or, in the event of a decrease in market risk for the PSI, the amount due to them.
- 2) Contributions can be paid by direct transfer to the Guarantee mechanism account, or by bank cheque to the Association of PSIs with a copy of the transfer order from the PSIs own bank.

### **PART 4: GUARANTEE MECHANISM: PROCEDURES FOR USE**

- 9) In the event of a failure to pay by one of the PSIs at J + 4 (four days after the date of the transaction), the Douala Stock Exchange, acting in the name of the settlement bank and the Central Depository (divisions of the DSX responsible for settlement and delivery) will officially contact the Association of PSIs no later than 13.30 on J + 4 in order to make them aware of the non-payment and

to instruct them to put the Guarantee mechanism into action. A copy of this notification will be sent to the settlement bank.

- 10) This notification by the DSX shall be made by any traceable means and if necessary in writing. The notification will include the amount owed as well as any interests paid, and shall be invoiced by the settlement bank.
- 11) Notification having been sent, the PSI Association will put the guarantee mechanism into action no later than 15.30 on J + 5.
- 12) The putting into action of the guarantee mechanism will take the following forms, either:
  - A transfer of funds by the PSI Association in favour of the settlement bank
  - A bank cheque issued by the PSI Association in favour of the settlement bank

The amount transferred or the value of the cheque must be equivalent to the amount owed by the PSI plus any interest due, calculated at penalty rates by the settlement bank.

- 13) The penalty rate imposed by the settlement bank shall be equal to the penalty rate set by BEAC.
- 14)
  - 1) By virtue of the fact that the Guarantee mechanism has thus been put into action at J +5, the settlement bank will release, from its own resources, on J + 4, the sum owed by the PSI.
  - 2) The release of this sum by the settlement bank on J + 4 makes it unnecessary for the Stock Exchange to suffer further delays in the settlement or delivery of shares or sums due. It also justifies the invoicing of interest payments by the settlement bank.
  - 3) The release of any of the settlement banks own funds shall serve exclusively to settle the short or bear positions of the other PSIs.

## **PART 5: FINAL ARRANGEMENTS**

- 15:**
  - 1) Any PSI who fails to make delivery or payment under the terms of the Guarantee mechanism shall be legally liable for those sums.
  - 2) The repayment of all sums due under the Guarantee Mechanism shall be a prior condition of any new admission of the PSI to the trading floor of the DSX.

- 16:** By way of special dispensation, a PSI who owes money via the Guarantee mechanism may be permitted to negotiate on the trading floor of the DSX if he or she is only selling shares. The person responsible for the trading floor shall check his order book before any trading is allowed.

**Instruction No. 002/DM/DSX/04 of the 1<sup>st</sup>  
December, 2004, relating to investment and  
negotiating conditions for ‘Zero Coupon’  
Treasury Bonds in the unlisted compartment of  
the Douala Stock Exchange**

## DOUALA STOCK EXCHANGE (HEREAFTER KNOWN AS DSX)

Given:

- The Constitution
- Law no. 99/015 of the 22<sup>nd</sup> December 1999 relating to the creation and the organisation of a Financial Market
- Resolution no. 02/009/CMF of the 1<sup>st</sup> November, 2002 adopting the General Regulations of the Financial markets Commission
- Decree no. 00771/A/MINFI/CAB of the 23<sup>rd</sup> December, 2002 approving the General Regulations of the Financial markets Commission
- The report of the Constituent General Assembly of the 30<sup>th</sup> November, 2001, concerning the creation of the Douala Stock Exchange SA (DSX)
- The report of the Board of Directors of the 30<sup>th</sup> November, 2001, concerning the nomination of the Chairman of the Board of Directors and the Managing Director of the Douala Stock Exchange SA (DSX)
- The resolution no. 0027/CMF/03 of the 27<sup>th</sup> June, 2003 giving a favourable opinion concerning the granting of an exclusive concession for the management of a stock market to the market company Douala Stock Exchange SA (DSX)
- The resolution no. 0028/CMF/03 of the 6<sup>th</sup> August, 2003, concerning the authorisation of the Douala Stock Exchange as a market company
- The resolution no. 0034/CMF/03 of the 6<sup>th</sup> August, 2003 approving the rules governing a market company

IT HAS HERBY BEEN DECIDED AS FOLLOWS:

### **PART 1: GENERAL ARRANGEMENTS**

#### **1) Objectives**

The objective of this instruction is the creation of an unlisted compartment within the Douala Stock Exchange. It completes the provisions of clause 63 of the General Rules and Regulations of the DSX and lays down the rules and procedures concerning:

- The organisation of the market for negotiable Government shares and securities
- The negotiation and trading of 'Coupon Zero' Treasury Bonds
- The pricing of services offered by the DSX
- Procedures for payment and delivery in the unlisted securities market
  
- More generally, this Instruction lays down the correct procedures which will allow the conformity of the market to clauses 2, 3 and 19 of the Decree no. 2004/1930/PM of the 21<sup>st</sup> October, 2004, which modifies certain provisions of

decree no. 94/11/PM OF THE 30<sup>TH</sup> December, 1994, which regulates the issue and the management of negotiable Government shares and securities

## **2) Scope and applicability**

The provisions of the present instruction apply to all persons holding or buying 'Coupon Zero' Treasury Bonds, as well as any duly authorised intermediary seeking to admit such bonds for negotiation and trading.

Only securities which are unburdened by any charge, such as pledges or liens on shares, seizure, distraint or attachment are eligible to be traded on the Douala Stock Exchange.

The Douala Stock Exchange is responsible for the organisation and management of a specific market for 'Coupon Zero' Treasury Bonds registered in the unlisted securities market. In this capacity, the DSX will regulate:

- The organisation of the market
- Negotiation of transactions
- Cancellation and suspension of transactions
- The recording and the communication to the public of negotiations

The DSX shall monitor the correctness of all transactions carried out by authorised persons, whether they are acting as an intermediary for the third party or on their own account.

The DSX shall monitor all trading sessions and shall inform the Financial markets Commission (FMC) of any irregularity or non-respect of the rules, or any other activity or anomaly which is contrary to the interests of the market, or likely to bring the market into disrepute.

By virtue of the powers invested in it by the FMC, and the corresponding duty to report to the FMC, the DSX reserves the right to impose immediate penalties in the event of an activity or anomaly which is contrary to the interests of the market, or likely to bring the market into disrepute.

Decisions taken by the DSX, whether acting on its own initiative or by virtue of the powers invested in it by the FMC, whether these decisions concern the organisation of trading or the activities of individuals or groups, are legally binding and enforceable from the moment that either the public or the persons concerned have been informed, except in the case where a period of grace has been granted.

## **II- DEPOSITING OF REQUESTS FOR ADMISSION FOR TRADING**

### **3) Deposit of requests for admission**

Any holder or buyer of 'Coupon Zero' Treasury Bonds, or any intermediary acting on behalf of such persons, who wishes to carry out negotiation and trading of such Bonds at the DSX shall submit to the DSX an application form (sale or purchase) in order to gain authorisation for such admission to trading.

### **4) Application form**

The application form shall contain all information necessary to allow a potential buyer or seller to form a clear idea of the transaction.

The application form shall be submitted in two copies and shall be accompanied by the following documents:

#### **Offers to buy:**

- A firm offer to buy, specifying the following: the code and category of the Bond, the date of issue, the number of Bonds, the nominal amount, the due date and the estimated transfer price:
- A Bank Certificate showing the financial solvency of the potential purchaser
- A Bank Guarantee, drawn up by a bank authorised by COBAC corresponding to 5% of the purchase price
- Two bank cheques corresponding to the face value of the purchase offer drawn up in favour of the DOUALA STOCK EXCHANGE and of the CAA for the settlement of any commissions due ((please see attached table of fees and commissions)

#### **Offers to sell**

- A firm offer to sell, specifying the following: the code and category of the Bond, the date of issue, the number of Bonds, the nominal amount, the due date and the estimated transfer price:
- A certified true copy of the securitisation agreement
- A copy of bank statement (initial securities, following the signature of the securitisation agreement
- A copy of the sellers most recent bank statement
- A certified authenticated official mandate, in the case where the seller is using an intermediary
- An attestation of no liability (fiscal or other), drawn up by the bank at the moment of the signature of the securitisation agreement
- Two bank cheques corresponding to the face value of the sales offer drawn up in favour of the DOUALA STOCK EXCHANGE and of the CAA for the

settlement of any commissions due ((please see attached table of fees and commissions))

#### **5) Supplementary information**

The DSX reserves the right to ask any buyer or seller of 'Coupon Zero' Treasury Bonds, or any intermediary acting on behalf of such persons, for any supplementary information it deems necessary in order to authorise the sale or purchase.

#### **6) Encumbered negotiable Government Securities**

Holders of securities or their intermediaries must inform the DSX within a period of 48 hours of any charge or encumbrance such as pledges or liens on shares or securities, seizure, distraint or other attachment which apply to the Treasury Bonds concerned, as well as any withdrawal, cancellation, discharge of any of the above encumbrances.

Any declaration of encumbrance or the lifting thereof addressed to the DSX shall contain the following information: the type of encumbrance (pledge, lien, seizure, distraint or other attachment), the date of imposition of the above, the date of any lifting of the encumbrance, the number of securities, as well as any contract, agreement or other supporting document which shall allow the DSX to make an evaluation of the procedure.

### **III – NEGOTIATING PROCEDURES**

#### **7) Recording of applications**

At the moment when an application is received, the DSX will issue to the person submitting the application a quittance in two copies of the deposit form, duly dated.

The DSX shall subsequently record in a specific directory the application for admission to negotiations.

#### **8) Granting of Notice of Deposit**

When the necessary conditions have been fulfilled and all regulations have been respected, the DSX shall issue a Notice of Deposit to the person holding or wishing to buy the Bond or his intermediary within three days. This Notice shall contain the following information:

- The date of deposit
- The order number
- The type of transaction (buy or sell)
- The characteristics of the portfolio

## **9) Publication and communication of an order**

The DSX shall display at its windows the sales and purchase price of 'Coupon Zero' Treasury Bonds in order to inform all potential clients who may wish to buy or sell such bonds.

Buying and selling orders shall be published in the Official Bulletin of the DSX.

Any 'Coupon Zero' Treasury Bond tenders shall be carried out by means of an invitation to tender or bid which shall be published in the Official Bulletin of the DSX and displayed in its premises.

## **10) Time limits**

Each invitation to tender shall bring together all clients wishing to buy or sell and who have deposited an offer which conforms to the regulations **within 10 working days**.

## **11) Invitations to Tender**

Each invitation to tender shall bring together all clients wishing to buy or sell and who have deposited an offer which conforms to the regulations. All potential buyers or sellers must confirm their transactions at the DSX.

Orders shall be fulfilled at the price proposed by the successful bidder. Successful offers submitted for 'Coupon Zero' Treasury Bonds shall be those offering the highest nominal percentage price.

Each person whose offer is accepted shall buy or sell the Bonds at the submitted price (expressed as a nominal percentage of the face or nominal value of the Bonds).

## **12) Recording of Transactions**

Upon reception of confirmation of the transaction by the two parties concerned, the DSX shall record the transaction and communicate the result of the invitation to tender to the Central Depository within 24 hours in order to allow the settlement and delivery procedures to take place.

Transactions will be considered as having been carried out when they have been ratified by the Central Depository within the framework of agreed procedures for settlement and delivery.

#### **IV – Final provisions**

##### **13) Publication**

In the interests of transparency, the results of any invitation to tender shall be published in the Official Bulletin of the DSX. The following information shall be published: the number of Bonds bought or sold, the transfer price, and the names of the persons or organisations buying and selling.

##### **14) Cost of Services**

Commissions to be paid to the DSX shall be paid both by the buyer and the seller according to the following scale of charges:

AMOUNT	COMMISSION (%)
More than 1 billion	0.5
From 100 million to 1 billion	0.5
From 50 to 100 million	0.5
From 10 to 49 million	0.5
From 5 to 9 million	0.5
From 1 to 4 million	0.5

Commissions thus calculated shall be due and payable before the close of negotiations. They shall be invoiced by, and paid to, the DSX.

##### **15) Penalties**

In the event of an abandonment of the transaction, and where another party exists, a penalty of 2% of the amount of the purchase offer, corresponding to 100% of the sums due to the DSX, shall be claimed from the person selling.

#### **VI – RULES OF MANAGEMENT OF NEGOTIATIONS**

##### **1) ‘Pre-Market’ operations**

On Day 1 (J), the date of reception of the application by a potential buyer or a bearer of Bonds, the DSX shall transmit the application for admission to the Central Depository for verification.

The result of this verification shall be communicated in writing to the DSX within 2 working days. The decision shall contain all necessary information concerning the Bonds.

An employee of the Central Depository shall deliver the decision to the DSX and shall receive in return a valid quittance.

On day 2 (J + 2), the DSX shall send a notice of deposit to the bearer of the Bond, or to his intermediary within 10 days. The notice shall contain the following information:

- The date of deposit
- The order number
- The nature of the transaction (buying or selling)
- Characteristics of the portfolio

From day 3 to day 13 (J + 3 to J + 13), the DSX shall display on its premises and communicate with the banks and other specialised financial institutions the characteristics of the transaction and the date of the invitation to tender (bid) for the 'Coupon Zero' Treasury Bonds, in order to allow all clients and interested persons to submit their bids.

At the end of this period will record and communicate details of all offers received.

## **2) Market Operations**

On the date of the tender, day 14 (J + 14), orders shall be served at the price proposed by the successful bidders: the most successful offers for 'Coupon Zero' Treasury Bonds shall be those at the highest price (expressed as a nominal percentage value).

Each bidder whose offer is accepted shall buy or sell the Bonds at the price submitted, expressed as a nominal percentage of the face value, not including interest charges, tax and commissions.

The two parties shall confirm the transaction in writing within 48 hours.

### **Market balanced:**

**Offer to buy = offer to sell**

### **Market unbalanced:**

There is an imbalance between the price offered and the price required. In this case bids shall be made as at an auction shall be held in order to allow the market to find a balanced price.

The bidding session shall take place in the presence of an authorised court bailiff acting under oath who shall confirm by means of a writ the successful completion of the invitation to tender.

## **3) 'Post-Market' Operations**

Authorised intermediaries representing the parties shall send to the DSX, by fax and registered mail the following documents within 48 hours:

- Confirmation letters of offers to buy and sell
- The means of payment for the transaction in favour of the beneficiary or his intermediary (copy of bank cheque, copy of transfer order and contract note of carrying out of payment, BEAC transfer order).

The DSX shall transmit to the Central Depository the file of all transactions carried out and confirmed by authorised intermediaries, as well as supporting documents of proof of payment within 48 hours.

## VII – CHRONOLOGY OF NEGOTIATING PROCEDURES

Diagram of negotiating Procedures

STEPS	DAY OF DEPOSIT	DAY + 1	Day + 3	Day + 3 to Day + 13	Day + 14
DSX	Receipt of application				
DSX to CAA	Transmission for verification	of application			
CAA to DSX			Validation by CAA and transmission of characteristics		
DSX to bearer of bonds or intermediary			Following confirmation of regularity, the DSC sends a notice of deposit to bearer or intermediary		
DSX to intermediaries				Public invitation to tender	
DSX					Date of tender and bids in presence of Clerk of the Court

DSX to CAA – Transmission of statement of transactions and result of tender  
(within 48 hours)

CAA Beginning of delivery and settlement procedure

**DOUALA STOCK EXCHANGE:  
TRADING FLOOR REGULATIONS**

## DOUALA STOCK EXCHANGE (HEREAFTER KNOWN AS DSX)

Given:

- The Constitution
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- The resolution no. 0027/CMF/03 of the 27<sup>th</sup> June, 2003 giving a favourable opinion concerning the granting of an exclusive concession for the management of a stock market to the market company Douala Stock Exchange SA (DSX)
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- The resolution no. 0034/CMF/03 of the 6<sup>th</sup> August, 2003 approving the rules governing a market company

IT HAS HERBY BEEN DECIDED AS FOLLOWS:

### **PART 1: GENERAL ARRANGEMENTS**

#### **1) Objectives**

Trading floor regulations concern notably the following procedures:

- The functions of those persons engaged in negotiation and compensation, whose activity requires a professional card
- Negotiation and listing of shares on the central market
- Guarantee mechanisms for transactions carried out

The Central market is defined as the market for the negotiation of shares and securities admitted to the autonomous sinking fund in the General Depository, and listed on the electronic quotation system at the Douala Stock Exchange.

## **TRADING FLOOR REGULATION NO. 05-01/DM/DSX/05 CONCERNING PROFESSIONAL CARDS**

### **DOUALA STOCK EXCHANGE (DSX)**

Given:

- The Constitution
- Law no. 99/015 of the 22<sup>nd</sup> December 1999 relating to the creation and the organisation of a Financial Market
- Resolution no. 02/009/CMF of the 1<sup>st</sup> November, 2002 adopting the General Regulations of the Financial markets Commission
- Decree no. 00771/A/MINFI/CAB of the 23<sup>rd</sup> December, 2002 approving the General Regulations of the Financial markets Commission
- The report of the Constituent General Assembly of the 30<sup>th</sup> November, 2001, concerning the creation of the Douala Stock Exchange SA (DSX)
- The report of the Board of Directors of the 30<sup>th</sup> November, 2001, concerning the nomination of the Chairman of the Board of Directors and the Managing Director of the Douala Stock Exchange SA (DSX)
- The resolution no. 0027/CMF/03 of the 27<sup>th</sup> June, 2003 giving a favourable opinion concerning the granting of an exclusive concession for the management of a stock market to the market company Douala Stock Exchange SA (DSX)
- The resolution no. 0028/CMF/03 of the 6<sup>th</sup> August, 2003, concerning the authorisation of the Douala Stock Exchange as a market company
- The resolution no. 0034/CMF/03 of the 6<sup>th</sup> August, 2003 approving the rules governing a market company

IT HAS HERBY BEEN DECIDED AS FOLLOWS:

- 1) All persons carrying out negotiation and compensation activities on the trading floor of the Douala Stock Exchange must be in possession of an appropriate and up to date professional card
- 2) Professional cards shall be issued by the DSX and shall conform to the model attached to this document
- 3) Investment Service Providers (PSIs) shall draw up and maintain a list of persons authorised to hold a professional card.
- 4) This regulation shall be published in the official bulletin of the DSX.

# **TRADING FLOOR REGULATION NO. 05-02/DM/DSX/05 CONCERNING REGULATIONS FOR THE OPERATION OF ELECTRONIC NEGOTIATION AND TRADING**

## **DOUALA STOCK EXCHANGE (DSX)**

Given:

- The Constitution
- Law no. 99/015 of the 22<sup>nd</sup> December 1999 relating to the creation and the organisation of a Financial Market
- Resolution no. 02/009/CMF of the 1<sup>st</sup> November, 2002 adopting the General Regulations of the Financial markets Commission
- Decree no. 00771/A/MINFI/CAB of the 23<sup>rd</sup> December, 2002 approving the General Regulations of the Financial markets Commission
- The report of the Constituent General Assembly of the 30<sup>th</sup> November, 2001, concerning the creation of the Douala Stock Exchange SA (DSX)
- The report of the Board of Directors of the 30<sup>th</sup> November, 2001, concerning the nomination of the Chairman of the Board of Directors and the Managing Director of the Douala Stock Exchange SA (DSX)
- The resolution no. 0027/CMF/03 of the 27<sup>th</sup> June, 2003 giving a favourable opinion concerning the granting of an exclusive concession for the management of a stock market to the market company Douala Stock Exchange SA (DSX)
- The resolution no. 0028/CMF/03 of the 6<sup>th</sup> August, 2003, concerning the authorisation of the Douala Stock Exchange as a market company
- The resolution no. 0034/CMF/03 of the 6<sup>th</sup> August, 2003 approving the rules governing a market company

### **IT HAS HERBY BEEN DECIDED AS FOLLOWS:**

- 1) These regulations are designed to lay down rules for the negotiating system. They apply to all relations between Investment Service providers (PSIs), without prejudice to any commercial relationship the PSIs may have with their clients.
- 2) **Negotiating systems**

The Douala Stick Exchange will make available to the PSIs an electronic trading system.

#### **2.1 Negotiating workstations**

- 2.1.1 The introduction of orders onto the trading system by PSIs will be carried out by the manual entry of these orders on the workstations provided.

These workstations will be installed within the DSX and may only be moved with the written permission of the DSX.

- 2.1.2 The availability of workstations to PSIs is subject to an agreement between the DSX and individual PSIs.
- 2.1.3 The use of workstations is subject to the rules defined in this document and instructions issued by the DSX. The PSI bears the responsibility for their use.
- 2.1.4 No other use may be made of these workstations by PSIs other than those defined in this document. In the event that a PSI uses the workstation in any other manner or for any other purpose, the DSX is entitled to close the workstation or otherwise prevent access by the PSI, who shall be considered as having put in jeopardy the smooth running of the market. The Financial Markets Commission shall be informed of any such suspension of a PSI. Any unauthorised use of a workstation may give rise to sanctions conforming to rules and regulations in force.
- 2.1.5 The entry and recording of orders may only be carried out by persons acting on behalf of the PSIs and who hold the appropriate professional card.
- 2.1.6 If a PSI or his representative is unable to use the workstation provided by the DSX for technical reasons, he may use a back-up system which will be made available by the DSX. If several PSIs are unable to gain access to the negotiating system, it is the responsibility of the DSX to take the decision whether to continue or suspend trading in the interests of the market.

## **2.2 Organisation and statements of the negotiating system**

- 2.2.1 All shares and securities admitted for quotation, in conformity with clauses 99, 100 and 104 of Stock Exchange Regulations shall be admitted via the negotiating system. Any withdrawal of orders from the quotation system should be followed up by the withdrawal of the same order in the order book.
- 2.2.2 Shares and securities admitted onto the DSX are divided into 3 categories:
  - 'First Division' shares and securities (Group 'A' shares)
  - 'Second Division' shares and securities (Group 'B' shares)
  - Debt instruments (Bonds group)

All the securities in these 3 groups are quoted by 'fixing'. The time and duration or fixing shall be decided by the DSX and shall be published in their official bulletin.

For each share or bond, there will be a confrontation of authorised orders. These orders will be recorded by the system and, if the confrontation allows it, a market quotation will be issued. From that moment on, it will not be possible to modify previous orders or to make a new offer.

2.2.3 Normal hours of trading may be modified. In this case, the DSX will inform all participants of the new hours of trading.

### **3) Orders accepted via the negotiating system**

#### **3.1 General arrangements**

3.1.1 Any order recorded by a PSI will be indicated by a message, indicating the time and the date, which transfers to the DSX the responsibility for the carrying out of the order. The DSX will attribute a sequential number to each order.

3.1.2 The negotiator shall indicate:

- The direction of the order (sale or purchase)
- The number of shares
- The price (market order or limited price)
- The date of validity of the order

#### **3.2 Validity of orders**

3.2.1 Orders introduced into the quotation system may be valid for a fixed date. The normal date of validity is the end of the month in which the order was placed.

3.2.2 At the end of this period, the order shall be automatically eliminated from the system.

#### **3.3 Pace of quotation**

The pace of quotation is the minimum interval between 2 price levels. For each share, the pace of quotation is determined by the DSX.

In order to be admissible, limits of validity expressed by clients should take into account these intervals.

### **3.4 Price limits**

Price limits can be expressed in 2 ways:

3.4.1 Orders where there is a price limit must include an indication of the price.

- For sales, this limit will be the minimum price that the seller is willing to accept for the relinquishment of the share
- For purchases, the limit will be the maximum price that the buyer is prepared to pay for the shares.

3.4.2 For market orders: orders without a price limit do not specify a minimum price (for sellers) and a maximum price (for buyers). The client accepts to pay the price which is decided by the market. These orders can be seen as being the price of the capacity of the market and not what the client himself might want. Using market orders, the client is certain that his order will be carried out, but not necessarily in its entirety.

In the case where an order to buy at the market price confronts an order to buy at a limited price, and the price limit is higher than or equal to the market price, then the order to buy at the market price shall have priority.

In the case where an order to sell at the market price confronts an order to sell at a limited price, and the price limit is lower than or equal to the market price, then the order to sell at the market price shall have priority.

### **3.5 Maximum spreads (differentials)**

The DSX may, by means of a specific instruction, determine the maximum spread or fluctuation which it will accept, according to the type of shares being traded and trading conditions in general. The DSX will also determine what measures should be taken if these differentials are attained.

### **3.6 Quantity of shares to be negotiated**

The quantity of shares to be bought or sold is freely determined by the client. Shares are bought and sold per unit, and the client may choose to buy and sell anything between one and an infinite number of shares.

## **Part 4: The Order Book**

4.1 In order to establish the market price, the DSX has to centralise and compare all orders received. The totality of these orders, which is recorded in the central database, is called the 'order book'. This order book will contain:

- Orders which are waiting to be carried out
- Orders which are partly carried out and balances in suspense

This order book in general is shared among the different PSIs. Each trader has his or her own order book which contains only the orders that he or she has made personally.

Each trader has the possibility:

- To place new orders
- To consult his or her order book
- To modify orders already placed but which have not been carried out
- To cancel an order

These different operations may only be carried out by a trader by using his or her order book.

## **4.2 Security**

For reasons of security, each trader has a password which will allow him or her to gain access to his or her order book. Each PSI or representative shall be issued with a user profile which will allow him or her to gain access to the system.

The central system will only allow access to the functions to which the user is authorised.

## **4.3 Updating of order books**

In order to allow the introduction of orders into the trading system, the DSX makes available to PSIs workstations which are connected to the central system. Each negotiator needs to use this workstation in order to gain access to his or her order book, and to update the order book during trading.

After orders are entered into the order book, the trader can call them up in order to consult, modify, or cancel the orders.

- 4.3.1 Modification of an order only applies to orders which are being processed.
- 4.3.2 All orders can be cancelled

## **Part 5: Quotation and trading**

At the beginning of each quotation procedure, orders will be transmitted automatically into the 'quotation box'. This quotation box, which is in fact a file stored on the computer, serves as a support for the confrontation of orders to buy and sell, which

allows a market (balanced) price to be determined. During this quotation process, no addition, modification or cancellation of an order will be possible.

At the end of the quotation procedure, the status of orders received may be as follows:

- Totally carried out. In this case, the order is taken out of the quotation box and stored in a file of orders carried out.
- Partially carried out. These are orders where, for example, a client who wishes to buy 25 shares in fact only obtained 15. In this case, the part of the order not carried out will be recycled into the next trading session, on condition that its validity date has not expired.
- Not carried out. In this case, the order will be recycled into the next trading session, on condition that its validity date has not expired.

## **5.2 Determination of price – the quotation and trading process**

The quotation procedure at the DSX is by computerised price ‘fixing’.

### **5.2.1 The principles of price determination**

The price of a share is calculated by the quotation system by the application of 3 principles. These principles are applied to the totality of orders centralised on the market spreadsheet and are as follows:

- Maximisation of trades
- Minimisation of residual quantity i.e. quantity of shares unsold
- Minimisation of spread between bid and asked prices

#### **Maximisation of trades**

In the interest of the market, its operators and clients, it is convenient to look for and facilitate a price level which allows the maximum number of shares to be traded, bearing in mind possible prices and the rules regarding spread management.

If the first criteria does not allow the determination of price, the second criteria shall be used.

#### **Minimisation of residual quantity**

The residual quantity is the number of shares unsold at a given price. It is obtained by subtracting the number of shares bought from the number of shares offered for sale. The higher the result, the higher the residual quantity.

If the second criteria does not allow the determination of price, the third criteria shall be used.

#### **Minimisation of spread between bid and asked prices**

If the first 2 criteria do not permit the price to be determined, we should consider that the 2 prices are equivalent and of the same quality.

Consequently, in this case the price closest to the mark or reference price shall be retained, on the basis that a price spread should be avoided wherever possible.

### 5.2.2 Principles for the allocation of shares

The price having been determined according to the principles outlined above, clients can now verify the conditions for the transfer of shares, notably:

- The price to be applied
- The number of shares to be transferred

#### Orders totally carried out

The following orders are considered as having been totally carried out:

- Orders to buy at a higher price than the price quoted
- Orders to sell at a lower price than the price quoted

#### Orders partially carried out

The following orders are considered as having been totally carried out:

- Some or all orders to buy at the price quoted
- Some or all orders to sell at the price quoted

#### Orders not carried out

The following orders are considered as not having been carried out:

- Orders to buy at a lower price than the price quoted
- Orders to sell at a higher price than the price quoted

### 5.2.3 Market status

The market has five different possibilities corresponding to the differing allocation of shares.

#### 5.2.3.1 Market perfectly balanced

This is where all orders to buy or sell at or above the quoted price have been accepted

#### 5.2.3.2 Market imperfectly balanced

This is where a portion of orders placed at the quoted price, and only those orders (whether they be orders to buy or to sell) have been accepted

#### 5.2.3.3 Market at reduced quotation

This is generally the case in markets showing a strong upward trend (excess of orders to buy) or a downward trend (excess of orders to sell).

In this case, the system will apply the principles of price determination up to the maximum limit allowed by the regulations.

At this level, the system will make a comparison between the totality of shares to be bought and sold. If the imbalance is not too pronounced, for example the spread is less than 15%, a reduced quotation is put into operation.

In this case, the conditions for the carrying out of an order are as follows:

- A reduction in the number of orders (either to buy or to sell)
- The direction of orders thus reduced must correspond to the direction of the market. If the number of orders to buy is reduced, it follows that these orders are more numerous than orders to sell. The price of the share will consequently increase.
- All reductions must, however, remain within the limits prescribed by the regulations. It is not permitted to reduce a quotation to quote a price which is outside the regulatory limits.
- This coefficient of reduction shall be applied to all orders. However, the DSX reserves the right to make marginal modifications in order to facilitate trading and the number of shares exchanged.
- Any reduction in quotation must be published in the official bulletin.

#### 5.2.3.4 Market without counterpart

If the relation between orders to buy and orders to sell exceeds 4/1, quotation becomes impossible. In this case, there will no quotation but a simple indication as follows:

Share Z quoted at 11,000 fcfa (DE for buy) or share YZX quoted at 9,000 fcfa (OFF for sell).

#### Unquoted market

In the case where the confrontation between orders to buy and orders to sell is unbalanced, and furthermore no upward or downward trend can be observed, or where there is no correspondence between purchase limits, there will no quotation and trading will not take place.

### 5.3 Priority

#### 5.3.1 Priority of client orders (not applicable in the case of quotation by fixing)

#### 5.3.2 Premium price priority

Premium price priority implies that:

- 1) For purchases, orders at a limited price where the limit is higher than the quoted price shall be carried out first, in decreasing order from the highest to the lowest limit.

- 2) For sales, orders at a limited price where the limit is lower than the quoted price shall be carried out first, in increasing order from the lowest to the highest limit.

#### 5.3.3 Orders at market price and orders at limited price

Orders to buy at the market price have priority over orders to buy where the limited price is higher or equal to the price quoted

Orders to sell at the market price have priority over orders to buy where the limited price is lower or equal to the price quoted

#### 5.3.4 Hour and date

When an order is accepted into the order book, the exact date and time of the order shall be recorded. The person placing the order shall receive a stamp indicating the hour, the date and the number of the order.

### **Part 6: 'Events'**

- 6.1 An 'event' can be defined as, for example: the attachment or detachment of a subscription right, an allocation right, an interest or dividend coupon or any other such operation authorised by the DSX. The date of closing of the stock registers signifies the date at which the list of holders of a share shall be drawn up at the end of any such events.

- 6.2 Declaration of an 'event'

The issuing party shall declare to the DSX any such event prior to the event coming into force. This declaration shall be in writing and shall specify the nature and the date of the recording of the event. On the basis of this information, received, the DSX will publish a notice specifying the nature and the date of the recording of the event.

- 6.3 Prior notification

This declaration must reach the DSX at least 15 working days before the date of closing of the stock registers in which the event shall be recorded. It is the responsibility of the person issuing the declaration to see that all time limits are respected.

In case of doubt, the time limit must be long enough to allow persons wishing to place an order to determine, at the moment when he or she transmits the order to his or her PSI, who, either the purchaser or the vendor, will receive any profits, rights or other advantages resulting from this event, or who will assume any charges, costs or obligations, assuming that the order is carried out during the following trading session and that all other procedures take place within the agreed time.

The DSX reserves the right to modify the time limits laid down in this document when the characteristics of the event seem to justify it and when such modification appears to be in the interest of the market, the investors, or the issuing persons.

#### **6.4 Detachment and 'ex' transactions**

A subscription or allocation right is negotiated in the same department of the DSX as the share to which it is related.

Attachment or detachment of subscription or allocation rights, interest coupons, dividends or any other operation of this nature will take place at the date of the closing of the stock register. Consequently, the DSX has adopted a four day cycle for the settlement of these transactions ex subscription or allotment rights, ex interest coupon, ex dividends, etc., on the 3<sup>rd</sup> working day preceding the closing of the stock register.

If the day of closure of the registers is a public holiday, these transactions will be 'ex' on the 4<sup>th</sup> day preceding the closing of the registers.

#### **6.5 Privileges attached to shares sold**

Except in the case of express written agreement to the contrary, all privileges attaching to a share are considered an integral part of the share, and shall automatically become the property of the person buying the share at the moment when the transaction takes place.

- 6.6 Generally speaking, in the case of any of the events described above taking place, the DSCX reserves the right to modify the mark price of the share concerned. Any such modification shall be communicated to the PSIs.

### **Part 7: Negotiations controlled by the DSX**

#### **7.1 Counterparty transactions**

The DSX will inform all concerned persons when the regulations for this section will come into force.

##### **7.1.1 Definitions and general principles**

Counterparty transactions are defined as transactions where a PSI buys shares from one of his or her clients or sells shares to one of his clients for his own account.

Counterparty transactions shall take place during normal trading sessions.

All shares listed on the DSX may be traded as counterparty transactions.

Only authorised PSIs may carry out counterparty transactions

Except in the case of special permission given by the DSX, a PSI may not carry out a counterparty transaction when he or she manages the account of the client.

Without prior authorisation from the DSX, the following transactions are forbidden in the following cases, in conformity with clause 163 of the Stock Exchange Regulations:

- a) When the quotation of the share has been suspended, reserved or foreclosed
- b) When the share was not quoted at the previous trading session

#### 7.1.2 Price determination

During a trading session, the counterparty transaction is carried out at the price established during the trading session concerned.

#### 7.1.3 Issue of trade tickets or contract notes

The PSI, in his capacity as counterparty is authorised to issue a trade ticket or contract note at the net price, without brokerage fees or commission

#### 7.1.4 Application

All arrangements concerning guarantees and cover for negotiations, delivery of shares and settlement of accounts contained in the regulations are also applicable in the case of counterparty transactions.

#### 7.1.5 Interests of the client

If, in a potential counterparty transaction, there is a conflict of interest between the PSI and the client, the PSI must act in accordance with the interests of the client or withdraw from the transaction.

### **7.2 Simultaneous buying and selling**

The DSX will inform all concerned persons when the regulations for this section will come into force.

#### 7.2.1 Definition

Simultaneous buying and selling is a transaction where the buying and selling of the same number of shares is carried out on the same day and at the same price for the account of several persons placing orders who have asked one or several PSIs to record in their order books the transaction to be concluded between them. In this case, no orders will be placed on the market.

#### 7.2.2 Prior authorisation

Simultaneous buying and selling may only be carried out with prior authorisation by the DSX. This authorisation will only be granted in exceptional circumstances.

#### 7.2.3 Applicable criteria

In its evaluation of a simultaneous buying and selling transaction, the DSX will especially take into account the capacity or the incapacity of the market to absorb, under normal circumstances, the number of shares concerned in the operation. The DSX will compare this number of shares with the number of shares normally traded on the market.

- 7.2.4 Declaration of transaction conditions  
The intention to carry out a simultaneous buying and selling transaction shall be declared in writing to the DSX before the opening of trading. Persons intending to carry out such a transaction shall declare the conditions of the proposed transaction, the quantity of shares to be traded, the price proposed, and the reason for the transaction.  
If 2 PSIs intend to carry out such a transaction, both must make a declaration. The DSX will authorise or not authorise such a transaction after having studied the declarations.
- 7.2.5 Simultaneous buying and selling transactions at the end of trading  
Simultaneous buying and selling transactions may only be carried out at the end of trading after normal trading has been carried out.
- 7.2.6 Simultaneous buying and selling transactions which began during the previous trading session  
Each simultaneous buying and selling transaction must be concluded at the price established at the previous trading session, and not at the daily price.  
The DSX, however, reserves the right to fix, for a certain share or group of shares, a price interval during which the price of the transaction may be selected. The limits of this interval may be established by adding and subtracting the quoted price at the previous trading session by a margin whose maximum rate shall be decided by the DSX. In this case, the DSX will notify all concerned persons in writing.
- 7.2.7 Review of authorisation  
The DSX reserves the right to prohibit, or to withdraw its authorisation for, a simultaneous buying and selling transaction if it is in the interest of the market, and especially in the following cases:
- 1) If the DSX identifies a significant spread or differential between the daily price and the price of the transaction.
  - 2) If the share in question is suspended, reserved or has been foreclosed
  - 3) If the share has not been quoted during the days trading session
  - 4) If, during the trading session, a marked imbalance between orders to buy and orders to sell becomes apparent.
- 7.2.8 Recording of information on the computer  
The DSX is the only person authorised to enter simultaneous buying and selling transactions on the computer.  
Simultaneous buying and selling transactions shall be entered and recorded in the same way and under the same conditions as shares which are regularly traded at the central market

7.2.9 Cancellation of a simultaneous buying and selling transaction  
In the event of non-payment or insolvency on the part of one of the parties concerned in the transaction, the transaction shall be cancelled

7.2.10 Publication of simultaneous buying and selling transactions  
The DSX shall control and monitor the frequency of simultaneous buying and selling transactions  
The DSX will include information concerning these transactions in its statistics  
The DSX will inform the market of any such transactions before the opening of the next trading session by any means it deems necessary.

### **7.3 Transactions by file**

7.3.1 Special dispensation  
Trading of shares admitted to the DSX, in the cases outlined below, may be carried out by means of a file presented to the DSX by the PSI in charge of the transaction.

7.3.2 Cases of transactions by file  
Trading of shares may be carried out in the following cases:

- 1) The transaction forms part of a merger, demerger, takeover or acquisition concerning 2 or more companies
- 2) The transaction concerns 2 companies where one company holds at least a third of the share capital of the other company
- 3) The transaction concerns a legal entity other than a company and a company, where the legal entity holds at least a third of the share capital of the company
- 4) The transaction is between husband and wife
- 5) The transaction is carried out between parents, up to the third degree of parenthood
- 6) The transaction concerns 2 shareholders and it concerns guaranteed shares
- 7) The transaction arises from an agreement other than a simple sale, and constitutes a necessary element of this agreement
- 8) The transaction belongs to another category recognised by the DSX as being acceptable

7.3.3 Submission of application  
The submission of the application for permission to carry out this kind of transaction is done by the PSI who represents the vendor. The file shall contain a copy of the agreement confirming the transaction and the following information:

- 1) The identity of the persons wishing to buy
- 2) The identity of the persons wishing to sell
- 3) A description of the share
- 4) The name of the persons issuing the application
- 5) The unit price and the total amount to be traded
- 6) The number of shares to be traded
- 7) Details of the persons representing the parties to the transaction

In addition to the contract and the information above, the file should also include:

- 8) Details as to whether the transaction forms part of a merger, demerger, takeover or acquisition, together with any legal documents authorising the said merger, demerger, takeover or acquisition
- 9) If the transaction concerns 2 companies where one company holds at least a third of the share capital of the other company, a certificate showing the allocation of share capital
- 10) If the transaction concerns a legal entity other than a company and a company, where the legal entity holds at least a third of the share capital of the company, a certificate showing the allocation of share capital
- 11) If the transaction is between husband and wife, a marriage certificate
- 12) If the transaction is carried out between parents, the birth certificates of the persons concerned
- 13) If the transaction concerns 2 shareholders and it concerns guaranteed shares, a copy of the resolution nominating the new administrator
- 14) If the transaction arises from an agreement other than a simple sale, and constitutes a necessary element of this agreement, a copy of the said agreement
- 15) If the DSX judges it necessary, the Articles of Association of the companies or organisations concerned
- 16) Any other document deemed necessary by the DSX, which will allow it to evaluate the proposed transaction

#### 7.3.4 Date and time of submission

The date and time of reception shall be recorded by the DSX when the file is presented. The DSX undertakes to look at files thus submitted in a timely manner

#### 7.3.5 Prior Authorisation

No transaction by file may be carried out unless it has been authorised in advance by the DSX.

#### 7.3.6 Attestation of transactions

In the event that the DSX gives authorisation for the transaction to take place, it will issue an authorisation in writing. This authorisation shall include the date the authorisation was issued.

#### 7.3.7 Publication of the transaction

The DSX is the only person authorised to record details of such transactions into its computer system

The DSX will record in a separate register all transactions by file authorised by itself. This register is to be made available to the public

The DSX will inform the market of any such transactions and authorisations of such transactions by any means it deems necessary.

### 7.4 Failure to pay

#### 7.4.1 Notification of failure to pay

In the case where a PSI fails to conclude a transaction with the time limits laid down by the Central Depository, the Depository will immediately inform the DSX of the nature and conditions of the incomplete transaction.

#### 7.4.2 Insolvency of PSIs

In the event of a failure to pay by a PSI, the DSX shall inform the PSI and request that payment be made before the opening of the next trading session. If payment is still not made by the due date, the PSI may be declared insolvent and the following measures shall apply:

- a) The Guarantee Mechanism shall intervene and liquidate the PSIs positions in a timely manner (both shares and cash).
- b) In the event of a failure to deliver shares, all shares outstanding shall be treated according to the procedures for resolution of a failure to pay: a limited period of time shall be granted to the PSI to deliver the shares, a summons shall be issued, and procedures for redemption of the shares shall be put in place. If, at the end of time period allowed, the shares have still not been delivered, the transaction is cancelled (using the termination clause) and the procedures shall be concluded by payment of compensation in the place of the undelivered shares.
- c) All rights and privileges of the PSI are withdrawn and he is denied access to the trading floor. The Financial markets Commission, the Central Depository, and the Professional PSI Association shall be informed of the insolvency of the PSI concerned.

### **Part 8: Communication of Information**

At the end of each trading session, the DSX shall draw up statements of all trades carried out which will be transmitted to the Central Depository and to the PSIs.

Information transmitted to the PSIs is as follows:

- The order book for the days' trading session: the DSX shall make available to all PSIs a statement of orders made during the days' trading session.
- A statement of transactions: the DSX will transmit to each PSI participating in the placing of orders, a notice of transactions giving the following information: the names and types of shares traded, the order number, the direction of the trade (buy or sell), the number of shares traded, the price of the shares, and remarks by the PSIs at the moment the order was placed.
- A statement of orders remaining in the order books
- The appearance of the market (bearish, bullish, etc.)

Information transmitted to the general public is as follows:

- The official DSX bulletin: this is published every week and gives information on prices, market events, etc.
- The annual report
- The DSX Web Site which is open to all and members of the public can freely download
- Various specific information aimed at investors and issuers of shares, which may not be widely diffused.

### **Part 9: Conditions for the quotation of capital shares**

Capital shares are ordinary or preference shares and, in general, all other securities, simple or compound, which give access to capital.

Admission procedures for capital shares on the DSX (first and second departments) are determined by the DSX itself. In order to be admitted and quoted, shares should satisfy the following conditions:

- 1) They should be shares in public limited companies
  - 2) The company issuing the shares agrees to divulge and publish all information requested by the DSX, notably the publication of its annual accounts in the Stock Exchange Bulletin
  - 3) The company issuing the shares agrees to participate in the market
  - 4) The company issuing the shares agrees to abide by its rules
- 9.1.1 Capital shares quoted on the DSX shall belong to the group of securities known as 'shares'
- 9.1.2 The allocation of these shares by category is carried out by the DSX according to the following criteria: the volume and number of transactions created by the issue, the number of entries in the negotiating system, and the number of days during which the shares are traded.
- The list of shares by category is published by a notice in the Stock Exchange Bulletin. If need be, this list will be updated quarterly. This list may be revised and updated at the request of the issuing companies.
- 9.1.3 Capital share prices are quoted in francs cfa. Grades and levels of quotation are determined by the DSX and will be made available to the public by a notice in the Stock Exchange Bulletin.

## **9.2 Classification of shares (first compartment)**

The DSX reserves the right to decide, at any moment, that a share issue does not satisfy the minimum criteria for classification of the shares concerned in the first compartment. In this case, the DSX will give 60 days advance notice of its decision to declassify the shares. This decision will be announced by means of a Notice.

An issuer whose shares are thus relegated from the first to the second compartments may not demand a reclassification before a period of 12 months following the decision by the DSX has elapsed.

## **Part 10: Conditions for the quotation of loan notes and debt instruments**

10.1 Loan notes and debt instruments are equity investments or loans, subordinated loans, or any share or bond, whether simple or compound, which represent a debt by the issuer.

The procedures for admission of these debt instruments are determined by the DSX. In order to be admitted for quotation, these debt instruments should satisfy the following conditions:

- 1) The company issuing the instrument agrees to divulge and publish all information requested by the DSX, notably the publication of its annual accounts in the Stock Exchange Bulletin
- 2) The company issuing the shares agrees to participate in the market
- 3) The company issuing the shares agrees to abide by the rules of the market

10.2 Loan notes and debt instruments admitted to the DSX will be classified under the group 'Bonds'.

10.3 The allocation of these bonds by category is carried out by the DSX according to the following criteria: the volume and number of transactions created by the issue, the number of entries in the negotiating system, and the number of days during which the shares are traded.

10.4 Bonds belonging to this group shall be admitted to Central Depository operations.

10.5 Loan notes and debt instruments are quoted as a percentage indicated at the bottom of the coupon. On the day of trading, the amount of the fraction shall be calculated on the basis of the theoretical date of completion. This amount will be communicated by the DSX.

10.6 Levels of quotation shall be established by the DSX and will be published in a Notice.

## **Part 11: Powers of the DSX**

11.1 The DSX possesses certain powers as defined in the General Rules and Regulations, which it may exercise in its mission to organise and regulate the market.

### 11.2 Suspension of trading

The DSX may at any moment suspend trading of one or several shares when it estimates that it is in the interest of the market to do so.

During the period of suspension no order may be placed and no negotiation may be carried out.

The period of suspension may or may not be for a predetermined time.

Without limitation to the above, the following situations may give rise to a suspension of trading:

- 1) A significant imbalance between orders to buy and orders to sell.
- 2) A company prepares to reveal important information and asks the DSX to suspend trading
- 3) The DSX estimates that a company has not disclosed all the necessary information.

### 11.3 Carrying over of shares

The DSX reserves the right to carry over one or several shares

### 11.4 Maximum differentials and spreads

The DSX reserves the right to make a decision concerning the maximum differentials, spreads and fluctuations in price which it considers acceptable, taking into account the category of shares, the negotiating conditions, and the measures to be taken in the event of these maximum spreads being attained.

### 11.5 Prohibition of placing of orders

The DSX reserves the right to prohibit the placing of orders on one or a number of shares. This prohibition may be accompanied by the suspension and/or the carrying over of the share or shares concerned.

The period of prohibition may or may not be for a predetermined time.

During this period of prohibition, it shall not be possible to place orders, to cancel orders, or to modify orders previously placed.

### 11.6 Incomplete disclosure of information

The DSX reserves the right to carry over, to prohibit or to suspend the trading of any share or shares where it has reason to believe that information which is in the interest of the market has not been disclosed to the public, or that an important decision which may have an impact on the market is on the point of being taken, or in the case of any other situation liable to disturb the smooth and transparent running of the market.

Any carrying over, prohibition or suspension of trading shall be communicated to the public by means of a Notice.

11.7

Extraordinary trading sessions

The DSX reserves the right to defer or to bring forward a trading session. It may also decide to hold an extraordinary trading session during which trading shall be limited to a specific share or a group of specific shares. Any such decision taken by the DSX shall be communicated to the public by means of a Notice to be issued before the trading session in question.

11.8

Total elimination of orders

Any decision or measure taken by the DSX which leads to a total elimination of orders shall be published by means of a Notice. This notice will specify whether the client should renew the orders placed at a specific time, or whether it is the responsibility of the DSX to reintroduce, at its own initiative, orders corresponding to those which have been eliminated.

11.9

The impact of a suspension on secondary services

Secondary services are defined here as any preference shares, subscription or allocation rights or any other advantage of the same nature issued by a company.

Any suspension, carrying over or prohibition of trading decided by the DSX may also include these secondary services, whether wholly or in part.

11.10

Manipulation or rigging of the market

Any manipulation or rigging of the market, or any other dishonest practice designed to create a false impression concerning the true value of a share or the activity of a company, is strictly forbidden. Any person engaging in such manipulation shall be subject to sanctions within the framework of the powers invested in the DSX.

Without limitation to the above, the following practices shall be regarded as manipulation or rigging of the market:

- 1) Fictitious transactions
- 2) The placing or acceptance of an order which does not entail a genuine change of ownership of the share
- 3) The creation of a false activity of a company or an artificial price of a share
- 4) The carrying out of a series of purchases or sales of a share with the intention of unduly or abusively influencing the price of the share
- 5) To carry out, whether alone or with other persons, a series of share transactions with a view to artificially raising or lowering the price of the share

- 11.11 The power to cancel a price or a transaction  
The DSX reserves the right to cancel a price and, in consequence, all transactions carried out at that price, before the conclusion of the transaction.  
The DSX equally reserves the right to cancel a transaction which has been determined, before the transaction has been completed.  
These cancellations may also be carried out when the price quoted has been established, or the transaction carried out, in violation of rules and regulations in force.  
In all cases, the decision of the DSX shall be communicated by means of a Notice.

**Part 12: Guarantees and cover**

- 12.1 Remittance of funds or shares  
A PSI may demand a remittance of funds or shares before placing an order.
- 12.2 Guarantee by the PSI  
The PSI guarantees to his client that all negotiations requested will be carried out. The PSI also bears the responsibility with regard to his clients of ensuring the payment and delivery of any shares bought and sold on the market.
- 12.3 Cover for the person placing the orders  
All shares and cash held in the accounts of a PSI are covered by the guarantee taken out by the PSI with regard to the person placing the order. For shares and securities, the PSI may sell them without giving notice in order to balance or close his transactions.

**Part 13: Market buoyancy**  
(The DSX will advise the public when this section comes into force)

- 12.4 Nomination of an animator  
The DSX or persons issuing shares intend to nominate a market animator for each share quoted. Nomination and animation procedures will be the subject of a specific instruction.

**Part 14:** These trading floor regulations shall be published in the official Stock Exchange Bulletin

