



# VICTORIA FALLS STOCK EXCHANGE DEPOSITORY

## OPERATIONS PROCEDURES MANUAL

Version 1,

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**CENTRAL  
DEPOSITORY  
OPERATIONS  
PROCEDURES  
MANUAL**

## **1. INTRODUCTION**

- 1.1. This Procedures manual describes the procedures to be followed in performing the functions relating to securities deposit, custody, clearing and settlement at VFEX Depository.
- 1.2. These procedures assume:
  - 1.2.1. A trading session starts from 0900hrs to 1100hrs *for* securities listed on the Victoria Falls Stock Exchange (VFEX).
  - 1.2.2. A post close trading session runs from 1100hrs to 1530hrs as designated by VFEX.
  - 1.2.3. The trading hours may be extended by VFEX from time to time.
- 1.3. These procedures assume a settlement cycle of T+3 for secondary market transactions involving securities listed on VFEX.
- 1.4. These procedures may be changed from time to time.
- 1.5. Appendices contain different reports and forms used for VFEX Depository operations.

## **2. DEFINITIONS AND INTERPRETATIONS**

Account	Means an account maintained by VFEX Depository for a Participant or for a Participant's client, and used for transactions in the Depository Services and Settlement Services.
Allotment Schedule	A report submitted to VFEX Depository by an Issuer or its Transfer Secretary consisting of a list of Securities Account Holders allotted with Securities in respect of Public Offers, Primary Auction, Bonus Issues, Rights Issues, mergers and any other securities qualified to be deposited in the VFEX Depository CSD System.
ATS	Automated Trading System of the VFEX.
CSD Rules	the rules and any amendments thereto of the VFEX CSD Rules and includes any appendices to the rules
CSD	Means the Central Securities Depository system, which includes the computer (hardware and software) system that VFEX Depository uses to administer the book entry transfer of securities.
Custodian	means the holder of a securities (custody) license
Custodian Bank	the bank which provides services to clear funds on behalf of a Participant
Dematerialisation	means the process of converting certificated Securities into Uncertificated Securities, with electronic book entry at VFEX Depository.
Final Settlement Report	A report generated by VFEX Depository on the settlement position of each Participant for each trade day after the time allotted for trade affirmation.
Initial Settlement Report	a report generated by the VFEX Depository on the settlement position of each Participant for each trade day.
Issuer	means a person whose securities are listed and traded on the VFEX

Jumbo Certificate	a physical certificate issued by the Registrar/Transfer Secretary for all the shares deposited in the CSD System per counter.
Net Settlement Position	The sum of the total debit amounts netted off against the sum of the total credit amounts for the relevant trading day per Participant.
New Issues Schedule	A report generated by the VFEX Depository, giving details of Securities Accounts credited with securities allotted during a Primary Auction or Initial Public Offering.
Operational Procedures	these guidelines and operating procedures for Depository Participants, Issuers and depositors, from time to time, issued by the VFEX Depository.
Participant	means an individual and or corporate entity that holds in custody and administers interests in securities and has been admitted as a Participant and is registered by the SECZ.
Penalties Framework	The Penalties Schedule, which describes penalties to be paid by Depository Participants for the violation of CSD Rules and Operational Procedures.
Penalty	fine charged to a Participant by the CSD for the violation of CSD Rules and Operational Procedures.
RBZ	the Reserve Bank of Zimbabwe.
Rematerialisation	means the process of converting securities held in book entry form at VFEX Depository into physical certificates.
S	the settlement day, or the day on which a transaction in a particular security is settled through the CSD.
Settlement Bank	Is the bank which provides services to clear funds amongst the custodian banks.
Settlement Instruction	an electronic instruction generated by VFEX Depository to the Reserve Bank of Zimbabwe to effect settlement of funds in accordance with the settlement schedule.
Stockbroker	means a registered entity duly licenced by the Securities and Exchange Commission of Zimbabwe as a Securities Dealers and also approved as a Stock Broking Firm by The Victoria Falls Stock Exchange or any other Exchange to transact in Securities on its trading floor.

Stock Exchange	Victoria Falls Stock Exchange or any other Exchange whose securities are settled through VFEX Depository.
T+0	the trade date, or the day on which a particular transaction was entered into.
T+X	the trade date plus X Business Days, after the trade date.
Transfer Secretary	means a Registrar to an issue of any securities and/or a transfer agent in respect of any securities appointed by the Issuer on their behalf, who has been granted the certificate of registration by the Securities and Exchange Commission of Zimbabwe in terms of the Securities and Exchange Act [Chapter 24:25].
VFEX	The Victoria Falls Stock Exchange Limited.
VFEX Depository	The department of the VFEX that in is charge of the operations of the CSD.

### **3. SECURITIES ACCOUNT OPENING**

This section describes the procedures to be complied with by Participants with respect to accepting, verifying and completing Securities Account Registration (or Opening) Forms and relevant documents.

- 3.1. The investor will submit a duly completed and signed Securities Account Registration or Opening Form CSD 1 in triplicate.
- 3.2. The Securities Account Registration Opening Form CSD 1 shall be supported by the relevant minimum prescribed documentary evidence as prescribed by SECZ and RBZ.
- 3.3. The Participant shall ensure compliance with the requirements of the Money Laundering and Proceeds of Crime Act [CAP 9:24] as read with the Anti-Money Laundering/Combating Financing of Terrorism (AML/CFT) Guidelines for the Securities Sector, when opening and managing client accounts.
- 3.4. The participant will make an annual declaration to VFEX Depository that they are in compliance with the requirements of the Money Laundering and Proceeds of Crime Act [CAP 9:24] as read with the Anti-Money Laundering/Combating Financing of Terrorism (AML/CFT) Guidelines for the Securities Sector and that they have on file all the KYC documents for their clients.
- 3.5. The Participant shall ensure full disclosure of investor's relevant information, verify the information provided thereof and witness investor's signature.
- 3.6. The Participant shall capture the data obtained from the Securities Account Registration Opening Form 1 completed together with all or any relevant Know Your Client (KYC) documents submitted by the investor into the CSD system which shall be saved and subsequently confirmed by the Participant.
- 3.7. The CSD will allocate a Client Identification number to the applicant. Where the applicant indicates an existing CSD Client ID on the form, the CSD system will not allocate or create a new Client Identification number. In this case, the Participant will register the client ID provided by the client and thereafter the Participant will authorize the registered account.
- 3.8. The new clients created in the CSD system by Participants will be available online to the VFEX Depository for approval or rejection within 30 minutes upon receipts. Only accounts that have been approved or accepted in the CSD system will be available for transactions by Participants.



- 3.9. Accounts that are rejected by VFEX Depository will have to be set up again in the CSD system by the affected Participants. VFEX Depository will indicate the reason for the rejection.
- 3.10. The Participant shall enter the Securities Account Number on the form and shall return to the client a copy of Securities Account Registration or Opening Form, duly signed and stamped. The Securities Account Number is made up of the date the account was opened, sequentially arranged numbers and a suffix number
- 3.11. A Participant shall retain copies of identification documents to assist in identifying its clients. Participants shall also ensure the safe custody of specimen signatures of their clients.
- 3.12. Each party to a joint account shall have to satisfy the account opening requirements stated above. Subsequently, the Participant shall create the joint accounts.
- 3.13. The CSD system will be available for account creation by Participants from 0800hrs to 1630hrs on any business day.
- 3.14. Accounts received by CSD after 1600hrs may be authorised by CSD on the next business day.

#### **4. SECURITIES ACCOUNT MAINTENANCE**

This section describes the procedures to be complied with by Participants with respect to changing particulars of investors and filing of relevant documents.

##### 4.1. PROCEDURES FOR SECURITIES ACCOUNTS MAINTENANCE

- 4.1.1. Where the investor wishes to change any particulars submitted when opening an account, the investor should submit the following to the Participant - duly signed Securities Account Maintenance Form CSD 2 indicating the desired changes together with a duplicate of the original CSD 1 Form and any supporting documents.
- 4.1.2. The Participant shall verify the accuracy of information provided by the investor and authenticate the signature before capturing the changes in the CSD system.
- 4.1.3. Upon receipt of the request, VFEX Depository shall verify the accuracy of the information captured and effect the changes.
- 4.1.4. The Participant will confirm the changes to the client by returning a copy of the Securities Account Opening/Maintenance Form, duly signed, stamped and dated.
- 4.1.5. The Participant will keep its copy of the Securities Account Opening/Maintenance Form.
- 4.1.6. The VFEX Depository may suspend or close a Securities Account upon receipt of written instructions to do so together with supporting documents from a client through a Participant.
- 4.1.7. The Securities in the suspended Securities Account will no longer be available for settlement and other transactions until the suspension is released.

## **5. DEMATERIALISATION**

This section describes the procedures to be complied with by Participants with respect to accepting, verifying and submitting of Securities Deposit Form (CSD 3 Form).

### **5.1. DEPOSIT OF SECURITIES FOR DEMATERIALISATION BY TRANSFER SECRETARIES**

- 5.1.1. The Issuer or the Transfer Secretary will submit to VFEX Depository, a file of investors' static details (in electronic format) of all shareholders whose shares are held in certificate form in their records.
- 5.1.2. Upon receipt of the information mentioned in 5.1.1 above, VFEX Depository will create non – trading CSD accounts under the Issuer or the Transfer Secretary for the investors.
- 5.1.3. Investors accounts created under 5.1.2 will have the following features.
  - 5.1.3.1. The accounts will be created in CSD System under the Issuer or the Transfer Secretary as a participant and will be inaccessible to Participants.
  - 5.1.3.2. The accounts will be created as non-trading accounts.
- 5.1.4. VFEX Depository will submit the file (in electronic form) of shareholders with CSD account numbers to the Issuer or the Transfer Secretary.
- 5.1.5. Upon receipt of the file mentioned in 5.1.4, the Issuer or the Transfer Secretary will map and verify the data against the file submitted to VFEX Depository in 5.1.1 and confirm acceptance to VFEX Depository by stamping and signing a copy of the forwarding schedule.
- 5.1.6. Upon verification of the data as mentioned in 5.1.5, the Issuer or the Transfer Secretary will upload the file into their system and generate an upload file of the investors which will include their respective shareholding and submit it to VFEX Depository.
- 5.1.7. Upon receipt of the upload file, VFEX Depository will verify conformity of the CSD account details with the details contained in 5.1.4.
- 5.1.8. Upon verification, VFEX Depository will credit the investors' accounts with their respective shares.
- 5.1.9. All such shares will be frozen and will only be transferred in the event of investors' instructions through the process provided in Procedure 5.2 below.

- 5.1.10. VFEX Depository will provide the Issuer or the Transfer Secretary with a report showing each certificated investor's account details inclusive of shareholding and CSD account numbers.
- 5.1.11. The Issuer or the Transfer Secretary will confirm conformity of the investors' static details and shareholding by stamping and signing a copy of the schedule.
- 5.1.12. Where the investor's shares are pledged, the Issuer or the Transfer Secretary will submit a separate upload file as provided in Procedures 5.1.1 to 5.1.6.
- 5.1.13. Upon receipt of the pledged shares upload file, VFEX Depository will credit the shares into the investors account held under the Issuer or the Transfer Secretary and immediately record the pledge.
- 5.1.14. VFEX Depository will inform the Pledgee of the recording of the pledge.
- 5.1.15. Upon receipt of a signed copy of the schedule provided for under Procedure 5.2.10, VFEX Depository and the Issuer or the Transfer Secretary will sign off the data migration process.
- 5.1.16. Issuers or the Transfer Secretary will not be required to issue Jumbo certificates.

## 5.2. DEPOSITS OF SECURITIES FOR DEMATERIALIZATION BY INVESTORS

- 5.2.1. The client will submit in quadruplicate completed and signed Securities Deposit Form CSD 3 and the relevant Securities certificates to the Participant.
- 5.2.2. The Participant will verify the accuracy of information provided on the Securities Deposit form.
- 5.2.3. The Participant will acknowledge receipt of the documents by returning to the client a copy of the Security Deposit Form, duly signed, stamped and dated.
- 5.2.4. The Participant will capture the details on the Security deposit form and the share certificate on the CSD System.
- 5.2.5. The Participant will deliver two copies of the duly signed Securities Deposit Form together with securities certificates and a forwarding schedule in duplicate to the Issuer or Transfer Secretary.
- 5.2.6. The Issuer or Transfer Secretary will acknowledge receipt of deposit documents by handing over a copy of the forwarding schedule, duly signed, stamped and dated to the Participant.

- 5.2.7. The Issuer or Transfer Secretary, upon receipt of the documents, shall verify their authenticity and ensure that the specimen signature and all other relevant information in their custody match the information on the deposit form(s).
- 5.2.8. The Issuer or Transfer Secretary, after confirming their authenticity, will indicate their approval or rejection for dematerialisation on the CSD 3 Form and append signatures of the authorised signatories.
- 5.2.9. Upon verification by the Issuer or Transfer Secretary VFEX Depository will approve the request and the CSD will transfer the securities from the investors non trading account held under the Issuer or the Transfer Secretary to the Investor's account held under the Participant.
- 5.2.10. Upon completion of the transfer, VFEX Depository will submit a report to the Issuer or Transfer Secretaries showing the movement of shares from the issuer's account to the Participant's account.
- 5.2.11. The Issuer or the Transfer Secretary will be required to indemnify the VFEX Depository of any consequences as a result of erroneous crediting of securities in accounts arising from any information contained in the deposit documents.
- 5.2.12. No jumbo certificate will be required.
- 5.2.13. Any rejected documents will be returned by the Issuer/Transfer Secretary to the Participant.

## **6. TRADES**

This section describes the procedures to be complied with by the Participants for trades effected on the VFEX or any other Exchange with respect to:

- a.) Accepting, buying or selling orders of the Securities from Clients; and
- b.) providing trade details and client information to VFEX Depository.

### **6.1. ORDER INPUT**

- 6.1.1. The Stockbroker will upon receipt of trade orders from clients verify availability of the Securities in the CSD System before entering the orders in the ATS. The holdings in the ATS should reflect the position at the CSD system and short selling is not allowed.
- 6.1.2. During the trading session, Stockbrokers will in respect of all available securities enter the trade orders in the ATS through their trading terminals.
- 6.1.3. Stockbrokers shall ensure that for all the buy orders placed in the system the custodian has received the funds through the properly designated channels and have been cleared for settlement.
- 6.1.4. Upon an entry of an order by the Stockbroker, the ATS shall match the orders and transmit concluded trades to the VFEX Depository CSD system in real time. The CSD System will generate a unique reference number (Trade number) for each trade executed.
- 6.1.5. The CSD system will give access to view executed trades to all the Participants in real time regarding their clients' activities.
- 6.1.6. Custodian Banks will access the Initial Settlement Reports in respect of transactions allocated to their clients from the CSD system on T+0 by 11.00am at the end of the continuous trading session.

### **6.2. AMENDMENTS TO TRADE INFORMATION (POST TRADE AMENDMENTS)**

- 6.2.1. Trade amendments will be subject to approval by VFEX and in accordance with section 12.15 of the VFEX Membership Rules.
- 6.2.2. Trade amendments will be subject to agreement among the Stockbrokers in the trade and the VFEX.
- 6.2.3. Any such amendments shall be submitted to the exchange within the post close trading session end of trading session as determined by VFEX from time to time.
- 6.2.4. Upon receipt of approved amendments from the exchange, VFEX Depository shall effect the changes in the CSD System during the post close trading session.

### 6.3. ACCEPTANCE/REJECTION OF TRADES ALLOCATED TO SECURITIES ACCOUNTS OF CLIENTS OF PARTICIPANTS

- 6.3.1. Participants will have the responsibility to accept or reject any trade allocated to their clients erroneously by a Stockbroker, by indicating this in writing to the VFEX depository in a manner prescribed by VFEX depository. Participants will have up to 1500hrs on T+0 to accept or reject trades executed on the account of their clients.
- 6.3.2. The Participant will write to VFEX Depository indicating the reason thereof for the trade rejection. Participants will be penalised for rejected trades, if it is later on proven that the trade rejection was wrongly executed by the Participant.
- 6.3.3. Any trade not so rejected shall be deemed to be accepted at T+0 1530 hours.
- 6.3.4. Trade rejection by Participants after the deadline prescribed in 6.3.1 and 6.3.2 above will not be granted by the VFEX Depository.
- 6.3.5. VFEX Depository will send notifications of the rejected trades to the affected Stockbrokers by 1500 hours on T+0.
- 6.3.6. Where a Participant rejects a trade, the Stockbroker may reallocate the trade to another client. Once the trade is re-allocated, the trade may not subsequently be accepted by the Custodian.
- 6.3.7. A rejected trade that cannot be reallocated may be cancelled between 1500hrs and 1530hrs or reallocated to the proprietary account of the executing Stockbroker as accessed on a case by case basis.
- 6.3.8. The executing Stockbroker of the rejected trade will be penalised for execution of the trade in a manner prescribed by the Exchange from time to time.

## **7. CLEARING AND SETTLEMENT**

This section stipulates the procedures for clearing and settlement of securities transactions effected on the securities exchange.

### **7.1. SECURITIES AND FUNDS SETTLEMENT**

- 7.1.1. VFEX Depository shall provide Participants with real time access to the activity of their clients during the trading session. VFEX will make available the Initial Settlements Reports by 1120hrs on T+0.
- 7.1.2. VFEX Depository shall provide Participants with their respective Final Settlement Report by 1600hrs on T+0.
  - 7.1.2.1. The settlement of funds on all trades shall be done on a multilateral net basis. VFEX Depository shall provide each Participant with their multilateral net position showing the net amount the Participant owes or is owed by the other Participants by 1600hrs on T+0.
  - 7.1.2.2. VFEX Depository will submit to the Custodian Banks a Final Settlement schedule based on the multilateral net positions of their Participants by 1600hrs on T+0.
  - 7.1.2.3. VFEX Depository will provide the RBZ with settlement figures by 1600hrs on T+0.
- 7.1.3. Each Custodian Bank must have funds available for settlement at the RBZ in accordance with the Final Settlement Report by 0830hrs on T+1.
- 7.1.4. In the event that there are inadequate funds for settlement by T+1, 0900hrs, the RBZ shall notify VFEX Depository in writing. Email and facsimile shall be sufficient for the purpose of this clause. Thereafter, Procedure 7.2 below shall apply.
- 7.1.5. VFEX Depository shall instruct the RBZ to carry settlement in accordance with the Final Settlement Schedule, by 09.30 a.m. on T+1.
- 7.1.6. The settlement at the RBZ will involve 2 steps:
  - 7.1.6.1. Movement of funds on the USD RTGS platform,
  - 7.1.6.2. Movement of the funds to and from offshore correspondent banks.
- 7.1.7. Custodians and the Custodian Banks should ensure that the funds available for trading will be able fulfil all the conditions set out in 7.1.9 without any restrictions.
- 7.1.8. The RBZ shall confirm settlement of the batch by exchanging messages with the Depository through available communication channels.



- 7.1.9. Once confirmation has been received from RBZ that payment has been sent to the offshore correspondent banks of the receiving custodians, VFEX Depository will forthwith transfer the securities.
- 7.1.10. The DvP process is successfully executed once both steps in the funds settlement have been successfully executed.
- 7.1.11. Thereafter, VFEX Depository shall send post-settlement reports to all Depository Participants by 1300hrs on T+3.

## 7.2. FUNDS DEFAULT BY DEPOSITORY PARTICIPANT

- 7.2.1. The RBZ will inform VFEX Depository of any shortfall in the funds settlement by 0900hrs on T+1 in a manner described in 7.1.4.
- 7.2.2. Accordingly VFEX Depository shall instruct the RBZ to transfer the shortfall amount from the Custodian Bank's collateral sub-account to its Central Securities Depository account by 0930hrs on T+1.
- 7.2.3. Thereafter, settlement shall proceed as per procedure 7.1.6 above.
- 7.2.4. The defaulting Participant shall pay a penalty as prescribed by VFEX Depository from time to time.
- 7.2.5. Should any Participant fail to settle, for any reason, and the level of collateral is inadequate to cover the exposure, the:
  - 7.2.5.1. VFEX Depository shall forthwith notify all Participants, RBZ, the Stock Exchange and SECZ of this development.
  - 7.2.5.2. VFEX Depository shall produce a Revised Settlement Schedule based on the amount available in the Central Securities Depository USD Settlement account at the RBZ, which will include both the amount the defaulting member Participant is able to pay together with the amount available from the collateral.
  - 7.2.5.3. The defaulting Participant's trades to be excluded from the Revised Settlement Schedule shall be identified on a Last in – First out Basis until the available funds are sufficient to meet the remaining trades.
  - 7.2.5.4. In the event that the Revised Settlement Schedule results in Participants who were net receivers from the market becoming net payers to the market, VFEX Depository shall allow an additional one hour for Participants to fund the new positions.
  - 7.2.5.5. The defaulting Participant shall be expected to avail the shortfall on the next settlement day, and assume the penalties as a result of the failure to settle.

- 7.2.5.6. The defaulting Participant shall pay a penalty calculated on a daily basis and prescribed in the penalties framework of VFEX depository until settlement is done.
- 7.2.6. VFEX Depository shall immediately summon the defaulting Participant and Custodian Bank to explain the default and shall also consult the RBZ on the status of the Custodian Bank.
- 7.2.7. In the event that the defaulting Participant or Custodian Bank fail to provide a satisfactory explanation or the Custodian Bank has been identified as a troubled banking institution by the RBZ, VFEX Depository shall have the discretion to immediately suspend the Participant from the CSD System and notify the Stock Exchange, SECZ, investing public and other Participants of this development. This measure is designed to protect the other Participants and Custodian Banks from undue exposure to a defaulting Participant or Custodian Bank and to protect VFEX Depository and the market.
- 7.2.8. The suspended Participant or Custodian Bank shall only be readmitted to the CSD System upon clearing all outstanding obligations and replenishing its collateral. The re-admitted Participant's exposures shall not be permitted to exceed the level of collateral deposited with the RBZ.

### 7.3. SETTLEMENT PROCESS AT THE RBZ

- 7.3.1. Each Custodian Bank shall open and maintain a settlement account herein referred to as the Central Securities Depository USD RTGS Liquidity Optimisation Mechanism (LOM) account with the Reserve Bank of Zimbabwe, Harare, to perform settlements.
- 7.3.2. The Central Securities Depository USD RTGS LOM account shall be used by the Custodian Bank for securities settlement purposes only.
- 7.3.3. In accordance with the Collateral Agreement, each Custodian Bank shall also open and maintain a Central Securities Depository Collateral Sub-Account with the RBZ, Harare, for the purpose of depositing collateral security.
- 7.3.4. VFEX Depository shall open and maintain a Trust account for transaction costs, e.g. brokerage fee, taxes and levies with all the Custodian Banks.
- 7.3.5. Transaction Costs will be collected at each Custodian Bank according to the schedule provided by VFEX Depository.

- 7.3.6. Settlement shall therefore be inter-bank as the Buying Participant's Custodian Bank and the Selling Participant's Custodian Bank.
- 7.3.7. Failure by the Participant to adhere to the settlement cut-off time of 0830hrs will attract stiff penalties from the RBZ.

## **8. COLLATERAL AND COLLATERAL MANAGEMENT**

This section describes the arrangements and procedures to be followed by Custodian Banks, Depository Participants and VFEX Depository in the determination, posting and maintenance of collateral security lodged to mitigate settlement risk.

- 8.1. Custodian Banks shall lodge collateral security which shall be calculated based on the risk exposure introduced to the securities settlement system by the appointing Participant.
- 8.2. Each Participant and their appointed Custodian Bank shall enter into a standard tripartite Security Agreement with VFEX Depository.
- 8.3. Collateral security shall be maintained in the form of cash denominated in United States Dollars (USD). Consideration shall be given to collateral being held in other acceptable forms based on Participants' requirements and subject to the agreement and approval of all Participants and the RBZ.
- 8.4. As a risk control measure, a discount shall be applied to non-cash assets held as collateral in order to protect the market from losses resulting from declines in the market value of a security in the event that it needs to be liquidated.
- 8.5. Where the collateral is held in the form of cash denominated in USD, haircuts shall not be considered necessary.
- 8.6. The Custodian Bank shall obtain from the RBZ a statement specifying the amount held in its collateral sub-account on the 15th day and the last day of each month and shall promptly forward such statement to VFEX Depository to enable it to reconcile its records.
- 8.7. **COLLATERAL DEPOSIT CALCULATION**
  - 8.7.1. All Custodian Banks shall maintain a minimum collateral deposit of USD10,000-00 (Ten thousand United States Dollars) in their collateral sub-account at RBZ, specifically to cover securities settlement obligations on a normal trading day.
  - 8.7.2. The collateral amount for each Custodian Bank shall be recalculated at the end of each month depending on the Custodian Bank's exposure to the market. The collateral amount shall be determined by figures from the previous month, which shall be calculated as follows: the average of the three highest daily figures for the month is multiplied by 300% (three days cover).
  - 8.7.3. In the event that the collateral amount calculated for a subsequent month exceeds the previous month's collateral amount, VFEX

Depository shall request the Custodian Bank to increase or top-up its collateral security to the new level.

- 8.7.4. In principle, collateral should be adequate to cover the highest exposures by Participants that have been observed in the market. Therefore a Custodian Bank cannot withdraw from their collateral sub-account even when the previous month's collateral calculation falls below the subsequent month's calculation.
- 8.7.5. Unless approval is granted in writing by VFEX Depository, collateral security must be in the form of cash and deposited into a Custodian Bank's collateral sub-account maintained with the Reserve Bank of Zimbabwe.
- 8.7.6. VFEX Depository shall monitor the exposure of Participants and Custodian Banks on an on-going basis. Should a particular Custodian Bank's exposure reach the level of the collateral lodged, VFEX Depository shall immediately request the Custodian Bank to top up the collateral by an agreed amount within 48 hours.
- 8.7.7. In the event the Custodian Bank fails to meet the top-up request, VFEX Depository reserves the right to immediately disconnect the relevant Participant from the CSD System.

#### 8.8. DEPOSIT OF COLLATERAL BY CUSTODIAN BANKS

- 8.8.1. VFEX Depository shall notify each Custodian Bank no later than the 5th day of each month of the amount of the collateral the Custodian bank is required to provide.
- 8.8.2. VFEX Depository shall also provide a collateral schedule showing the daily exposures of the Participants represented by the Custodian Bank during the previous month to both the Participants and their Custodian Bank no later than the 5th of each month.
- 8.8.3. The Custodian Bank shall provide proof of payment that the required collateral has been deposited, within 48 hours of having been advised of the amount due by VFEX Depository.

#### 8.9. COLLATERAL DRAWDOWN PROCEDURES

- 8.9.1. Each Participant and their Custodian Bank shall enter into a standard tripartite Security Agreement with VFEX depository.
- 8.9.2. The Participant and their Custodian Bank, by appending their signature to the Collateral Agreement, irrevocably:
  - 8.9.2.1. undertake not to withdraw any amount from the collateral sub-account, without the prior written approval of VFEX

Depository, which approval shall not be unreasonably withheld;

8.9.2.2. grant to VFEX Depository full power of attorney to withdraw from its collateral sub-account amounts required to be withdrawn in terms of the procedures;

8.9.2.3. agree that if at any time, a Participant fails to meet its settlement obligations by 0900hrs on T+1, in terms of the Collateral Agreement, VFEX Depository in the exercise of its power of attorney granted in terms of Procedure 8.10.2, will instruct the RBZ to fund the amount required to settle the shortfall to the Central Securities Depository USD RTGS LOM account held by the Custodian Bank with the Central Bank, to enable the Participant to settle amounts owing by it to the other Participants.

#### 8.10. REPLACEMENT OF COLLATERAL AFTER DRAWDOWN

8.10.1. Whenever VFEX Depository has, in terms of this section, requested the RBZ to transfer money from the collateral sub-account of the Custodian Bank, it shall notify the Participant and the Custodian Bank of the amount that has been transferred from that account by 1400hrs on the same day.

8.10.2. In the event of a failure and subsequent transfer referred to in Procedure 8.9.2.3, the Custodian Bank shall replenish the collateral sub-account with the transfer amount no later than 1100hrs on the first business day following the date of transfer provided that VFEX Depository has advised the Participant and Custodian Bank within a reasonable time of the need to replenish the said sub-account.

8.10.3. If the Custodian Bank fails to replenish its sub-account as required by Procedure 8.10.2 above, VFEX Depository will be entitled, at its discretion, to disconnect the Participant.

8.10.4. The Custodian Bank shall provide proof of payment that the required collateral has been deposited, within 24 hours of having been advised of the amount due by VFEX Depository.

#### 8.11. CORPORATE ACTIONS OR SPECIAL TRANSACTIONS

8.11.1. Corporate Actions such as mergers and acquisitions, dividends processed through the VFEX Depository, mandatory offers to

minority shareholders and other corporate restructuring transactions shall be treated as special non-recurring transactions.

- 8.11.2. Participants representing investors or issuers undertaking special transactions shall notify VFEX Depository in advance and post additional collateral specifically meant to cover such transactions.
- 8.11.3. The additional collateral should be adequate to cover the transaction and can only be used for the purpose of settling the particular transaction for which it was deposited.
- 8.11.4. Once the special transaction has settled, the Participant shall be allowed to withdraw the additional collateral deposited.

## **9. TRANSFER OF SECURITIES**

This section describes the procedures to be complied with by the Participants with respect to accepting, verifying, and filing of Securities Transfer Forms and submission of the transfer documents to CSD.

### **9.1. INTER CSD SYSTEM TRANSFERS**

- 9.1.1. The Client will submit in quadruplicate duly completed and signed Securities Transfer Form (CSD 4 Form) to the current Participant.
- 9.1.2. The current Participant shall sign the CSD 4 Form and return it to the client together with a certified copy of the client's national ID or passport or the registration documents in case of a company.
- 9.1.3. The current Participant shall capture and submit the details of the transfer in the CSD system within 24hrs of receipt of the duly completed CSD 4 Form and the supporting documents.
- 9.1.4. The client shall submit the duly executed form together with supporting documents to the receiving Participant within 24hrs of receipt of the duly completed CSD 4 Form and supporting documents.
- 9.1.5. The receiving Participants shall verify the instructions and signature of the client and will acknowledge receipt of the transfer request by returning to the client a copy of the Securities Transfer Form, duly signed.
- 9.1.6. The receiving Participant shall accept the transfer by signing and stamping on the CSD 4 Form before forwarding the transfer form together with supporting documents to VFEX Depository within 24hrs of receipt of the duly completed CSD 4 Forms and the supporting documents.
- 9.1.7. VFEX Depository shall verify correctness of information captured in the CSD System and ensure that the details match those indicated on the transfer form and approve the transfer: or
- 9.1.8. VFEX Depository will within one business day effect the transfer or reject it. VFEX Depository shall give reasons for rejection in the CSD System, and the transaction will revert to the initiator for correction.
- 9.1.9. On approval of the transfer by VFEX Depository the securities will move from the client's CSD System account with the current Participant to the client's account with the receiving Participant.

### **9.2. BULK TRANSFER**



- 9.2.1. The Participant, Issuer or Transfer Secretary shall create a bulk transfer upload file in the format prescribed by VFEX Depository.
- 9.2.2. The Participant, Issuer or Transfer Secretary will upload the bulk transfer file in the CSD System.
- 9.2.3. The Participant, Issuer or Transfer Secretary shall submit a hard copy list of the uploaded file to VFEX Depository and any other relevant supporting documents.
- 9.2.4. The VFEX Depository shall verify the correctness of information uploaded in the CSD System and ensure that the details match those indicated on the hard copy list submitted to VFEX Depository.
  - 9.2.4.1. If the details tally, VFEX Depository shall approve the bulk transfer in the CSD system.
  - 9.2.4.2. If the details do not tally, VFEX Depository shall reject the bulk transfer request. The Participant may resubmit the transfer upload file upon making necessary adjustments.
  - 9.2.4.3. Where the upload is not in conformity with the requirements VFEX Depository shall reject the upload giving reasons for rejection to the Participant, Issuer or Transfer Secretary.
- 9.2.5. On approval by VFEX Depository, securities will move from the client's account with the current Participant to the client's account with the receiving Participant or;
- 9.2.6. On approval, CSD System will move securities from the transferor's account to the transferee's account.

## **10. PRIVATE TRANSACTIONS**

This section stipulates the procedure to be complied with by Participants with respect to;

1. Hereditary transfer of securities already deposited in the VFEX Depository
2. Donations
3. Gifts
4. Other dispositions of eligible securities with prior regulatory approval.

- 10.1. The Client will hand over duly completed and signed Securities Private transfer Form (CSD 5 Form) in triplicate accompanied by relevant supporting documents to the Participant.
- 10.2. The Participant will verify the authenticity of the supporting documents and signature of the client.
- 10.3. The Participant will acknowledge receipt of the transfer request by returning to the client relevant copies of the CSD 5 Form duly signed, stamped and dated.
- 10.4. Where the transferor's Participant differs from the transferee's Participant, the transferor Participant will return the CSD 5 Form together with supporting documents to the client for onward transmission to the transferee Participant.
- 10.5. The transferor's Participant will capture the details of the transfer in the CSD System and submit the request.
- 10.6. The transferee will deliver the CSD 5 Form together with supporting documents to their Participant.
- 10.7. The transferee Participant will review the details of the transfer in the CSD system, the CSD 5 Form together with supporting documents and accept the transfer.
- 10.8. VFEX Depository will check whether the information provided in the CSD 5 Form is in conformity with the provisions of the requirements for private transfers. If they fulfill all laid down requirements, VFEX Depository shall approve the transfer in the CSD system.
- 10.9. On approval the CSD System will move securities from the transferor's account to the transferee's account and send notifications to the clients and Participants involved.
- 10.10. VFEX Depository will send all transfers that require SECZ or other regulatory approval to the relevant authority for prior approval before approving the transfers in the CSD System.

## **11. REMATERIALISATION**

This section describes the procedures to be complied with by Participants with respect to completion, acceptance and verification of Securities Withdrawal (Rematerialisation) Forms and submission of withdrawal documents to VFEX Depository.

- 11.1. The Investor will submit the duly completed and signed Securities Withdrawal Form (CSD 6 Form) in quadruplicate to the Participant.
- 11.2. The Participant will verify the signature and identity of the investor and will acknowledge receipt of the withdrawal request by returning a duly signed copy of the Securities Withdrawal Form to the investor.
- 11.3. The Participant will capture the withdrawal request into the CSD system.
- 11.4. The Participant will deliver through its authorized personnel three (3) copies of the duly signed CSD 6 Form and the one copy of the system generated withdrawal request report printout to VFEX Depository.
- 11.5. The VFEX Depository will verify the documents and approve or reject the withdrawal request within three (3) business days.
- 11.6. In the case of approval, the VFEX Depository will return one (1) copy of the withdrawal form duly stamped as approved to the Participant.
- 11.7. In the case of rejection, VFEX Depository will return one (1) copy of the withdrawal form duly stamped as rejected and mentioning the reasons thereof to the Participant.
- 11.8. VFEX Depository will inform the Transfer Secretary and provide one copy of the duly signed CSD 6 Form and the one copy of the system generated withdrawal request printout forming the basis of the approved withdrawal.
- 11.9. The Transfer Secretary upon receipt will issue a securities certificate registered in the name of the investor within a period of 30 days.

## **12. PLEDGES, RELEASES & FORECLOSURES**

This section stipulates the procedures to be complied with by Participants with respect to:

1. Pledge of securities already deposited in the CSD,
2. Release of pledge upon termination of the pledge,
3. Foreclosure on securities pledged in the CSD,
4. Foreclosure on securities pledged with the Issuer or Transfer Secretary, and
5. Foreclosure on securities through a Participant other than the pledgee Participant.

### **12.1. PLEDGE IN THE CSD**

- 12.1.1. The Client will hand over duly completed and signed Securities Pledge Form (CSD 7 Form) to the Participant.
- 12.1.2. The Participant will verify the signature of the client and will acknowledge receipt of the pledge request by returning to the client relevant copies of the Pledge Form duly signed and stamped.
- 12.1.3. The Pledgor will hand over the duly signed CSD 7 Form to the Pledgee and negotiate his pledge conditions.
- 12.1.4. The Pledgee will forward the completed and duly signed CSD 7 Form to the Participant.
- 12.1.5. The Participant will verify the client's signature on the CSD 7 Form and ensure that the form is duly filled and stamped.
- 12.1.6. The Pledgee Participant will capture the details of the pledge and upload the CSD 7 Form together with supporting documents in the CSD System and submit the request to VFEX Depository for final approval.
- 12.1.7. VFEX Depository will check whether the information provided in the pledge documents are in conformity with the Rules and Procedures.
- 12.1.8. VFEX Depository shall reject incomplete pledge requests, stating reasons for rejection and return the pledge request to the pledgee's Participant.
- 12.1.9. On approval the CSD System will pledge the Securities in the pledgor's account in favour of the pledgee.
- 12.1.10. VFEX Depository will confirm to the pledgee and pledgor's Participant the completion of the pledge by forwarding a duly signed confirmation letter.

### 12.3. RELEASE TO PLEDGOR

- 12.3.1. The Pledgee will submit instructions to his Participant, on the Securities Pledge Release or Foreclosure Form (CSD 8 Form), clearly stating that the pledge is being terminated for reason of payment or foreclosure or any other reason provided under the applicable law and Regulations issued thereunder.
- 12.3.2. The Pledgee Participant shall verify signatures and the information provided on the CSD 8 Form and complete the relevant section in the form.
- 12.3.3. The Participant will capture the details of the release in the CSD as provided in the CSD 8 Form together with supporting documents and submit the request to VFEX Depository for final approval.
- 12.3.4. Upon receipt of the instructions, VFEX Depository shall verify whether the information captured is in conformity with the details provided on the CSD 8 Form and the form has been properly filled and relevant documents attached.
- 12.3.5. VFEX Depository shall confirm the authenticity of the pledge release with the financier.
- 12.3.6. Upon receipt of confirmation from the financier, VFEX Depository shall approve the request in the CSD system.
- 12.3.7. On approval the CSD system will release the pledge and the securities will be available for any other transaction.

### 12.4. FORECLOSURE ON SECURITIES PLEDGED WITH THE ISSUER OR TRANSFER SECRETARY

- 12.4.1. The pledgee Participant will ensure that the Pledgee has the proper authority to deposit the securities for subsequent sale.
- 12.4.2. The pledged securities will be deposited in a Securities Account in the name of the Pledgor clearly marked "Foreclosure".
- 12.4.3. The pledged certificate will be deposited in the CSD System in accordance with procedures in Section 5 accompanied by:
  - 12.4.3.1. Instructions pertaining to "Foreclosure on securities pledged with the Issuer or Transfer Form" on the CSD 8 Form.
  - 12.4.3.2. Documents evidencing the pledge.
- 12.4.4. When the Issuer or Transfer Secretary confirms the authenticity of the deposited certificates, VFEX Depository will credit the securities to the client's Securities Account marked "Foreclosure".

- 12.4.5. Prior to effecting the sale through its Participant, the Pledgee will give sufficient notice to the Pledgor as required by any applicable law or agreement. VFEX Depository will issue a letter to the Pledgor notifying the pledgor that the securities are being released for sale by the Pledgee.
- 12.4.6. The Pledgee shall be required to indemnify the VFEX Depository in the event of any wrongful foreclosure.

## 12.5. FORECLOSURE ON SECURITIES PLEDGED IN THE CSD

- 12.5.1. The Pledgee shall submit instructions pertaining to “Foreclosure on securities pledged in the CSD System” on the CSD 8 Form.
- 12.5.2. The Pledgee Participant shall capture the details provided on the CSD 8 Form in the CSD after verifying the details and signatories and completing the relevant section in the form.
- 12.5.3. The Participant shall upload the CSD 8 Form together with the supporting documents and submit the request in the CSD System.
- 12.5.4. Prior to effecting the sale through its Participant, the Pledgee will give sufficient notice to the Pledgor as required by any applicable law or agreement. VFEX Depository will issue a letter to the Pledgor notifying the Pledgor that the securities are being released for sale by the Pledgee.
- 12.5.5. VFEX Depository shall verify the correctness of the details captured in the CSD system against those provided on the CSD 8 Form and the supporting documents and approve the release.
- 12.5.6. On approval the CSD System will release the securities and avail them for clearing and settlement purposes.
- 12.5.7. The pledgee shall be required to indemnify the VFEX Depository in the event of any wrongful foreclosure.

## 12.6. FORECLOSURE ON SECURITIES THROUGH A PARTICIPANT OTHER THAN THE PLEDGEE PARTICIPANT

- 12.6.1. The pledgee shall duly complete a CSD 8 Form, CSD 4 Form and a letter to release the securities, signed by the Pledgee in place of the Pledgor.
- 12.6.2. The Authorised Signatory of the Pledgee’s Participant, shall sign the form before submission to VFEX Depository. The Pledgee shall fully

indemnify VFEX Depository for releasing the securities and subsequently transferring them to another Participant without the Pledgor's consent.

- 12.6.3. VFEX Depository shall send a foreclosure letter to the Pledgor to notify them of the impending release and subsequent sale of the securities by the Pledgee.
- 12.6.4. VFEX Depository, through the use of the CSD 4 Form will transfer the pledged securities.
- 12.6.5. Once the pledged securities have been transferred, the securities will be released for sale.
- 12.6.6. As soon as the securities have been sold and settled, the Pledgee will inform VFEX Depository to close the foreclosure account opened with the Pledgee's Participant.