CSDs: **Botswana - Planned (Botswana)**

Date: **28 May 2008**

SMI Markets: **Botswana**

CMIRR Markets: **Botswana**

Botswana Plans to Implement the Development of a CSD - Update

Further to our previous newsflash, the Botswana Stock Exchange (BSE) implemented a Central Securities Depository (BSE CSD) on 22 May 2008 for the clearing and settlement of equities. Government bonds continue to be held via the Bank of Botswana and will not be held with the BSE CSD.

Three companies (First National Bank, Sefalana Holdings Ltd and Turnstar) have been listed on the exchange and the clearing and settlement of the shares have started to operate through the CSD. Other listed securities will subsequently be transferred to the CSD for clearing, in stages.

Note that shares held at the CSD are to be registered in the name of the sub-custodian with client designation. Furthermore, in due course the securities will only be traded in dematerialised form. The settlement cycle for equities cleared through the CSD will remain as T+4, but once the dematerialisation process in the market is complete the BSE intends to move towards a T+3 cycle.

CSD Risk Impact

Botswana - Planned (Botswana)

Impacted Risk Type: Asset Commitment Risk

Current Rating = N/R

Flash Impact = On Watch

Impacted Risk Type: Liquidity Risk

Current Rating = N/R

Flash Impact = On Watch

Impacted Risk Type: Counterparty Risk

Current Rating = N/R

Flash Impact = On Watch

Impacted Risk Type: Operational Risk

Current Rating = N/R

Flash Impact = On Watch

The various risks have been set 'On Watch' as there are very few details on the CSD and the way it operates at this stage. However, the establishment of a CSD is a positive development for the market and although there are little known details about the way the CSD will operate the intention to only accept dematerialised securities and implement a segregated account structure will help mitigate some aspects of operational risk.

Market Information Impact

Botswana

This information affects the data contained in the Settlement and Local Market Administrative Organisations sections of the Securities Market Information Service.

Infrastructure Risk Ratings Impact

Botswana

Market Rating: BBB

Market Flash Impact: Positive

Impacted Risk Type: Asset Commitment Risk

Current Rating = BB

Flash Impact = Positive

Impacted Risk Type: Liquidity Risk

Current Rating = BB

Flash Impact = Positive

Impacted Risk Type: Counterparty Risk

Current Rating = BB

Flash Impact = Positive

Impacted Risk Type: Operational Risk

Current Rating = A+

Flash Impact = Positive

The introduction of a Central Securities Depository brings widespread benefits to the market. Risks surrounding settlement should be reduced with faster settlement through book-entry transfer, improved settlement liquidity through the immediate availability of immobilised securities, and the use of Delivery versus Payment principles as well as the introduction of participation criteria into the CSD to counteract Counterparty risk exposures. The centralisation and eventual dematerialisation of securities should significantly reduce the operational risks experienced in the decentralised physical safekeeping environment.

Related Flash: Botswana Plans to Implement the Development of a CSD - Update, 09/02/2007 (click to view)

For Further Information Contact:

Barry Morales - Americas
Peter Katz - Asia Pacific, Eastern Europe
Jim Micklethwaite - Western Europe, Africa
John Woodhouse - Middle East

Tel: (+44) 20 7830 8300 | Fax: (+44) 20 7287 1549

Email: marketflashes@thomasmurray.com