



# CENTRAL SECURITIES DEPOSITORY

B O T S W A N A

## CENTRAL SECURITIES DEPOSITORY COMMODITIES CLEARING AND SETTLEMENT RULES

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### Contact Information

Physical Address:

Plot 70667, Fairgrounds, Gaborone, Botswana

Postal Address:

Private Bag 00417

Gaborone, Botswana

Tel: +267 367 4400

Fax: +267 318 0175

Email: [csd@bse.co.bw](mailto:csd@bse.co.bw)

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## SECTION 1

### INTERPRETATION AND DEFINITIONS

#### 1.1 Supplementary Definitions

The definitions contained in the CSDB Clearing Rules of April 2025 shall apply to this Addendum, unless the context otherwise requires. In addition, the definitions set out in Section 1 to these Commodity Clearing Rules and Guidelines shall apply for purposes of product-specific terminology and/or commodity clearing procedures.

Unless the context otherwise requires, the following terms shall have the meanings assigned herein:

- i. "BMX means Botswana Mercantile Exchange Proprietary Limited (BMX);
- ii. "Business Day" means any day on which the Exchange is open for trading and settlement, as specified in the Exchange Calendar;
- iii. "CCP" means the central counterparty responsible for novation, margining, settlement and risk management;
- iv. "CSDB" means the Central Securities Depository Company of Botswana, including its clearing, settlement, and registry functions.
- v. "Clearing House" shall mean the CSDB in its role as a neutral third-party intermediary that facilitate the exchange of payments, securities, or derivatives, ensuring a swift transaction between buyers and sellers.
- vi. "Client" means any person or entity on whose behalf a Member executes or clears trades.
- vii. "Contract" means any spot, forward, futures, options, swap, or other derivative instrument listed and governed by BMX.
- viii. "Default" means the failure of a Member to perform obligations under these rules, including margin obligations, settlement duties, or delivery commitments.
- ix. "Exchange" Shall mean the BMX
- x. "Member" means any entity admitted to the Exchange under BMX Rules, including Trading Members, Clearing Members, and Non-Clearing Members.
- xi. "Participant" means a Member or other approved entity authorized to provide services within the Exchange ecosystem, including Warehouse Operators, Assayers, Custodians, Brokers and Market Makers.
- xii. "Warehouse Receipt" means a dematerialized transferable document of title, evidencing ownership of an underlying

commodity and recorded in the Warehouse Receipt Registry (WRR).

- 1.2 In these Clearing and Settlement Rules, unless the context otherwise requires, - any of the terms defined in the Securities Act and the NBFIRA Act shall bear the same meanings as assigned to them in those Acts; .
- 1.3 Functional framework of a Central Counterparty (CCP) and a Clearing House for a commodity exchange.
  - i. The Clearing House acts as intermediary between the buyer and the seller of a commodity contract and ensures that the trade is guaranteed for settlement.
  - ii. Settlement procedures are standardized by the exchanges and the clearing house, they may occur primarily through either physical delivery or cash settlement. The core functions of a CCP and a Clearing House can be broken in three main functions which are clearing, settlement and custody.

#### 1.3.1 CCP Clearing

After the execution of buy and sell orders, transactions are processed in preparation for the transfer of ownership of the product and fulfilment of all obligations. Depending on the institution providing the service, several additional services are performed such as the netting of obligations to ensure fewer process and cash flows, and in particular, the evaluation and management of all relevant sources of risk in order to reduce the probability of failure to meet obligations.

In most cases, this function is performed on different levels; firstly, by trading parties for their clients, secondly at Central Counterparty houses (CCP Clearing) and thirdly at central securities depositories (CSD clearing) or banking institutions.

The clearing by a CCP is different from that performed by a CSD. CCP clearing concentrates on management (transaction monitoring, collateral and risk management and delivery management) of transaction after the matching of buy and sale trade and prior to the legal fulfilment of the respective obligation.

CCP ensures that final obligations are fulfilled by facilitating the pay-in and pay-out to the parties. It calculates amounts that need to be settled taking into account margin calls or adjustments based on the market 's final settlement amount.

Due to these specifications, CCP clearing takes place prior to the clearing performed by CSDs.

### 1.3.2 CSD Clearing

CSD clearing concentrates on validating and matching the delivery instructions, the result of which is forwarded to settlement.

### 1.3.3 Marking to market and Margin Collection

CCP ensures that the trader has enough funds to cover the potential losses. The CCP recalculates margin daily based on the price movement of the commodity. If the market moves against the trader position, additional margin may be required to maintain the position and reduce risk exposure. This is crucial in ensuring that there is enough capital to cover the potential risks and losses that may arise from price movements.

### 1.3.4 Settlement

At due date when obligations are settled, the ownership of the product is transferred and this process involves matching the buy and sell instructions. Transactions involving securities are settled on a delivery vs payment (DvP) basis. This involves simultaneous cash transfer followed by clearing of security or transfer of commodities through accredited warehouses. Physical deliveries may occur where consumers would need goods to meet operational requirements. Cash settled contracts involves no delivery but settlement is based on price differential between the trade price and settlement price.

## SECTION 2

### GENERAL PROVISIONS

- 2.1 The commodities clearing and settlement framework is embedded across the BMX Rule Book, with the bulk of the relevant provisions contained therein. These rules shall therefore, serve as an addendum to both the BMX Rule book and CSDB Rules. Emphasis of this addendum is more on cash settlement by Exchange members and participants.
- 2.2 While equity and commodity markets are distinct asset classes with different fundamental drivers, the general provisions, regulatory frameworks, risk management and margin rules applied to equity clearing and settlement also apply to commodity derivatives. Both are largely governed by similar principles of market integrity, investor protection and supervision by the regulatory authorities. The CSDB general provisions under equity and bond market clearing and settlement shall therefore apply.
- 2.3 The Clearing and settlement of commodities shall be regulated by both NBFIRA and Bank of Botswana to ensure that:
- i. The clearing and settlement processes are transparent and in compliance with the legal framework and industry standards;
  - ii. The Clearing House maintains market discipline and prevents fraudulent activities and market abuse;
  - iii. The systemic risks arising from commodity clearing and settlement are effectively mitigated and contained;
  - iv. The Clearing House adheres to the highest standards of operational integrity, including internationally recognised standards such as the IOSCO Principles.
- 2.4 Governing Law

These Clearing and Settlement Rules for the Commodity Exchange shall be governed by the laws of the Republic of Botswana. The following instruments are applicable to the CSDB and its Participant and shall apply in the following descending order of precedence:

- i. Legislation
- ii. These Rules
- iii. Directives
- iv. Circulars
- v. Terms and conditions governing the operations, facilities and services provided by the CSDB;

For the avoidance of doubt, where there is any conflict between the instruments, they shall apply in the order of precedence set out above.

## 2.5 Amendment of Rules

Any amendments to the Rules shall comply with such requirements as may be prescribed or directed by the Regulators. Such amendments shall be approved by the CSDB Board prior to Regulatory approval.

## 2.6 Complaints Procedure and Dispute Resolution

Any complaints or disputes arising between Participants and the CSDB shall be resolved in accordance with Section 14.6 of the CSDB Rules.

## SECTION 3

### MEMBERSHIP AND PARTICIPANTS

3.1 Members shall, upon application for membership, be admitted as CSD Participants for purposes of cash settlement in accordance with the CSDB Rules.

#### 3.2 Membership Requirement

No person or entity shall clear, settle or otherwise participate in the facilities of the CSDB unless such person or entity has been duly admitted as a Member/Participant in accordance with these Rules.

##### 3.2.1 Binding Effect

By becoming a Participant, each entity undertakes to be bound by and comply with these Rules, the decisions of the CSDB and its Committees, Exchange rules and any directives lawfully issued by the Regulators.

##### 3.2.2 Categories of Membership

All Clearing and Settlement memberships to the CSDB are granted pursuant to, these Rules and such other terms and conditions as may be imposed at the Exchange discretion.

#### 3.3 General membership admissions and eligibility

##### 3.3.1 Application Procedure

Applications for Membership/Participant shall be made in writing and shall include the following:

- i. Corporate constitutive documents, including the certificate of incorporation and all constitutional documents;
- ii. Evidence of financial capacity, including audited financial statements;
- iii. Details of governance arrangements/structures and key personnel;
- iv. Policies relating to compliance, AML/CFT and risk management;
- v. Technology attestations relating to system connectivity and cyber readiness;
- vi. Proof of access to a Settlement Bank approved by the Exchange; and
- vii. any other information or documentation that the Exchange may require.

### 3.3.2 Eligibility Criteria

To be admitted, an applicant must:

- i. Be duly incorporated and licensed under the laws of Botswana or a recognised jurisdiction;
- ii. Meet the minimum capital adequacy requirements prescribed in the Exchange Rules;
- iii. Demonstrate operational and technological competence to connect securely to the Exchange systems;
- iv. Employ key individuals of sufficient skill, experience and integrity;
- v. Establish policies for the segregation of client assets;
- vi. Undertake to comply with all AML/CFT and sanctions obligations;
- vii. Be a Member of the Exchange, or such other category of Participant as may be approved by the Exchange and be subject to prudential regulation by the Exchange;

An applicant for settlement and clearing participation shall provide any information and documentation as the CSDB may require and shall pay the applicable fees as may be prescribed from time to time.

Notwithstanding any provision in these Rules or any applicable directives, the Exchange may require an applicant to furnish such additional information as it considers necessary and may conduct such enquiries or investigations as it deems appropriate to verify the information submitted in support of an application. Such enquiries or investigations may include, without limitation, requiring the applicant or one or more representatives of the applicant to attend an interview with the CSDB Board or any person appointed by the Exchange for that purpose.

### 3.4 Due Diligence

3.4.1 The CSDB shall conduct such due diligence as it considers appropriate in relation to an applicant, including background checks on the applicant's directors, officers and beneficial owners. The CSDB may also request additional information or conduct on-site inspections prior to approving an application in accordance with applicable AML/CFT requirements.

### 3.5 Conditional or Probationary Membership

The Exchange may grant membership on a conditional or probationary basis. Such membership may be subject to specified limits, enhanced

reporting requirements or other safeguards as the Exchange considers appropriate, until the applicant has demonstrated full eligibility. The CSDB shall admit the applicant on the advice of the Exchange.

### 3.6 Fees, levies and penalties chargeable by CSDB

3.6.1 The CSDB shall levy fees for services provided.

3.6.2 Fees to be charged and any amendment thereto shall be communicated by the CSDB from time to time. All fees shall be payable within forty-five (45) business days from the date of invoice ("Due Date").

3.6.3 If a CSD Participant fails to pay any outstanding fees, charges or penalties within ten (10) business days from the date of written notice of the outstanding debt, the CSDB may, at its sole discretion, forthwith suspend the Participant from the CSDB until such amounts are settled. Interest on outstanding amounts may be applicable in accordance with the BSEL debt policies.

## SECTION 4

### SETTLEMENT OF TRADES

#### 4.1 Settlement Accounts

- 4.1.1 Participants shall maintain settlement accounts with Settlement Banks approved by the CSDB.
- 4.1.2 A clearing member must, at all times, ensure that it has sufficient cash resources or cash facilities to meet its obligations to the Clearing House in accordance with these rules.
- 4.1.3 The CSD will reject settlement instructions if Buyer's collateral is  $< 100\%$  of trade value + fees for spot transactions
- 4.1.4 The CSD shall reject a settlement instruction in respect of a Derivatives or Futures Market transaction where the Clearing Member's settlement account balance is insufficient to meet the Net Settlement Amount payable for that settlement date as determined under section 5 of the BMX Clear Rules.

#### 4.2 Settlement process

- 4.2.1 The settlement of trades shall be effected through the delivery of the warehouse receipts and payment of funds.
- 4.2.2 Cash settlements shall be made in the legally recognised currency of Botswana.
- 4.2.3 Settlement of warehouse receipts is through the delivery of the underlying physical commodity or commodities in accordance with these Rules and the BMX rules.
- 4.2.4 On settlement date, when the available warehouse receipts sufficient to cover the transaction are in the central warehouse receipt registry account of the seller, and the custodian confirms the availability of funds with the Settlement Bank, the trade shall be automatically settled by the Clearing house.
- 4.2.5 Upon settlement of a trade, the buyer's central warehouse receipt registry account shall be credited with the warehouse receipts that are the subject the trade, and seller shall receive the corresponding payment.

#### 4.3 Settlement finality Rule

A transfer of WHRs and cash through the CSD system is final, irrevocable, and legally binding once executed in its ledger.

#### 4.4 Settlement Cycle

All cash settlement obligations must be fulfilled by the prescribed cut-off times, generally T+2 business days, unless otherwise specified in the Contract Specification.

4.5 Settlement Instruction Rule:

The CSD system will only act upon settlement instructions received from the BMX trading system via the official ISO 20022 adapter. Any instructions for commodity spot trades received from any other source shall be rejected.

4.6 Netting Rule:

The CSD system shall settle obligations based on the netted positions provided by the BMX trading system. The system shall not recalculate or re-net trades.

4.7 Delivery-versus-Payment (DvP)

The transfer of WHRs from seller to buyer shall occur if and only if the simultaneous transfer of cash from buyer to seller is confirmed. The system must treat the payment instruction and the WHRs transfer instruction as a single, atomic operation.

4.8 Payments and deliveries,

Payments, deliveries and transfers effected through the CSDB and approved Settlement Banks shall be deemed final, irrevocable and binding.

4.9 Delayed settlement

Where a Participant fails to effect payment for traded warehouse receipts by 09h00 (GMT) on the day the settlement becomes due, the Participant shall be liable to a fine for late settlement. The fines shall be as prescribed and published by CSDB from time to time through its website or any other means of communication as the CSDB deems appropriate.

## SECTION 5

### EXCHANGE OF INFORMATION BETWEEN THE BMX AND ICTAS

- 5.1 WHRs Record-Keeping Rule:
- 5.1.1 The ICTAS system is the system of record for legal ownership of WHRs used on the exchange. ICTAS is the definitive legal register for warehouse receipts (WHRs). Any transfer not recorded in this system is not recognized by the exchange therefore, no physical document overrides ICTAS records. Warehouse receipts shall be registered only after:
- (a) physical verification,
  - (b) quality certification,
  - (c) insurance confirmation.
- 5.2 The Clearing House shall prepare payment orders and forward them to the CSD system for financial settlement of transactions cleared by the Clearing House.
- 5.3. A Settlement Account shall be linked to the corresponding Clearing Bank Account of the Clearing House Member at the Clearing Bank through which that Member pays its liabilities towards the Clearing House.
- 5.4 Payment instructions consistent with settlement schedule shall be based on the netted positions provided by the BMX trading system orders, crediting the Clearing Bank Accounts at the Clearing Bank for Clearing House Members holding a receivables balance.
- 5.5 Inter-bank transfer orders through the Settlement Bank Account in the Settlement Bank;
- 5.5.1 Payment Confirmation Reports (CAMT054) shall be sent to the Payer Banks of Clearing House Members and shall form the basis for settlement executed by the CSDB through the Settlement Bank and the Clearing House.

### Summary of ICTAS functions

FUNCTION	PROCESS
<b>Settlement &amp; Payments</b>	ICTAS receives final, legally binding settlement confirmations from the Exchange.
	On cash settlement confirmation, ICTAS atomically updates WHR state RELEASED → ARCHIVED
<b>Trades Amendment</b>	Post-trade amendments (Buyer/Seller account, settlement date) shall be permitted up to settlement day.
	ICTAS validates amendment against current DWHR state (RESERVED or TRANSFERRED only).
<b>Fee Calculation &amp; Collection</b>	ICTAS receives only net settlement amount implicitly.
<b>Communication with Physical Warehouses</b>	<b>Portfolio recalculation:</b> Automatic based on standing orders and warehouse events (intake, dispatch, internal transfer) in ICTAS
	<b>Delivery contracts (Collection Note):</b> Generated by ICTAS when delivery intent = PHYSICAL. Sent to warehouse and registered transporter.
	<b>Shelf-life tracking:</b> ICTAS records quality assessment date and auto-updates.
<b>Reporting</b>	ICTAS periodically pushes every WHR issuance and state change to the Exchange e.g. commodity, qty, grade, warehouse, state, timestamp.
<b>Pledge / Block / Available</b>	Sub-accounts created from main account with priority timestamps (FIFO allocation for splits/deliveries).
	<b>Collateral path:</b> Where delivery intent = collateral, ICTAS executes atomic splits; sub-account WHR created with state PLEDGED with no transport and no collection note

## SECTION 6

### SETTLEMENT GUARANTEE FUND AND DEFAULT

#### 6.1 Participant in default

6.1.1 The CSDB shall establish a default fund to cover default obligations, shortfalls, deficiencies and/or any other defaults arising during clearing and settlement of trade transactions by the CSDB.

6.1.2 A fund settlement failure due to a Participant's default, or for any other reason, shall be deemed to be a breach of these rules by the Participant concerned. The Participant shall be held responsible and accountable to the CSDB for such default, notwithstanding the application of Section 6.5 of the CSDB Rules.

6.2 A clearing member shall pay a default margin to the default fund , as determined by CSDB from time to time, to serve as collateral for the due performance of all or any of its obligations under these clearing rules.

6.3 The CSDB may, from time to time, prescribe other early warning financial requirements, and may set conditions for exemptions or exceptions thereto, applicable to all or any of the Clearing and settlement Members.

## SECTION 7

### CLEARING RULES AND DIRECTIVES

#### 7.1 Effective date of the clearing rules and directives

The clearing rules and directives shall become effective on a date to be determined by BMX, subject to any conditions imposed by NBFIRA in connection with the granting of a commodities exchange licence.

#### 7.2 Purpose of the clearing rules and directives

The purpose of the clearing rules and directives is to achieve the objectives of BMX as set out in its constitution, by providing the procedures necessary to manage the risks associated with BMX's duties and functions as a licensed commodities exchange, and to ensure that the business of BMX is carried out in an orderly manner and with due regard.

#### 7.3 Clearing rules and directives are binding

7.3.1 The Clearing Rules and directives shall be binding on the CSDB, clearing members, Exchange members, clients of clearing and/or exchange members, the officers and employees of BMX and its clearing members, and any other person that utilises the services of BMX and/or clearing members.

7.3.2 The CSDB Board shall notify clearing members of any decision or determinations made under the clearing rules and directives.

#### 7.4 Enforcement of the clearing rules and directives

The enforcement and interpretation of the clearing rules and directives shall vest in the CSDB Board.

#### 7.5 Proposals for amendments to clearing rules and directives

7.5.1 Market Participants may propose in writing, any amendments to the Clearing Rules or Directives.

7.5.2 The CSDB Board shall consider any proposed amendments to the Clearing Rules or Directives and shall notify Exchange Members and Clearing Members of its decision.

7.5.3 Following the Board's decision to adopt a proposed amendment, the proposed amendment shall be submitted to the NBFIRA for regulatory approval.

## **SECTION 8**

### **RISK MANAGEMENT REQUIREMENTS**

- 8.1 Operational requirements
  - 8.1.1 Clearing members shall, at all times, have and maintain the necessary risk procedures, systems, facilities, resources and expertise to ensure that an adequate, effective and on-going process of risk management is established and maintained;
  - 8.1.2 A comprehensive and documented risk management framework shall be established and maintained to identify, measure, monitor, control, and appropriately communicate or report on all risks associated with a Clearing Member's activities, including in particular, credit risk, counterparty credit risk and liquidity risk.
- 8.2 Clearing Members shall, at all times, have and maintain the necessary procedures, administrative and other systems, controls, facilities, resources and expertise to ensure the efficient and effective performance of their functions as clearing members, including:
  - 8.2.1 compliance with all the applicable capital markets acts, rules, regulations and directives as may be passed from time to time;
  - 8.2.2 compliance with CSDB clearing Rules.
  - 8.2.3 ensuring that accurate records of all transactions and positions in respect of which they provide clearing services are kept and that financial and other information used or provided by the Clearing Member is correct and reliable;
  - 8.2.4 that the management of their own funds is adequate and in accordance with the BMX Rules relating to the management or separation of funds;
  - 8.2.5 the adequate management of the funds and assets of clients, Exchange Members and their clients for whom the Clearing Member performs a clearing service in accordance with the BMX and clearing rules;
  - 8.2.6 that positions and cash balances under the control of the Clearing Member, in respect of the clients, exchange members and their clients for whom the Clearing Member performs a clearing service, are reported to those parties in a timely manner;

- 8.2.7 that measures are in place, so far as is reasonably practicable, to minimize the risk of loss to the Clearing Member resulting from any irregularity, fraud or error, and to detect any such irregularity, fraud or error promptly so that remedial action may be taken by the Clearing Member; and
  - 8.2.8 that the records of the Clearing Member are maintained in a manner that promptly discloses financial and business information, enabling the Clearing Member to identify, quantify, control and manage the risk exposures arising from its activities as a Clearing Member.
- 8.3 A Clearing Member shall be able to describe and demonstrate the objectives and operation of the procedures, controls and systems of BMX.

## **SECTION 9**

### **INDEMNIFICATION**

- 9.1 A member of the CSDB Board, a trustee or an employee of the CSDB shall be indemnified by BMX, out of the funds of BMX, against any liability, loss, or damage incurred or suffered by the Indemnitee in respect of any act or omission performed or omitted in good faith or with ordinary negligence in the discharge of their duties, provided that this indemnity shall not extend to any act or omission constituting gross negligence, wilful misconduct or fraud.
- 9.2 For the purposes of this clause, a Board Member, trustee, or employee shall not be regarded as having been grossly negligent or having acted in wilful breach of duty or trust if the act or omission resulted from incorrect information supplied by a source which the Board Member, trustee, or employee would reasonably rely upon as accurate and which could reasonably be expected to provide correct information.

## **SECTION 10**

### **CONFIDENTIALITY**

- 10.1 A Participant shall not disclose any confidential information obtained from a client or the Exchange, unless prior written consent has been obtained from the relevant party, or disclosure is required under applicable law.