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# **ZSE DEPOSITORY PENALTIES FRAMEWORK**

**UPDATED FOR T+2 SETTLEMENT CYCLE**

**MARCH 2025**

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## 1. DEFINITIONS AND INTERPRETATIONS

Account or Securities account	Means an account maintained by the ZSE Depository for a Participant or for a Participant's client and used for transactions in the Depository Services and Settlement Services.
Operations Procedure Manual	Refers to guidelines and operating procedures for Depository Participants, issuers and depositors, issued from time to time by the ZSE Depository.
CSD	Means the Central Securities Depository system, which includes the computer (hardware and software) system that ZSE Depository uses to administer the book entry transfer of securities.
CSD Rules	The rules and any amendments thereto of the ZSE CSD Rules and includes any appendices to the rules
Penalties Framework	The Penalties Schedule, which describes penalties to be paid by Depository Participants for the violation of CSD Rules and Operational Procedures.
S	The settlement day, or the day on which a transaction in a particular security is settled through the CSD.
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.
VAT	Value Added Tax.
ZSE	Zimbabwe Stock Exchange Limited

## 2. PENALTIES FRAMEWORK SCOPE

- 2.1 To maintain an orderly and efficient market, the ZSE Depository shall levy penalties for violation of CSD Rules and Operational Procedures.
- 2.2 Where a penalty relates to a deadline stipulated by this Penalties Framework, the CSD Rules or Operational Procedures, the time reflected on the CSD system applies.
- 2.3 Stockbrokers being the primary initiators of trades are expected to do all the necessary and adequate pre-trade and post trade checks and follow ups with clients and take full responsibility for the trade until it settles within the agreed trade settlement cycle as per CSD Rules and Business Process Flows.
- 2.4 ZSE Depository encourages strict market discipline in settlements in order not to inconvenience the market hence the need for Participants to continuously play their role in ensuring that trades settle within the stipulated periods. Any divergence from the stipulated settlement timelines shall attract the necessary penalty in terms of this framework.
- 2.5 For all trade rejections, the Custodian should immediately copy the Client, the Broker and ZSE Depository highlighting the reasons thereof. Where the Broker has done all that is required and the Custodian still rejects the trade for any other reason, the Custodian will need to clearly state the reason for rejecting the trade so that the Broker can follow up with their client to conclusion.
- 2.6 The penalties highlighted under section 3 may be levied on Central Securities Depository (CSD) participants, stockbrokers and investors for violation of the CSD Rules, Operational Procedures and Business Process Flows.

## 3. APPLICABLE PENALTIES

<b>CONTRAVENTION</b>	<b>RULES REFERENCE</b>	<b>PENALTY</b>
<i>Trade settlement failure due to Client having insufficient funds</i> Where a trade is rejected by the participant on the basis that	Operational procedure manual 6.4.7, 6.5.7 & 6.5.8	0.2% of the gross market value of the transaction shall be levied against the defaulting client per day, until the trade settles.

<p>the client has insufficient funds, and the client subsequently fails to fund by T+2.</p>		<p>a minimum penalty of USD100.00 applies.</p> <p>If the Participant fails to resolve with the affected investor within 5 business days, the Trade shall be referred to the Stock Exchange and SECZ for determination. ZSE Depository shall blacklist the defaulting investor from participating further on the CSD until they have complied with the determination made by the Stock Exchange and SECZ and paid all penalties related to the Trade.</p>
<p><i>Trade settlement failure due to lack of a valid client instruction</i></p> <p>Where a trade is rejected by the participant on the basis that the client has failed to furnish a valid instruction, and the client subsequently fails to disapprove or approve the trade by T+2.</p>	<p>Operational procedure manual 6.4.6, 6.5.7 &amp; 6.5.8</p>	<p>0.2% of the gross market value of the transaction shall be levied against the defaulting client per day, until the trade settles.</p> <p>A minimum penalty of USD100.00 applies.</p> <p>If the Participant fails to resolve with the affected investor within 5 business days, the Trade shall be referred to the Stock Exchange and SECZ for determination. ZSE Depository shall blacklist the defaulting investor from participating further on the CSD until they have complied with the determination made by the Stock Exchange and SECZ and paid all penalties related to the Trade.</p>

<p><i>Trade settlement failure due to a lack of shares</i></p> <p>Where a stockbroker commits an error and oversells securities on a client's account, the excess shares shall be re-allocated to the defaulting stockbroker's proprietary account.</p> <p>Buy-in shall be done by the defaulting stockbroker, under the supervision of the ZSE.</p> <p>If Buy-in is not completed by T+2, the defaulting stockbroker faces a penalty</p>	<p>Operations procedure manual 6.4.8, 6.5.5 &amp; 6.5.6</p>	<p>The defaulting stockbroker shall pay 0.2% of the gross market value of the total transactions under default per day, until the trade settles.</p> <p>a minimum penalty of USD100.00 applies.</p> <p>If the trade remains unresolved for two (2) business days beyond T+2, ZSE Depository shall notify the ZSE and SECZ and request that they decide on the transaction.</p>
<p><i>Funds default by the stockbroker</i></p> <p>Where a stockbroker commits an error and buys more securities than instructed by a client, the excess shares shall be re-allocated to the defaulting stockbroker's proprietary account</p> <p>If the stockbroker fails to fund their proprietary account on T+2, the defaulting stockbroker shall face a penalty.</p>	<p>Operations procedure manual 6.4.4, 6.5.5 &amp; 6.5.6</p>	<p>The defaulting stockbroker shall pay 0.2% of the gross market value of the total transactions under default per day, until the trade settles.</p> <p>a minimum penalty of USD100.00 shall apply.</p> <p>If the trade remains unresolved for two (2) business days beyond T+2, ZSE Depository shall notify the ZSE and SECZ and request that they decide on the transaction.</p>
<p><i>Request for reallocation of rejected trades to same CSD Account</i></p> <p>Where a CSD participant rejects a trade alleged to their beneficial owner's account and subsequently requests a re-allocation to the same account.</p>	<p>Operations procedure manual 6.3.2</p>	<p>USD20.00 per ticket number</p>

<p><i>Funding of the Settlement Account on Settlement day (T+2)</i></p> <p>Failure by the Participant to have funds available for settlement for committed trades by 08:30am on T+2.</p>	<p>Operations procedure manual 7.2.4</p>	<p>USD100.00 for failure to fund by the 08.30am deadline on settlement day.</p>
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***NB: The penalties chargeable for failure to comply with the CSD Rules & Operational Procedures on the ZSE Depository shall also be payable in local currency equivalence at the prevailing exchange rate on the date of payment.***

#### 4. PAYMENT AND PUBLICATION OF FINES

- 4.1 Where a CSD Participant or investor commits a violation of the CSD Rules or Operational Procedures which attracts a penalty, ZSE Depository through its Risk and Compliance or Finance departments shall notify the CSD Participant of this violation and the applicable penalty within three working days of the said breach.
- 4.2 Where a CSD Participant wishes to object to a penalty imposed by the CSD, the objection must be lodged in writing within 7 business days of receipt of the notification of the penalty from the CSD.
- 4.3 Under this Penalties Framework, ZSE Depository shall invoice CSD Participants for penalties within 7 business days of notifying the Participant of the impending penalty to be charged.
- 4.4 Invoiced penalties shall be payable within 14 business days of the invoice date.
- 4.5 Where a Participant fails to pay the penalty as detailed in section 4.4 above, the CSD retains the right to suspend such a Participant. Where the Participant is not due to receive any payment from the Depository but has failed to pay a penalty within the stipulated time, ZSE Depository reserves the right to remove the Participant from the CSD system after formally notifying of such action in writing, giving seven business days' notice.

- 4.6 ZSE Depository may, at the discretion of the ZSE Disciplinary Committee, publish the circumstances giving rise (and the details of) any penalty imposed on a CSD Participant or an investor in terms of this Framework.

## 5. APPEALS PROCESS

Appeals can be lodged by CSD participants at any time during the calendar month, as from the moment of computation and reporting of the penalty until (and including) the 10th day of the following month.

In order to apply for an appeal, sufficient information needs to be provided by the CSD participant to the CSD, covering at least:

- ❖ Reference of the penalty as well as the failed transaction details,
- ❖ Reason for the appeal; and
- ❖ Expected penalty amount and calculation details to be applied.

- 5.1 Where a CSD Participant wishes to object to a penalty imposed by the CSD, they must lodge their objection in writing to the ZSE Chief Executive Officer (CEO), supported by mitigating evidence within 7 business days of receipt of the notification of the penalty from the CSD.
- 5.2 The ZSE CEO shall look at the appeal and determine a position in liaison with the management committee. The ZSE CEO will thereafter communicate their decision to the Participant which can either be a dismissal of the appeal, upholding of the appeal and setting aside of the penalty or variation of the penalty imposed.
- 5.3 For penalties of USD 10 000 and below, the determination made by the ZSE CEO shall be final.
- 5.4 For penalties above USD10 000, the Participant can appeal to the ZSE Board Committee.
- 5.5 Based on the assessment of the mitigating evidence submitted on appeal by the Participant, the

ZSE Board Committee may:

- i. dismiss the Participant's appeal and confirm the penalty imposed;
- ii. decide on a variation of the penalty imposed; or
- iii. rule in favor of the Participant and set aside the penalty imposed.

- 5.6 For penalties above USD10 000 but not exceeding USD50 000, the decision of the ZSE Board Committee shall be final.
- 5.7 For penalties above USD50 000, the Participant can appeal against the decision of the ZSE Board Committee to the Securities and Exchange Commission of Zimbabwe.

## 6. MITIGATING CIRCUMSTANCES

### 6.1 CAPTURING ERRORS

- 6.1.1 Capturing errors shall not be acceptable as the basis for the reversal, waiving or as mitigation against penalties.

### 6.2 TECHNICAL DIFFICULTIES

- 6.2.1 No Participant shall be penalized where there were technical impossibilities at the CSD level that prevented settlement from happening, such as a failure of the infrastructure components, a cyber-attack, and network problems.