



STATE DIAMOND TRADER

TRADING RULES

INTRODUCTION

The purpose of this document is to present the State Diamond Trader's Trading Conditions in terms of which the State Diamond Trader conducts business with its clients. It is important to note that these conditions shall specifically apply to the 'buying and selling' transaction of rough diamonds to clients of the State Diamond Trader and therefore, do not in anyway supersede mandatory statutory requirements.

BACKGROUND

The diamond business is one that is undertaken on an informal basis. Generally, the industry is underlined by the relative simplicity of a verbal agreement. In most countries where diamond trading is undertaken, the industry is regulated by means of an arbitration system in the event of non compliance with the traditional code of conduct by traders.

These codes reflect the informal nature of the business and are dependent on mutual trust being displayed between the respective parties. In most cases, the breakdown of this trust is in itself a ground for suspension and /or cancellation of business.

SOUTH AFRICA

Other countries that engage in diamond trading, such as Belgium and Israel, have strictly defined systems of controlling the industry. For instance, in order to be able to trade in diamonds in those countries, one has to become a member of a Diamond Bourse or Exchange. A Diamond Bourse is a private enterprise governed by its own set of rules and regulations although it still preserves the tradition of the diamond business. Should a dispute or disagreement arise, an integral part of the Bourse is its system of arbitration, which is recognised by each member and its decisions are binding on such members. Failure to abide by the decision of the arbitrator can result in the withdrawal of the Bourse membership thus resulting in the suspension of business. The Bourses also work closely with government authorities to ensure that applicable legislation is adhered to by its members.

In South Africa there is, however, no similar system in place. Membership of the Exchange is voluntary. As a result, the Exchange or any other body within the industry is not empowered to decide on any disputes that may arise. The function of control within the South African industry is governed by with the South African Diamonds and Precious Metals Regulator ("SADPMR"). Their functions include the issuing and withdrawal of beneficiation licences. Unlike the Bourse membership, this level of control merely operates within the requirements of the applicable legislation and does not preserve the code of "mazal u'bracha" which is central to the traditions of the diamond business.

It is, therefore, apparent that the notion of trust between trading parties is not as strong in South Africa as it is in other countries. Hence, it is necessary for the State Diamond Trader to clearly define the conditions which clients are obliged to comply with when conducting their business.

TRADING TERMINOLOGY

Mazal u'bracha

A '*mazal u'bracha*', which means 'luck and blessing' is a traditional Jewish expression used at the conclusion of an agreement of buying and selling of diamonds. Usually, the expression is accompanied by a handshake. It is a way in which the seller wishes the buyer good luck and it further preserves a sense of continuity and commitment to the business ethics.

The term "Mazal" is used across the international diamond trading community to indicate the completion of a deal and agreement on price. The breaking of a "Mazal" is seen as extremely serious as it is construed as a breakdown of trust, the bedrock of the diamond industry.

Approval (Appro)

The term Appro refers to a process whereby a client is permitted to take goods to his or her offices/ premises for further inspection. Some diamond trading centres allow this process on the basis of trust. Others go to the extent of issuing a receipt or commission slip.

Holding

Holding in the diamond industry applies when a client has inspected the goods but has not yet made a decision to purchase. The goods are kept under seal at the trading premises and cannot be shown to any other client.

Broker's Note

A Broker's Note is a statutory document which indicates the passing of ownership from one party to the other. Failure to produce a valid Broker's Note, when transporting rough diamonds, can result in a penalty being imposed by the SADPMR.

STATE DIAMOND TRADER (SDT) TRADING CONDITIONS

1. Notwithstanding any meaning, translation and/or interpretation of any of the provisions of these Trading Rules, the laws, rules and policies of general application in the Republic of South Africa shall be applicable at all times to all diamond trading transactions to be concluded between the State Diamond Trader and any of its clients and customers. The State Diamond Trader shall not conclude any transaction with any of its clients and customers where a failure to comply with any law or policy of general application in the Republic of South Africa has been established.
2. All SDT clients shall produce a valid Beneficiation Licence and a valid Tax Clearance Certificate in order to inspect rough diamonds for purchase. In the case of a company being the licence holder, a duly authorised person shall be required to produce a valid representative licence.

3. During inspection, clients and / or members of the public shall not be permitted to bring rough diamonds into the premises of the SDT. This is aimed at preventing the possibility of swapping stones during the inspection process.
4. The 'Appro' process shall not be applicable.
5. In the event of Holding, clients wishing to purchase the reserved goods (rough diamonds) shall purchase such goods within 36 hours of inspection. To the extent that the client does not purchase the goods in Holding within the prescribed period hereof, the SDT shall be entitled to sell the said goods to any third party purchaser in the normal course of its business.
6. The inspection and purchasing of diamonds shall strictly be on an appointment basis. A predetermined appointment with a client to inspect rough diamonds shall be arranged according to the State Diamond Trader Sales Plans. For security purposes, access to the trading premises shall be limited to predetermined authorised persons.
7. All rough diamonds shall be weighed and checked by the SDT sales team before and after inspection. This shall be done for security purposes to ensure that diamonds are not removed from the SDT premises by the clients.
8. Upon completion of the buying and selling transaction, the SDT shall issue a Broker's Note, which note shall be signed by both the authorised SDT sales person and the respective client's authorised person. The sold diamonds shall only be removed from the SDT premises upon presentation, to the respective official of the SDT, of a properly executed Broker's Note, and proof of payment of the purchase price.
9. Non compliance with the diamond industry recognised 'mazal' expression shall result in a suspension of the client's customer status with the SDT.
10. Before viewing goods at the SDT, clients must ensure that they have appropriate finance and manufacturing capability to uphold any commitment to purchase.

11. Clients shall have their SDT client status suspended if they do not buy despite being invited to view goods or shown goods more than three times in twelve months. Such action shall result in a suspension of 6 months with reinstatement determined by the Trading, Clientele and BEE Committee following a report and recommendation given by the CEO.

12. Clients shall notify the SDT in writing of any change of details recorded in the Client's Application document within 14 days of any changes occurring. Failure to do so may result in the suspension of the client's customer status at the State Diamond Trader. It shall be the client's responsibility to keep the SDT informed of any changes, especially its licence position, financial and shareholding arrangements as well as its manufacturing capability.
If the SDT becomes aware that a client has not informed them of any changes to that client's business operation as defined in the original application – that client shall be suspended immediately and given 7 days to inform the SDT in writing of such changes. Failure to do so within the time period will result in removal from the client list. The lifting of the suspension (reinstatement of the client) will be determined by the Trading, Clientele and BEE Committee following a report and recommendation given by the Client Relations Officer.

13. The SDT reserves the right to suspend sales to any client at any time without prior notice.

14. The SDT does not warrant:
 - 13.1 the value, caratage, clarity or colour of any rough diamonds offered for inspection to clients;

 - 13.2 that any rough diamonds will be available for purchase in any period.

15. The client indemnifies and holds harmless the SDT against any claim which it, its customers, officers, employees or shareholders may have arising out of the purchase of rough diamonds from the SDT, non-availability of rough diamonds for purchase, or the suspension or removal of the client from the client list in terms of clauses 12 and 18, or otherwise howsoever arising, save for the delivery of rough diamonds purchased in compliance with these trading conditions.

16. The SDT shall not provide any credit / financial assistance to clients and goods shall only be released to client/s on receipt of payment by the SDT.
17. Cheque payments shall not be acceptable unless the cheque is guaranteed and has been verified with the respective bank. Such verification shall occur prior to the goods being released to client. No cash payments are permitted.
18. Clients shall effect payment and ensure that such payment is received by the SDT within 36 hours of purchasing of the goods. Failure to effect payment within the prescribed period will be deemed to be a breach of the State Diamond Trader's Trading Conditions, and repudiation by the client of the sale.
19. The SDT shall be entitled to delete the name of any company or individual from its client list should such client:
 - 18.1 be found guilty of an offence under the Diamonds Act 56 of 1986, as amended;
 - 18.2 breach the SDT's Trading Conditions; or
 - 18.3 cease to hold a diamond beneficiation licence.
 - 18.4 any other reason deemed fit by the SDT.
20. The client acknowledges the penalties applicable under section 87 of the Diamonds Act 56 of 1986, as amended.
20. Prohibition of Exports: SDT clients are not allowed to export goods they bought from the SDT save the 80/20 rule provided for in the Diamonds Amendment Act Regulations and Diamonds Export Levy Act. The SDT has a right to stop supplying those who transgress this rule.
21. Clients should always reapply to be the SDT clients after a period of 5yrs or at the expiry of their licences whichever ever comes first.