

Directive of Strate Proprietary Limited

Special Gazette No M5-2016

Strate Directive SE.4

Electronic Trade Reporting, Matching, Clearing, Commitment and Settlement –
Money Market Securities





To provide the procedure that needs to be adhered to for electronic reporting, matching, clearing, commitment and settlement of transactions in MM Securities

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1. INTRODUCTION

The Money Market (“MM”) environment is an informal market with no exchange or automated trading systems. This resulted in transactions being executed telephonically between traders. Transactions are normally, but not exclusively, executed on a T+0 settlement cycle on a gross principal-to-principal basis. To facilitate the electronic clearing and settlement of primary issues and transactions in the MM environment, electronic functionality is required to match transaction details and, where necessary, bi-laterally allocate underlying allocations to bulk transactions. Consequently, an Electronic Trade Matching Engine (see definition below) has been developed for this purpose.

2. INTERPRETATION AND DEFINITIONS¹

2.1 In this Strate Directive, any interpretation, word, or expression to which a meaning has been assigned in the Strate Rules bears the meaning so assigned to it.

‘Account Transfer’ means a free of payment transfer, resulting in no change in beneficial ownership, between a Client’s MM Securities Accounts, either at a single Participant or between Participants;

‘BAN’ means a unique bilateral allocation number assigned by the ETME for settlement purposes to allocations underlying a bulk transaction;

‘Business Partner’ means an entity which is not a Participant and which interfaces with Strate to perform an essential market function in the issue, investment and settlement of MM Securities. Business Partners in the MM environment include MM Issuers, Issuer Agents, traders and Settling Banks;

‘Capital Event’ means an action taken by an MM Issuer or Issuer Agent which affects the holding or entitlement of the owners of MM Securities;

‘Coupon Payment’ means a Capital Event which involves payment of interest by an MM Issuer to the owners of the MM Securities;

‘End of Day (EOD)’ means the time as stipulated in Strate Directive SE.3 – *Operational Market Windows – Money Market Securities*;

‘Electronic Trade Matching Engine (“ETME”)' means an application system which is situated between a Business Partner with a trade reporting role and the MMSS and is used as a bulk matching and transaction allocation tool that reports transactions for settlement to the MMSS;

‘Fixed Buy Back’ means a Sell and Buy Back where the repurchase Settlement Date of the second leg is agreed when the transaction is executed;

‘Full Participant’ means a Participant, excluding a Corporate Participant;

¹ ‘CSD’ changed to ‘Strate’ and ‘Rules’ and ‘Directives’ changed to ‘Strate Rules’ and ‘Strate Directives’ throughout the document with effect from 1 December 2016



‘ITR’ means an internal trade reference number generated by a trader’s proprietary trading or back office system;

‘Maturity’ and ‘Maturity Payment’ means a Capital Event which involves the repayment of capital by an MM Issuer to the owners of the MM Securities;

‘MFA’ means Master File Administration comprising the MM Securities registers maintained in accordance with Strate Directive SE.2 – *Master File Administration – Money Market Securities*;

‘MM Securities Account’ means a Securities Account opened and maintained by or on behalf of a Participant for a Client, or for itself, in the Securities Ownership Register reflecting the Client Identification Data of such Client, or itself, and the nominal value of MM Securities deposited and all entries made in respect of such MM Securities;

‘Money Market Securities Register’ or ‘MMSR’ means the register in the MMSS in which all MM Securities issued, and details thereof, are recorded in accordance with Strate Directive SE.2 – *Master File Administration – Money Market Securities*;

‘MMSS’ means the electronic Money Market Settlement System that facilitates securities services with regards to MM Securities;

‘On-us’ means settlement through accounting entries within a Settling Bank acting for both the seller and purchaser of an MM Security, or acting for an MM Issuer making Coupon and Maturity Payments, and a Participant with a Client qualifying to receive Coupon and Maturity Payments from the MM Issuer;

‘Open Buy Back’ means a Sell and Buy Back where the trading parties agree not to fix the repurchase Settlement Date of the second leg when the transaction is executed, but such date is agreed between the parties to the transaction at any time up to Reconciliation Date of the underlying MM Security;

‘Payment Date’ means the day on which Capital Events are paid;

‘Portfolio Movement’ means a free of payment transfer, resulting in no change in beneficial ownership, of a Client’s Securities portfolio when such Client changes service providers;

‘Reconciliation Date’ means the EOD on the day before Payment Date of a Capital Event;²

‘Sell and Buy Back means a Repurchase Agreement or Carry whereby the intention of the seller is to sell the MM Securities to the purchaser conditional to the purchaser returning the same MM Securities, or, if agreed to by the parties, MM Securities with the same or similar characteristics;

‘SAMOS RTL’ means the SAMOS Real Time Line payment stream;

‘Settlement Date’ means the day on which that particular MM Security is settled through Strate;

² Definition “Repurchase Agreement” deleted with effect from 2 June 2014
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‘Settling Bank’ means a bank which is a settlement system participant in SAMOS and is responsible for funding the SAMOS RTL for the settlement of transactions, Coupon and Maturity Payments. The Settling Bank also confirms On-us settlement of transactions, Coupon and Maturity Payments;

‘Strate Operations’ means the operations division of Strate responsible for communication between Participants, Business Partners and Strate relating to settlement operations;^{3 4}

‘T’ means Trade Date, the day on which a particular transaction was entered into;

‘T+n’ means Trade Date plus n Business Days, ‘n’ being the number of Business Days stipulated in the Strate Directive; and

‘UTRN’ means a unique trade reference number assigned by the ETME to matched transactions.

³ Amended with effect from 2 June 2014

⁴ ‘Custody and Settlement’ changed to ‘Operations’ throughout the document with effect from 24 July 2014

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2.2 Settlement and Transaction Types

2.2.1 Transactions may be executed on a T+0 or T+n basis.

2.2.2 The electronic Money Market allows for the following “settlement” types only:

- DVP – Deliver Versus Payment;
- RVP – Receive Versus Payment;
- DFP – Deliver Free Of Payment;
- RFP – Receive Free of Payment;
- DPL – Deliver Pledge;
- RPL – Receive Pledge;
- DRL – Deliver Release Pledge; and
- RRL – Receive Release Pledge.

2.2.3 The following transaction types are allowed:

- Account Transfers;
- Portfolio Movements;
- Sell and Buy Back;
- Replacement of the second leg to a Sell and Buy Back transaction.

2.3 All transactions resulting in a change in beneficial ownership, a pledge or release pledge of MM Securities, and Account Transfers or Portfolio Movements within a Participant, or between Participants are referred to as transactions.

3. TRANSACTION REPORTING

- 3.1 All transactions must be reported to the ETME for matching, clearing and settlement.
- 3.2 Transactions for same day settlement must be reported to the ETME in terms of the timeframes detailed in Strate Directive SE.3 – *Operational Market Windows – Money Market Securities*.
- 3.3 The ETME only accepts transactions from Business Partners registered with a “trader” role.
- 3.4 Corporate Participants must report transactions “pre-committed.”
- 3.5 A Participant with a trader role, may report its Clients’ transactions to the ETME “pre-committed”.
- 3.6 Account Transfers, Portfolio Movements, pledge and release pledge transactions are only reported to the ETME by the Participants of the parties to these transactions. Such Participants must have a trader role.
- 3.7 Transaction details reported must include the bulk nominal value and consideration traded and each transaction leg must include at least one underlying allocation to the bulk nominal value and consideration traded.
- 3.8 The bulk nominal value and any underlying allocations to the bulk must comply with the minimum tradable denomination determined by the MM Issuer of the MM Security.



- 3.9 Sell and Buy Back transactions must be reported to the ETME, including details of the repurchase amount and Settlement Date, second leg and transaction type.
- 3.10 The repurchase Settlement Date of the second leg of a Sell and Buy Back cannot be later than the Reconciliation Date of the underlying MM Security.
- 3.11 Sell and Buy Back transactions can only have one underlying allocation to the bulk nominal value traded and consideration.
- 3.12 Only a single MM Security may be used in the execution of a Sell and Buy Back transaction.
- 3.13 Sell and Buy Back transactions requiring multiple MM Securities must be reported as separate Sell and Buy Backs for each underlying MM Security.
- 3.14 The following transaction information must be reported to the ETME:

Trade Information
(a) ISIN
(b) Trade Date
(c) Settlement type
(d) Transaction type (where applicable)
(e) Settlement Date
(f) Repurchase date (Sell and Buy Backs only)
(g) Nominal value of the bulk executed transaction
(h) Consideration of the bulk executed transaction
(i) Repurchase consideration (Sell and Buy Backs only)
(j) Trader's Business Partner identification number
(k) Counterparty trader's Business Partner identification number
(l) Internal trade reference number ("ITR")
(m) MM Securities Account for each underlying allocation to the bulk.
(n) Nominal value and consideration amount for each underlying allocation to the bulk

- 3.15 The ITR reported by the trader is not used for bulk matching purposes but is used for:
- 3.15.1 cancellation or replacement by a trader of a transaction reported before matching by the ETME;⁵
- 3.15.2 inclusion in the status intimation sent to the trader to notify it of invalid transaction information rejected by the ETME;
- 3.15.3 inclusion in the status intimation information sent back to the trader by the ETME when transaction information has matched or when a transaction has "timed-out" and been failed at the EOD procedures in the MMSS;.
- 3.15.4 matching, by the trader, of information reported from the ETME to the correct transaction in the trader's back office.

⁵ Amended with effect from 2 June 2014
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- 3.16 Once matched in the ETME, transaction details cannot be modified or cancelled, except for the second leg to a Sell and Buy Back.
- 3.17 The transaction details of the second leg of a matched Sell and Buy Back may be cancelled prior to the Settlement Date of the second leg by both counterparties to the Sell and Buy Back reporting the cancellation to the ETME. If one party fails to report the cancellation to the ETME, the transaction status will revert to “matched” at EOD.
- 3.18 The MM Securities to be used in the new second leg must be reported to the ETME for matching by both trading parties and must include the transaction type and the “original” ITR reported by each trading party in the initial Sell and Buy Back reported to the ETME, and a “new” ITR for the second leg.
- 3.19 Multiple MM Securities may be used to replace the cancelled second leg of the Sell and Buy Back and must be reported individually to the ETME for matching with the transaction type and the “original” ITR reported by each trading party in the initial Sell and Buy Back and a “new” ITR for each of the replacement legs used.
- 3.20 The responsibility for the booking of a replacement second leg of the Sell and Buy Back resides with the counterparties to the transaction. If the replacement second leg of the Sell and Buy Back is reported incorrectly, the party reporting the transaction must cancel the reported leg and re-submit the transaction with a different ITR, linked to the original ITR.
- 3.21 Account Transfers and Portfolio Movements must be reported as “free of payment” transactions.
- 3.22 The following additional transaction information is optional and not required for matching purposes. Where provided, it will be validated against the MMSR, for all transactions except Account Transfers, Portfolio Movements, pledges and release pledges.

Field Name	MM Category 1	MM Category 2	MM Category 3
Next Coupon Payment Date		✓	
Coupon Source and Spread			✓
Next Reset Date			✓
Current Coupon Rate		✓	✓
Maturity Date	✓	✓	✓

- 3.23 If the above validation is not successful, then a status intimation, including the trader’s ITR, is sent to the Business Partner which reported the transaction.



4. TRANSACTION MATCHING AND BI-LATERAL ALLOCATION

- 4.1 Invalid transaction information submitted for matching and bi-lateral allocation is rejected by the ETME, and a status intimation, including the trader's ITR, is sent to the Business Partner which reported the transaction.
- 4.2 The ETME performs a validation of the transaction information reported in accordance with 3.14 above and internal logic algorithms.
- 4.3 The ETME validates that the bulk and allocated nominal values reported are in the minimum tradable denominations determined by the MM Issuer.
- 4.4 The ETME validates that the nominal value and consideration of the bulk transaction reported by the trader are equal to the aggregate underlying nominal value and consideration of the allocations that constitute the bulk.
- 4.5 Only the information submitted in 3.14 (a) to (k) is used as matching criteria for the purposes of matching transaction details in the ETME. The ITR is used as a reference between the trader's proprietary system and the ETME.
- 4.6 All the matching criteria noted in paragraph 3.14 (a) to (k) submitted by the counterparties to the transaction must match to constitute a "matched" bulk transaction for bi-lateral allocation and settlement purposes.
- 4.7 The bulk nominal value must match with zero tolerance. The bulk consideration traded must match within tolerances of R50 (Fifty Rand).
- 4.8 Matched transactions are assigned a unique trade reference number ("UTRN") by the ETME.
- 4.9 All "four" matched legs of the Sell and Buy Back are linked by the same UTRN.
- 4.10 The UTRN and ITR are communicated to the transaction reporting party in the matched status intimation.
- 4.11 Allocations underlying the bulk nominal value and consideration traded are bi-laterally allocated by the ETME using an algorithm and assigned a unique bilateral allocation number ("BAN") for settlement purposes.
- 4.12 The time frame stipulated in 3.3.2 of Strate Directive SE.3 – *Operational Market Windows – Money Market Securities* does not apply to Account Transfers, Portfolio Movements, pledge and pledge release transactions reported to the ETME for matching.
- 4.13 Transactions reported which remain "unmatched" within the time frame detailed in Strate Directive SE.3 – *Operational Market Windows – Money Market Securities* fail at EOD on Settlement Date.
- 4.14 Traders must monitor the matched status of their own orders.



5. CLEARING, COMMITMENT AND SETTLEMENT

- 5.1 All bi-lateral allocations underlying a matched bulk transaction are settled as a stand-alone transaction.
- 5.2 Settlement allegements are only sent to Full Participants on Settlement Date, regardless of whether the Full Participant has reported its Clients' transactions pre-committed.
- 5.3 Where a Full Participant does not commit to any allegement sent by the MMSS, the relevant transaction settlement fails at EOD, and the MMSS sends a status intimation to the Participant.
- 5.4 Where the allegement in 5.3 above pertains to the first leg of a Sell and Buy Back, the second leg of the Sell and Buy Back simultaneously fails with the first leg.
- 5.5.1 Full Participants may withdraw commitments made to allegements from the MMSS, provided that the cut-off time stipulated in Strate Directive SE.3 – *Operational Market Windows – Money Market Securities* has not elapsed and commitment from the counterparty's Full Participant has not already been received by the MMSS.
- 5.5.2 Full Participants cannot withdraw commitments where the counterparty to the transaction is a Corporate Participant.
- 5.5.3 A Corporate Participant cannot withdraw commitments as it reports transactions "pre-committed".
- 5.6 The seller's MM Securities are reserved in its MM Securities Account:
- 5.6.1 once the commitment from its Full Participant and that of the purchaser's Full Participant are received by the MMSS;
- 5.6.2 once matched when the seller's transaction is reported pre-committed to the ETME by a Corporate Participant, in its role as trader;
- 5.6.3 once committed to by its Full Participant where the counterparty is a Corporate Participant.
- 5.7 Once MM Securities have been reserved in the seller's MM Securities Account, the MMSS sends a payment advice to the purchaser's Participant, and the Participant must instruct the purchaser's Settling Bank to settle the transaction.
- 5.8 Settling Banks must settle transactions through the SAMOS RTL or as On-us settlement. Where settlement is through the SAMOS RTL, the paying Settling Bank must send a payment advice to the receiving Settling Bank.
- 5.9 MM Securities move from the seller's reserved balance in its' MM Securities Account to the purchaser's free balance in its' MM Securities Account immediately upon receipt by the MMSS of settlement confirmations from SAMOS or a Settling Bank, in the case of On-us settlement.
- 5.10 All "against payment" and "free of payment" settlement processes must comply with the timeframes detailed in Strate Directive SE.3 – *Operational Market Windows – Money Market Securities*.



- 5.11 Where settlement does not take place due to either insufficient MM Securities in the seller's free balance in its' MM Securities Account, or insufficient funds, the bi-laterally allocated transaction fails EOD and the MMSS sends status intimations to the relevant Participants.
- 5.12 Should counterparties agree to cancel a bilaterally allocated transaction before EOD, due to the circumstances detailed in 5.11 above, both Participants to the transaction must notify Strate Operations, in writing, detailing the UTRN and BAN/(s) underlying allocation to the bulk which must be cancelled. Strate Operations cancels the transaction in the MMSS, and status intimation is sent to the relevant Participants.⁶
- 5.13 Where the repurchase date of the second leg of an Open Buy Back remains open on Reconciliation Date, the second leg is automatically failed and cancelled by the MMSS at the end of the trade reporting window on the Reconciliation Date of the underlying MM Security, and a status intimation is sent to the relevant Participant or Business Partner which reported the transaction.

⁶ Amended with effect from 2 June 2014
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