

## SPECIAL GAZETTE

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# GENERAL INFORMATION

### AMENDED DIRECTIVE

Following approval by the Regulatory and Supervisory Committee the following amended Directive is hereby released:

#### **Directive SFA – Best Practices for the Settlement of Off-market Bonds Transactions**

This Directive will be implemented on 1<sup>st</sup> December 2010.



**MARIA VERMAAS**  
Head – Legal Division

1<sup>st</sup> November 2010



## **DIRECTIVE OF STRATE LTD**

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### **Special Gazette No B8-2010**

#### **DIRECTIVE SFA**

#### **Best Practices for the Settlement of Off-market Bonds Transactions**

**To cater for the settlement of bonds transactions concluded Off-market, not concluded through an Exchange, and which are reported by the sellers and purchasers to the relevant Participants for settlement through the CSD**

## INDEX

1. INTERPRETATIONS AND DEFINITIONS
2. SETTLEMENT
  - Transaction Reporting
  - Commitment to Settlement
  - Settlement Problem Lists
  - Exclusion
  - Settlement Runs
  - Failed Transactions

# 1 INTERPRETATIONS AND DEFINITIONS

In this Directive, any interpretation, word, or expression to which a meaning has been assigned in the CSD Rules ("the Rules") bears the meaning so assigned to it.<sup>1</sup>

'BESA' means a market operated by the JSE in terms of the Act to facilitate trading in interest rate Securities;<sup>2</sup>

'CSD System' means the computer system or systems and associated network or networks operated or used by the CSD for the purpose of clearing and settlement of Securities, or any other purpose performed by the CSD in terms of the Securities Services Act No. 36 of 2004;

'First Settlement Run' means the First Settlement Run on S, at which time Securities are settled on a nett basis;

'JSE' means JSE Limited Registration Number 2005/022939/06;

'JSE Settlement Authority' means the person or persons appointed by the JSE to manage the settlement of transactions in loan stock effected through the Yield-X Trading System in terms of the JSE's Yield X Rules and Directives and the CSD Rules;

'Off-market transaction' means a transaction in bonds not concluded on an Exchange trading system and which is reported by the seller and purchaser to the relevant Participant for settlement through the CSD;

'On-exclusion' means a transaction leg that is affected by a Trade Exclusion (through a knock-on effect), and which transaction leg, if unresolved, will need to be excluded from the First Settlement Run by a Participant, and placed in the Second Settlement Run.

'S' means settlement day, the day on which that particular security will be settled through the CSD;

'SAMOS CPL' means the SAMOS (South African Multiple Option Settlement System) Central Processing Line account as designated by the Participant, which is used for the purposes of funding the settlement of transactions;

'Second Settlement Run' means the Second Settlement Run on S, at which time Securities are settled on a gross transaction by transaction basis;

'Strate Custody and Settlement Services' means the department within the CSD responsible for communication between Participants, Exchanges and the CSD relating to settlement operations;

'STRATE Supervision' means the supervision division headed by the Head of Supervision and set up by the Controlling Body in terms of the Rules;

'T' means trade date, the day on which a particular transaction was entered into;<sup>3</sup>

'Trade Exclusion' means a transaction leg that is excluded from the First Settlement Run by a Participant, and placed in the Second Settlement Run, in circumstances where there are insufficient Securities, funds or no Client instructions; and

'Yield-X' means a market operated by the JSE in terms of the Act to facilitate trading in interest rate Securities.

<sup>1</sup> 'BESA' definition removed with effect from 10<sup>th</sup> April 2010

<sup>2</sup> 'BESA' definition inserted with effect from 1<sup>st</sup> September 2010

<sup>3</sup> 'Trade' definition removed with effect from 10<sup>th</sup> April 2010

## 2 SETTLEMENT

### Transaction Reporting

- 2.1.1 Exchanges do not guarantee any Off-market transactions.<sup>4</sup>
- 2.1.2 Participants must report transactions to the CSD on business days between 07h00 and 18h00, failing which they will be rejected by the CSD system.
- 2.1.3 Participants must report T+3 and T+2 transactions to the CSD by 12h00 on S-1. Late reported T+3 and T+2 transactions may attract a fine.
- 2.1.4 Participants must report T+1 transactions by 18h00 on S-1.
- 2.1.5 Transactions reported for settlement to the CSD on S, irrespective of the trade date, will be considered same day transactions. The same day window will be opened by Strate Custody and Settlement Services between<sup>5</sup> 11h30 and 13h30 for the reporting of such transactions to the CSD. Any requests to extend the same day window may attract a fine.
- 2.1.6 Transactions booked incorrectly for settlement to the CSD on S must be cancelled or corrected, and not left to fail in the system. Correction of same day transactions can be effected within the same day window and cancellations before the end of day.<sup>6</sup>
- 2.1.7 Participants must, in writing, between 08h00-09h00, request authorisation from Strate Custody and Settlement Services to open the same day Off-market corrective window in order to report Off-market transactions on S which will prevent Trade Exclusions. Any transaction reported by Participants which is not related to settlement problems or the prevention of Trade Exclusions may attract a fine.<sup>7</sup>
- 2.1.8<sup>8</sup> Where a Participant receives a transaction instruction after the cut-off time for reporting transactions to the CSD, the Participant may facilitate the settlement process by reporting the transaction to the CSD for the next available settlement date. This facilitation process may continue for a maximum of 3 (three) Business Days after the settlement date of the original instruction, after which the Participant must cancel the original instruction. The Participant is not permitted to amend the trade date of the original instruction.

### Commitment to Settlement<sup>9</sup>

- 2.2.1<sup>10</sup> Participants must immediately notify affected members and clients of problem transactions.
- 2.2.2 Participants must commit to final nett settlement positions for the First Settlement Run, after the Trade Exclusion process, by <sup>11</sup>11h00 on S. Participants may request Strate Custody and Settlement Services to extend the First Settlement Run for a maximum period of 30 (thirty) minutes, subject to the request having been received in writing by 10h45. Failure to commit by cut-off time will result in the delay of the First Settlement Run. A fine may be imposed on the Participant responsible for the delay of the First Settlement Run.<sup>12</sup>

<sup>4</sup> 2.1.2 and 2.1.3 amended with effect from 10<sup>th</sup> April 2010

<sup>5</sup> 2.1.5 amended with effect from 10<sup>th</sup> April 2010

<sup>6</sup> 2.1.6 amended with effect from 1<sup>st</sup> September 2010

<sup>7</sup> 2.1.7 inserted with effect from 1<sup>st</sup> September 2010

<sup>8</sup> 2.1.8 inserted with effect from 1<sup>st</sup> December 2010

<sup>9</sup> Old 2.2.1 removed with effect from 10<sup>th</sup> April 2010

<sup>10</sup> 2.2.1 to 2.2.3 amended with effect from 10<sup>th</sup> April 2010

<sup>11</sup> 2.2.2 amended with effect from 10<sup>th</sup> April 2010

<sup>12</sup> 2.2.2 amended with effect from 1<sup>st</sup> September 2010

- 2.2.3 Participants must commit to transactions settling in the Second Settlement Run by 14h30 on S, failing which the uncommitted transactions will fail. Participants may request Strate Custody and Settlement Services to extend the Second Settlement Run for a maximum period of 30 (thirty) minutes, which request must be received in writing by 14h15. Extensions, for or on behalf of Participants, of the Second Settlement Run may attract a fine. Participants must commit to transactions within the time parameters of the extension granted, failing which the transactions will fail.

#### **Settlement Problem Lists<sup>13</sup>**

- 2.3.1 Participants must advise the JSE Settlement Authority of transactions that they are unable to commit to, if there are any on-market Yield-X dependent transactions<sup>14</sup> by 12h00 on S-1 or BESA dependant transactions by 13h00 on S-1.
- 2.3.2 Participants must advise Strate Custody and Settlement Services and the JSE of transactions that they are unable to commit to, by 13h00 and 16h30 on S-1. Nil lists must be submitted. Failure to submit a list or submitting a list late may attract a fine.<sup>15</sup>
- 2.3.3 Participants must submit final lists of all T+3, T+2 and T+1 transactions which are unable to settle, giving reasons for their inability to settle, to Strate Custody and Settlement Services by 08h00 on S, and to the JSE if there are on-market dependencies. Nil lists must be submitted. Failure to submit a list, submitting a list late or submitting an incomplete list may attract a fine.<sup>16</sup>

#### **Exclusions<sup>17,18</sup>**

- 2.4.1 Participants must, in writing, notify counterparties to the affected problematic transactions of their intention to exclude corresponding transaction legs on their side prior to capturing Trade Exclusions. Failure to notify the counterparty may attract a fine.
- 2.4.2 Participants must, in writing, request authorisation for Trade Exclusions from the Strate Custody and Settlement Services, by 09h00 on S. Participants must only capture transaction details that were listed on their request. Any deviation from the list may attract a fine.
- 2.4.3 Strate Custody and Settlement Services will open the exclusion window, capture the number of Trade Exclusions requested by a Participant and send written authorisation for Trade Exclusions to Participants to exclude. Participants must resolve the knock-on effects of Trade Exclusions by 10h00 on S. Requests by Participants to extend the exclusion window beyond 10h30 on S may attract a fine.
- 2.4.4 Participants must pursue resolution of the knock-on effect with its Clients and reconstitute the settlement position by 10h30 on S. If the settlement positions are not resolved by 10h30 on S, the Participants must request extension of the exclusion window.
- 2.4.5 Participants must send, in writing, transaction leg details and corresponding counterparty transaction leg numbers of the Trade Exclusions and On-exclusions within 1 (one) hour of completion of the First Settlement Run if they have not yet already done so. Failure to provide on-exclusion details may attract a fine.

<sup>13</sup> 2.3.1 to 2.3.3 amended with effect from 1<sup>st</sup> September 2010

<sup>14</sup> 2.3.1 amended with effect from 10<sup>th</sup> April 2010

<sup>15</sup> 2.3.2 added with effect from 10<sup>th</sup> April 2010

<sup>16</sup> 2.3.3 amended with effect from 10<sup>th</sup> April 2010

<sup>17</sup> 2.4.1 to 2.4.5 amended with effect from 10<sup>th</sup> April 2010

<sup>18</sup> 2.4.1 to 2.4.5 amended with effect from 1<sup>st</sup> September 2010

## Settlement Runs

- 2.5.1 The First Settlement Run commences at 11h00 on S once all Participants have committed to their nett settlement positions. The CSD advises Participants systematically of the funding requirements they need to fund through SAMOS.
- 2.5.2 The Second Settlement Run commences at 14h30 on S and any transactions not committed by 14h30 will fail. The CSD advises Participants systematically of the funding requirements they need to fund through SAMOS.<sup>19</sup>
- 2.5.3 Participants must fund their designated SAMOS CPL accounts within 30 (thirty) minutes of receiving the funding instruction from the CSD. Late funding may attract a fine.
- 2.5.4 Where both legs of a transaction occur within the same Participant, these must be reported to the CSD within the parameters set out in this Directive.

## Failed Transactions<sup>20</sup>

- 2.6.1 Only legitimate failed transactions will be allowed to fail in the CSD.
- 2.6.2 Legitimate failed transactions are:
  - 2.6.2.1 Transactions that are booked against a counterparty who does not match the transaction;
  - 2.6.2.2 Transactions that are booked but are short of Securities; and
  - 2.6.2.3 Funding of settlement which is not done during the specified settlement window.

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<sup>19</sup> 2.5.1 and 2.5.2 amended with effect from 10<sup>th</sup> April 2010

<sup>20</sup> 2.6.1 and 2.6.2 amended with effect from 10<sup>th</sup> April 2010