

STRATE SPECIAL GAZETTE

S5-2018

6 November 2018

AMENDED DIRECTIVE

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

Strate Directive SC.2 – Operational Market Windows - Off-Market – Equities – JSE and A2X

This directive will be implemented on 15 November 2018.

Full versions of the amended directives will be available on the Strate portal (accessible through the Strate Compliance Officers).



MARIA VERMAAS

Head – Legal and Regulatory Division

Directive of Strate Proprietary Limited

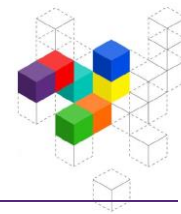
Special Gazette No S5-2018

Strate Directive SC.2

Operational Market Windows – Off-market – Equity Securities – JSE and A2X

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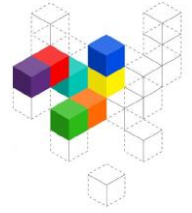


To cater for the procedure for the Settlement of Off-market Transactions

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¹ Amended with effect from 26 June 2017



1 INTERPRETATIONS AND DEFINITIONS²

...

- 1.3 In this Strate Directive, any interpretation, word, or expression to which a meaning has been assigned in the Strate³ Rules bears the meaning so assigned to it.

...

‘A2X Settlement Committee’ means the Settlement committee of A2X, as defined in the A2X rules, responsible for managing the Settlement of transactions in Securities effected through the A2X Trading System;

‘A2X Trading System’ means the computer system or systems and associated network or networks operated or used by A2X for the purpose of providing a market for the trading of Securities;

‘A2C’ means the A2X Clearing System operated by A2X;

...

‘Back-to-Back Link’ or ‘Back-to-Back’ means the functionality which links two or more transactions of the same Settlement date, and where the delivery of Securities is dependent upon the successful receipt of the same Securities. The criteria for applying these links are that the Securities, the Settlement date and the CSA must be the same for all the Settlement orders within the link;

...

‘Capital Exposure Requirement’ means Securities or funds provided by Members to cover their exposures on A2X, for the assurance of Settlement;

...

‘Compulsory Principal Assumption’ means a transaction that has been booked on the A2C system to a Client where the Client fails to meet its obligations and where the A2X Member assumes the obligation to Settle the Client’s transaction through the A2X Member’s Participant. This has the same effect as Compulsory Reverse Substitution;

‘Compulsory Reverse Substitution’ means a transaction that has been booked on the ECS system to a Non-controlled Client where the Non-controlled Client fails to meet its obligations and the JSE Broker assumes the obligation to Settle the transaction through such JSE Broker’s Participant. This has the same effect as Compulsory Principal Assumption;

...

² Definitions amended with effect from 6 October 2017 and 15 November 2018

³ “CSD” and “the CSD” amended to “Strate” throughout the document with effect from 11 July 2016



‘Dependency Link’ means the functionality which links two or more transactions across different Settlement dates, and where the delivery of Securities is dependent upon the successful receipt of the same Securities; The criteria for applying these links are that the Securities and CSA must be the same for all the Settlement orders within the link;

...

‘Failed Trade’ means a transaction in equity Securities which the JSE Settlement Authority or the A2X Settlement Committee deems to be a failed trade on the basis that neither the Client, Broker/Member, JSE Settlement Authority, nor A2X Settlement Committee, as applicable, is able to ensure that such transaction will Settle on the Settlement date or any revised Settlement date;

...

‘JSE Settlement Authority’ means the person or persons appointed by the JSE to manage the Settlement of transactions in equity Securities effected through the JSE Trading System;

...

‘Non-controlled Client’ means a Client or an account holder on whose behalf a Client is acting, who has appointed its own Participant to Settle transactions in equity Securities on its behalf, in accordance with the JSE rules;

...

‘Principal Assumption’ means **a Compulsory Principal Assumption or a Voluntary Principal Assumption** [where the A2X Member assumes the obligation to settle the Client’s transaction through the A2X Member’s Participant];

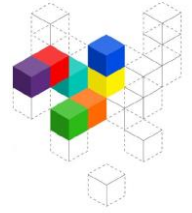
...

‘S’ means Settlement date, which is the Business Day on which a transaction in a particular Security is Settled through Strate;

‘S-X’ means Settlement date minus X Business Days, ‘X’ being the number of Business Days stipulated in the Strate Directive;

...

‘Securities Lending Transaction’ or ‘Securities Lending and Borrowing Transaction’ means an arrangement in terms of which a person (lender) lends Securities to another person (borrower) subject to the borrower agreeing to return the loaned Securities within an agreed time period. Once the loaned Securities have Settled, ownership of the Securities is transferred to the borrower. The borrower has the right to sell or on-lend the Securities during the life of the loan. In return, the borrower agrees to compensate the lender for any Corporate Events in respect of the Securities which that lender would have been entitled to receive during the period of the loan had the arrangement not been entered into;



...

‘State Operations’ means the operations division of Strate responsible for communication between Participants, Business Partners, Exchanges, SARB and Strate relating to Settlement operations;

...

[‘Strate System’ means the computer system or systems and associated network or networks operated or used by Strate for the purpose of clearing and settlement of transactions in Securities, or any other purpose performed by Strate in terms of the Act;]

...

‘Voluntary Principal Assumption’ means a transaction that has been booked to a Client’s account on the A2C system and is reversed to an A2X Member’s proprietary account;

...

‘Warrants’ means options that are issued by financial institutions or other approved warrant issuers and traded on the JSE, and Settled by Strate. Warrants give the right to the holder, but not the obligation to buy or sell an underlying Security at a specified price.

...

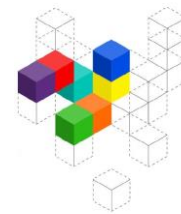
Explanatory Memorandum:

It is proposed that the definition of A2X Settlement Committee be amended for further clarity, and the related definitions of A2X Trading System and A2C be inserted.

It has been proposed by A2X that the definitions of “Capital Exposure Requirement”, “Compulsory Principal Assumption”, and “Voluntary Principal Assumption” be inserted, and the definitions of “Compulsory Reverse Substitution” and “Principal Assumption” be amended, for greater clarity.

It is proposed that the definition of “Strate System” be deleted to avoid unnecessary duplication, as this term is now defined in the Strate Rules.

It is proposed that the word “settlement” be replaced with “Settlement”, as defined in the Strate Rules, throughout this Directive.



2 GENERAL⁴

...

- 2.4 The start time of SAMOS is not controlled by the Strate System or Strate. Accordingly, the rest of the Settlement and system activities are shifted or compressed based on the start time of SAMOS.

...

3 OFF-MARKET TRANSACTIONS⁵

...

- 3.5 In the event that a Participant receives an Off-market transaction instruction after the cut-off for reporting transactions to Strate, or the transactions do not match by the cut-off, the Participant may facilitate the Settlement process by reporting the Off-market transaction instruction to Strate for the next available Settlement date. This facilitation process may continue for a maximum of 9 (nine) Business Days after the trade date of the original instruction, after which the original instruction must be cancelled. The Participants are not permitted to amend the trade date of the original instruction.⁶

...

- 3.7.2 Back-to-Back Links may be created or removed on S for transactions affected by the JSE's failed trade management process or the A2X Failed Trade Procedures, and the following procedure must be followed:⁷

3.7.2.1 the requesting Participant must send a written request to Strate Operations and the counterparty Participant;

3.7.2.2 the counterparty Participant must send a written acceptance of the request to Strate Operations;

3.7.2.3 Strate Operations reviews both the request and acceptance, and where Strate, in consultation with the JSE Settlement Authority and/or the A2X Settlement Committee, as applicable, has determined that there is no On-market dependency or potential market risk, Strate Operations may open the Back-to-Back window upon receipt of a telephonic request from the Participant for a maximum of 30 (thirty) minutes and permit the requesting Participant to create or remove a Back-to-Back link. If there is an On-market dependency, Strate Operations may open the window and permit the requesting Participant to create a Back-to-Back link, in consultation with the JSE Settlement Authority and/or the A2X Settlement Committee, as applicable.⁸

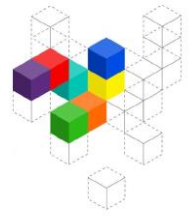
⁴ Section amended with effect from 11 July 2016

⁵ Section amended with effect from 11 July 2016, 6 October 2017 and 15 November 2018

⁶ Amended with effect from 19 December 2016 and 15 November 2018

⁷ Amended with effect from 15 November 2018

⁸ Amended with effect from 26 June 2017 and 15 November 2018



...

3.13 Only the following transactions are allowed to fail in Strate:

3.13.1 transactions that are reported against a counterparty who does not match the transaction, **and such transactions are not reported for Settlement at a future date in terms of this Strate Directive;**⁹

3.13.2 transactions that are reported but are short of Securities; or

3.13.3 settlement not funded during the specified payment window.

...

Explanatory Memorandum:

It is proposed that clause 3.7.2 be amended as shown, for greater clarity.

It is proposed that clause 3.13.1 be amended to clarify that only those un-matched transactions that are not rolled to the next available settlement date in terms of this Directive, will fail.

⁹ Amended with effect from 15 November 2018



4 SECURITIES LENDING¹⁰

4.1 Off-Market Securities Lending and Borrowing (SLB), SLB Return, Collateral and Collateral Return Transactions:

- 4.1.1 A minimum T+0 Settlement cycle is permitted, unless there is an On-market or Off-market dependency, in which case a minimum T+1 Settlement cycle is required. The Client type for SLB, SLB Return, Collateral and Collateral Return Transactions is “50” for Participants. Securities Lending Business Partners may use Client type “50” under exceptional circumstances.

...

4.2 Securities Lending and Borrowing – Business Partners

- 4.2.1 Same Day Settlement of Securities Lending and Borrowing Transactions and Securities Lending and Borrowing Return Transactions is permitted, unless there is an On-market or Off-market dependency, in which case a minimum T+1 Settlement cycle is required.

...

5. ACCOUNT TRANSFERS¹¹

...

- 5.5 Participants must process Account Transfers with the free of payment Settlement type (RFP/DFP).

6 DEPOSITORY RECEIPTS (DRs)¹²

- 6.1 A minimum T+1 Settlement cycle is permitted. The Client type for a DR is “40”.

...

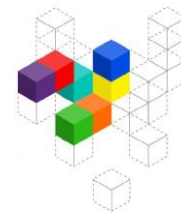
- 6.3 In the event that a Participant receives a DR instruction after the cut-off for reporting transactions to Strate, or the transactions do not match by the cut-off, the Participant may facilitate the Settlement process by reporting the DR instruction to Strate for the next available Settlement date. This facilitation process may continue for a maximum of 9 (nine) Business Days after the trade date of the original instruction after which it must be cancelled. The Participants are not permitted to amend the trade date of the original instruction.¹³

¹⁰ Section amended with effect from 11 July 2016 and 6 October 2017

¹¹ Section amended with effect from 11 July 2016

¹² Section amended with effect from 11 July 2016

¹³ Amended with effect from 19 December 2016



...

7. PORTFOLIO MOVEMENTS¹⁴

...

7.5 Participants must process Portfolio Movements with the free of payment Settlement type (RFP/DFP).

8. CORPORATE ACTION TRANSACTIONS¹⁵

8.1 A minimum T+1 Settlement cycle is permitted for reporting Corporate Action transactions between Participants and Strate or Participants and Issuers. The Client type for a Corporate Action transaction is "23".

...

9 SAME DAY SETTLEMENT¹⁶

...

9.3 Where a Same Day Settlement has been allowed in terms of 9.2.1.1, the instruction must be reported to Strate, matched and committed by the Participant by 14h00 on Settlement date.

...

10 TOLERANCE LEVEL¹⁷

In order to facilitate and ensure that Settlement in Off-market transactions is effected, the Controlling Body of Strate approved an acceptable tolerance level on the matching criteria of Off-market transactions, namely that:

...

11 COLLATERAL ACCOUNT TRANSFERS AND LENDING ACCOUNT TRANSFERS¹⁸

...

11.5 Participants must process Collateral Account Transfers and Lending Account Transfers with the free of payment Settlement type (RFP / DFP).

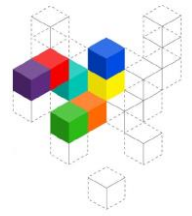
¹⁴ Section amended with effect from 11 July 2016

¹⁵ Section amended with effect from 11 July 2016

¹⁶ Section amended with effect from 11 July 2016

¹⁷ Section amended with effect from 11 July 2016

¹⁸ Section amended with effect from 26 June 2017



12. COLLATERAL AND COLLATERAL RETURN TRANSACTIONS¹⁹

12.1 A minimum T+0 Settlement cycle is permitted for Collateral and Collateral Return transactions.

...

12.6 Securities Lending Business Partners, may cancel Collateral and Collateral Return transactions on S provided that the orders are not in a “matched ready for Settlement” status.

...

¹⁹ Section amended with effect from 11 July 2016 and 15 November 2018