

# BLUEPRINT FOR THE MOVE TO T+3

June 2014



## TABLE OF CONTENTS

<b>1. References</b>	<b>3</b>
<b>2. Version Control</b>	<b>3</b>
<b>3. Introduction</b>	<b>4</b>
3.1 Purpose	4
3.2 Stakeholders	4
3.3 Scope	4
3.4 Overview	6
<b>4. Overall Description</b>	<b>4</b>
4.1 Assumptions	10
4.2 Dependencies	10
4.3 Constraints	10
4.4 Existing Projects and Initiatives Impacting on this Specification	11
<b>5. Requirements Survey</b>	<b>11</b>
5.1 Business Problem and Survey	11
<b>6. Blueprint</b>	<b>11</b>
6.1 Barrier 1: Dematerialization	11
6.2 Barrier 2: Straight-through Processing	12
6.3 Barrier 3: Securities Lending & Borrowing	15
6.4 Barrier 4: Corporate Actions	20
6.5 Barrier 5: Systems Availability	27
6.6 Barrier 6: Moving Shares between Registers	28
6.7 Barrier 7: Providing Settlement Assurance	30
6.8 Barrier 8: Central Securities Register	32
6.9 Barrier 9: Off- market Transactions	33
6.10 Barrier 10: Real-Time Trade Processing	36
<b>7. Phase 3</b>	<b>36</b>
<b>8. Glossary</b>	<b>37</b>

## 1. References

Document	Author	Version	Issue Date
20070612-Setting course for T+3 (PowerPoint presentation)	Brett Kotze	0.1	12/06/2007
20070620-Project management approach to moving to T+3	Brett Kotze	0.1	20/06/2007
20070629-Overcoming barriers for moving to T+3	Brett Kotze	0.1	29/06/2007
20070717-B&A_Demetarialisation_&_SLB	Brett Kotze	0.1	17/07/2007
20070724-B&A_STP_&_Systems_availability	Brett Kotze	0.1	24/07/2007
20070807-B&A_Corporate_Actions	Brett Kotze	0.1	07/08/2007
20070821-B&A_Moving_Shares_&_Off_Markets	Brett Kotze	0.1	21/08/2007
20070821-Process_flow_movement_of_shares	Brett Kotze	0.1	21/08/2007
20070904-B&A_Providing_Settlement_Assurance	Brett Kotze	0.1	04/09/2007
20070911-B&A_CSR_&_Real-time_trade_processing	Brett Kotze	0.1	11/09/2007
20070918-CA_Follow_Up (Power Point)	Brett Kotze	0.1	18/09/2007
20071106-High_Level_Action_Plan	Meera Sunker	2.0	06/11/2007
PMO_T+3_Schedule_20080904	Strate		04/09/2008
PMO_T+3_Blueprint_1.1	Strate	1.1	30/09/2008
T+3 Project-status Report Q3 2008	Brett Kotze		21/08/2008
T+3 Project-status Report Q4 2009	Brett Kotze		06/04/2009

Please note that documents could have taken the form of discussions, interviews, presentations, workshops, white papers etc.

## 2. Version Control

Version	Author	Date	Reason for Changes
0.01 Draft	Chris Parrish	14 October 2008	Document creation
0.02 Draft	Chris Parrish	15 October 2008	Update with comments
0.03 Draft	Brett Kotze	06 April 2009	Update the document
0.04 Draft	Debby Harrison	07 April 2009	Update the document and transfer to new template
0.05 Draft	Brett Kotze	09 April 2009	Edit the document
0.06 Draft	Brett Kotze	15 April 2009	Edit the document
0.07 Draft	Brett Kotze	16 April 2009	Edit the document with Des's comments
0.08 Draft	Brett Kotze	30 April 2009	Update with comments received from stakeholders
1.00 Final	Brett Kotze	18 May 2009	Approved by JSE Exco. Moved to final version
1.1 (Draft)	Anina De Villiers	23 June 2014	Updated from recent discussions and workshops held with Strate and the CSDP's.
2.00 Final	Anina De Villiers	30 June 2014	Moved to final

### **3. Introduction**

#### **3.1 Purpose**

This document aims to present the blueprint for the T+3 Project, and has been created by collating and presenting all identified and proposed T+3 requirements / changes as a blueprint for the South African equities market in order to facilitate the move to T+3 rolling contractual settlement.

#### **3.2 Stakeholders**

The following Stakeholders have been identified as integral to the success of the project and the overcoming of all the Barriers to T+3:

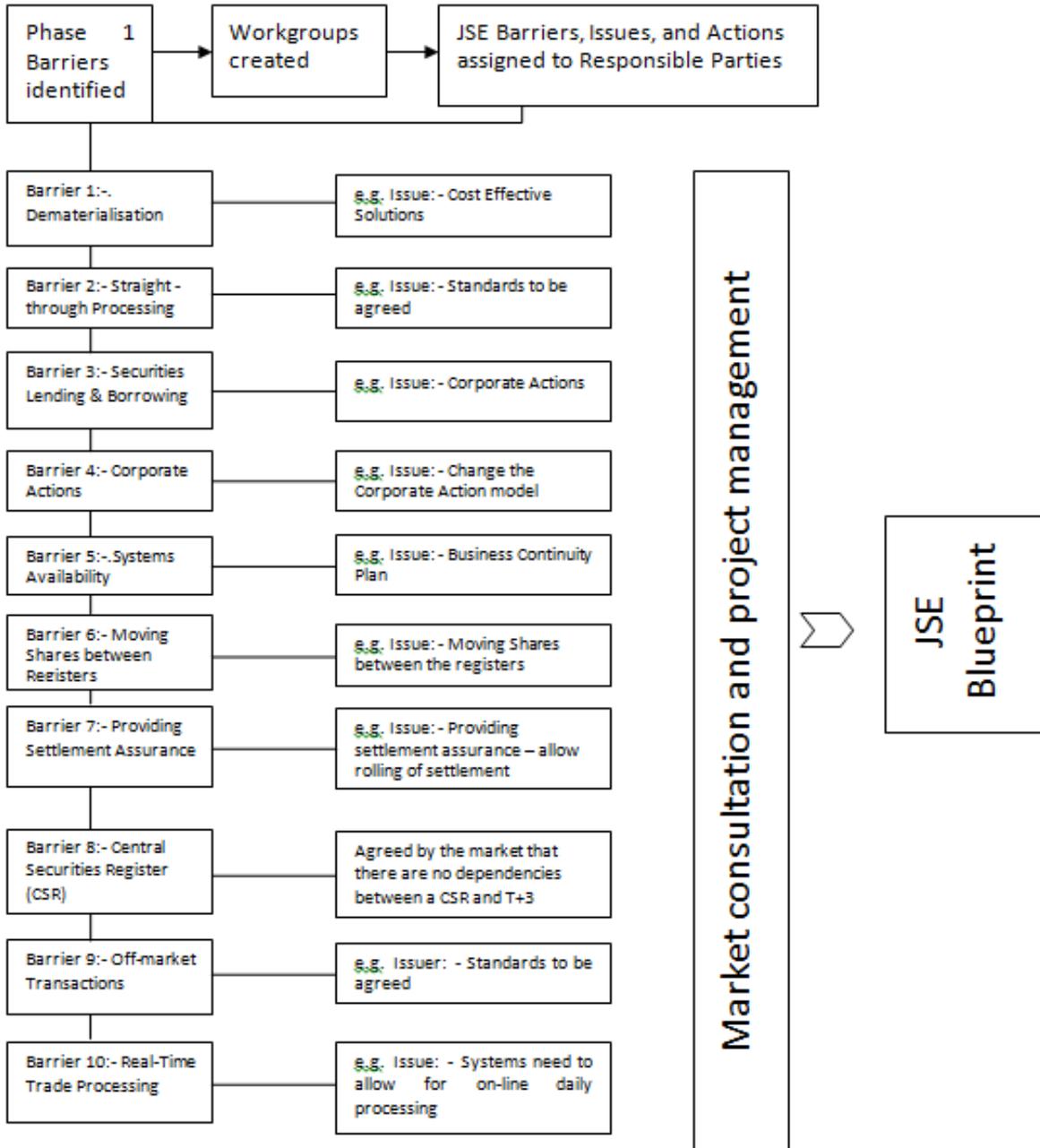
- Various Divisions of the JSE;
- JSE equity members;
- Strate;
- National Markets Practice Group (NMPG);
- South African Securities Lending Association (SASLA);
- South African FIX Committee;
- CSDPs;
- Foreign Banks;
- Foreign Brokers;
- ASISA;
- Lending Desks;
- CSIG;
- Issuers, their sponsor and their agents; and
- Transfer Secretaries.

#### **3.3 Scope**

The high-level “Action Plan – Move to T+3” document, produced as a final deliverable of phase 1 of the project, mandated certain responsible parties (made up of various stakeholders and market participants), to further investigate and provide resolutions and recommendations to all barriers, issues and actions identified – in essence, the creation of a hybrid of a Business Requirement Specification / Functional Specification.

The documents detailing resolutions on barriers (and sub-barriers thereof), assigned to the JSE and to other parties such as Strate, SASLA, NMPG and South Africa FIX committee, are not included in this document and will be made available separately on the JSE’s website.

Certain assumptions have been made during this particular phase of the project, and have been specified in the documented findings and recommendations (included in the body of this blueprint or as appendices).



### 3.4 Overview

The process for defining how the market will move to T+3 is broken into 3 distinct stages:

#### Stage 1

- The creation of a document detailing the barriers to the move to T+3, and the high-level activities to overcome such barriers with agreed nominated parties. This document is to be used to drive investigations and timeline estimates for overall project completion;

### Stage 2

- The creation of Workgroups (by the responsible parties) to further the investigations - the combined outputs of this process being the creation of a “Blueprint for Moving to T+3” document and the definition of delivery dates of identified outputs; and

### Stage 3

- Based on the investigations and BRS/FRS created, the creation of an Impact Analysis and Implementation Plan for T+3.

### Current Status:

Stage 1 has been completed and a document entitled “Action Plan – Move to T+3” detailing the barriers, issues and the high-level activities to overcome such barriers with agreed nominated parties has been produced and was approved by the JSE’s Executive Committee on 15 October 2007.

Stage 2 has been completed with the creation of this document and the various artefacts detailing the requirements for enabling the move to T+3.

Stage 3 is in progress.

The JSE has broken the implementation of the move to a T+3 settlement cycle into 3 specific go-live phases as follows

### Overview of the project phases and impacts:

T+3 PHASE 1 – Constituents and Impacts - IMPLEMENTED		
<i>What did we achieve</i>	<i>Changes being introduced</i>	<i>Market participants impacted</i>
The aim of this phase was the implementation of changes to fulfill regulatory requirements and initial automation on the BDA system.	<ul style="list-style-type: none"> <li>• <u>BDA:</u> <ul style="list-style-type: none"> <li>○ Separation of Prop and Controlled client accounts (linked to the changes in the FMA)</li> <li>○ Automation of Corporate Actions (between the Brokers and their respective CSDPs), which laid the foundation for Phase 2</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• <u>Brokers:</u> <ul style="list-style-type: none"> <li>○ BDA: process in respect of prop and controlled client transactions (movement of securities based on settlement)</li> <li>○ Previously manual back-office processes relating to Corporate Actions were automated</li> </ul> </li> </ul>
T+3 PHASE 2 – Constituents and Impacts		
<i>What we will achieve</i>	<i>Changes being introduced</i>	<i>Market participants impacted</i>
The aim of this phase is to implement a	<ul style="list-style-type: none"> <li>• <u>Equities Clearing System - ECS (First Phase):</u> <ul style="list-style-type: none"> <li>○ Implement a new JSE clearing system to</li> </ul> </li> </ul>	Phase 2 market impact is very low, with main focus on internal JSE systems.

<p>more integrated and automated IT platform to enable the move to T+3. This is being done primarily through the introduction of changes to the current BDA system and the introduction of the new ECS system.</p>	<p>replace the existing Trade Monitoring System. This new system will provide all the current functionality and new enhancements, including the removal of the following clearing and settlement functionality from the BDA system:</p> <ul style="list-style-type: none"> <li>– Creation of settlement instructions to the CSD</li> <li>– Netting of prop and controlled clients (netting of settlements at EOD T+2)</li> <li>– Risk Management (coverage of prop and controlled deals, commits by CSDP and margining at EOD T+3 )</li> </ul> <ul style="list-style-type: none"> <li>• <u>BDA Enhancements:</u> <ul style="list-style-type: none"> <li>○ Real time Deal Management (allowing for real-time trade confirmation, settlement instructions and commits by the CSDPs)</li> <li>○ Automation for Brokers (i.e. Prime Broking, Corporate Actions and back-office operations)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• <u>Brokers:</u> <ul style="list-style-type: none"> <li>○ ECS: Brokers will be given view-only access to the new system – to enable the monitoring of settlement</li> <li>○ BDA: shortening of trade execution timelines via real-time processes</li> <li>○ Previously manual back-office processes will now be automated</li> </ul> </li> <li>• <u>Buy-side clients:</u> <ul style="list-style-type: none"> <li>○ They will now be encouraged to generate allocations as soon as possible (for submission to BDA) and send settlement instructions to their CSDPs</li> </ul> </li> </ul>
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**T+3 PHASE 3 – Constituents and Impacts**

<i>What we will achieve</i>	<i>Changes being introduced</i>	<i>Market participants impacted</i>
<p>The aim of this phase is to move to the new T+3 settlement cycle across the market. This will be enabled by changes to the JSE’s ECS system at the centre, and process and systems changes made by the rest of the market participants (covering post-trade and post settlement).</p>	<ul style="list-style-type: none"> <li>• <u>Equities Clearing System – ECS (Second Phase):</u> <ul style="list-style-type: none"> <li>○ Change of processing timelines to align to the agreed T+3 settlement cycle (i.e. netting and margining will occur at EOD T+1)</li> <li>○ Fails Management automation (to accommodate the projected volumes of failed trades that are expected by the move to T+3 - with integration across the market (Brokers, Strate, CSDPs and clients))</li> </ul> </li> <li>• <u>BDA:</u></li> </ul>	<ul style="list-style-type: none"> <li>• <u>Brokers:</u> <ul style="list-style-type: none"> <li>○ ECS: Introduction of new functionality and processing timelines</li> <li>○ BDA: changes to accommodate the T+3 settlement cycle including Corporate Actions</li> <li>○ Previously manual back-office processes will now be automated</li> <li>○ Introduction of new and updated processes to accommodate the move to T+3</li> </ul> </li> <li>• <u>Strate:</u></li> </ul>

	<ul style="list-style-type: none"> <li>○ Further automation for Brokers (i.e. portfolio moves, account transfers, SLBs and Collateral)</li> <li>○ Change of processing timelines to align to the agreed T+3 settlement cycle (and the aforementioned ESC changes)</li> <li>• <u>External:</u> <ul style="list-style-type: none"> <li>○ Change of in-house systems and processes to align to the agreed T+3 settlement cycle</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>○ Changes to accommodate the T+3 settlement cycle including Corporate Actions</li> <li>○ Changes to accommodate the new Failed Trade processes</li> <li>○ Introduction of new and updated processes to accommodate the move to T+3</li> <li>• <u>CSDPs:</u> <ul style="list-style-type: none"> <li>○ Changes to accommodate the T+3 settlement cycle including Corporate Actions</li> <li>○ Changes to accommodate the new Failed Trade processes</li> <li>○ Introduction of new and updated processes to accommodate the move to T+3</li> <li>○ Other automation such as off-markets and SLBs</li> </ul> </li> <li>• <u>Buy-side:</u> <ul style="list-style-type: none"> <li>○ Changes to accommodate the T+3 settlement cycle including Corporate Actions</li> <li>○ Changes to accommodate the new Failed Trade processes</li> <li>○ Introduction of new and updated processes to accommodate the move to T+3</li> </ul> </li> <li>• <u>Overseas counterparties:</u> <ul style="list-style-type: none"> <li>○ Changes to accommodate the T+3 settlement cycle including Corporate Actions</li> <li>○ Changes to accommodate the new Failed Trade processes</li> <li>○ Introduction of new and updated processes to accommodate the move to T+3</li> <li>○ Changes relating to removals between registers</li> </ul> </li> </ul>
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Phase 1 of the T+3 project was implemented in July 2013.

Phase 2 of the T+3 project is due to be implemented Q4 2014.

Phase 3 of the T+3 project is under investigation and the timelines will be confirmed in due course.

## **4. Overall Description**

### **4.1 Assumptions**

The following assumptions were identified:

- Stakeholders at all the workshops, and those included in market surveys, were adequately represented, and that the required level of input and sign-off was achieved at the date this document was produced;
- The high level “Action plan – Move to T+3” as documented and distributed by the JSE, has been sanctioned by all the market participants and stakeholders identified; and
- Where impact analysis is done as part of Phase 3 of the project, issues may be picked up which will need to be re-investigated - the outcome of this process may change the findings and agreements as noted in the applicable documents. This may also impact on scope and timelines.

### **4.2 Dependencies**

The following dependencies have been noted:

- The successful implementation of the JSE’s T+3 Phase 1 and 2 of the project.

### **4.3 Constraints**

- Phase 1 and 2 of the JSE’s T+3 Project.

### **4.4 Existing Projects and Initiatives Impacting on this Specification**

- The implementation of the T+3 Phase 2 of the T+3

## **5. Requirements Survey**

### **5.1 Business Problem and Statement**

South Africa, has fallen behind other global markets with regards to the T+5 settlement cycle as a processing time, while leading global markets have implemented T+3 and many are planning a move towards a T+2 (or shorter) settlement cycle. South Africa is in the process of positioning its economy to be attractive for foreign and local investment, as well as maintaining global best practice in the settlements cycle – with this in mind, an effort to shorten our settlement cycle needs to be undertaken.

The JSE, through its Post-Trade Services Division, has initiated the T+3 project which aims at moving the market to T+3.

## 6. Blueprint

### 6.1 Barrier 1: Dematerialisation

#### Definition

*Since all equities trades are settled electronically through Strate, a high level of dematerialised securities is required to ensure availability of securities in the correct form to enable settlement to take place.*

#### 6.1.1 Issue

##### Risks

##### Activity

Market education must encourage shareholders to dematerialize their certificates by highlighting the risk of holding certificates and trading without certificates being dematerialized.

##### Outcome

The market has agreed that Dematerialization is not a barrier for the move to T+3.

#### 6.1.2 Issue

##### Post Trade Validations

##### Activity

Investigate status intimations, starting from once the settlement allegation is received by the CSDP, advising the JSE Settlement Authority and the Broker of the reason why a settlement allegation has not been committed to.

##### Outcome

Market has agreed that the JSE should get status intimation updates throughout the settlement cycle.

A document entitled “Post Trade Validations” was completed and tabled at NMPG. The document was accepted in principle and it was also agreed that the MT 548 should be used for this purpose.

##### Responsible Party/ies

JSE and CSDPs – CSDPs will send the status intimations directly to the Brokers BIC code.

This will form part of the JSE's T+3 Phase 3.

## 6.2 Barrier 2: Straight-through Processing (STP)

### Definition

*The need for greater STP amongst all market participants, from the point of order capture through to final settlement, requires the adoption of uniform messaging standards by all market participants.*

### 6.2.1 Issue

Standards to be agreed to

#### Activity

- Where current ISO15022 message standards do not adhere to global standards, the applicable messages have to be reviewed and moved to global standards;
- ISO15022 message standards must be agreed to and applied by the market as a whole. This includes going into lower account details for non-resident off-market transactions for matching purposes;
- Agreed ISO 15022 formats to go through the NMPG structure for approval; and
- Once ISO 15022 standards have been agreed to and implemented these must be sent to SMPG who will make this available on their website.

#### Outcome

It was agreed at NMPG that the focus would not be on user-defined messages as these are between local counterparties. The focus would be on the vanilla SWIFT messages.

Changes to the MT 54X for lower account details has been documented (referred to as the off-market exception handling), agreed and signed off by NMPG. It has been agreed that these changes will be implemented in the current T+5 environment due to the current inefficiencies.

Once the MT 54X messages have been implemented by the market, these messages (plus the current MT 51X and MT 56X) messages will be sent to SMPG for update to their website.

#### Responsible Party/ies

NMPG to monitor completion and forward to SMPG.

## 6.2.2 Issue

### Real-time Processing

#### **Activity**

Move to real-time systems to cater for more real-time processing from trade execution to deal management to settlement.

#### **Outcome**

Due to the current market practice of bulking, averaging and allocating, it is not expected that we can get the Investment/Fund Managers to move to pre-allocation. However, they are to be encouraged to allocate as soon as possible after an order has been executed.

Discussions were held with the Investment/Fund Managers on a one-on-one basis where they have indicated that they are willing to bulk/average/allocate once an order has been filled.

JSE will move to real-time deal management as part of the JSE's T+3 Phase 2, which is due to go-live Q4 2014.

Investment/Fund Managers and other market players will be encouraged to allocate their deals in real-time in preparation for moving to a T+3 settlement cycle.

#### **Responsible Party/ies**

JSE and Investment/Fund Managers and other market participants.

## 6.2.3 Issue

### Exception-based Processing

#### **Activity**

Investigate exception-based processing within the South African market to: a) escalate where there is a potential problem and b) reduce the amount of message flows.

#### **Outcome**

At Strate's Clearing & Settlement Market workshop, the market agreed that exception-based processing is not a prerequisite to move to T+3.(i.e.it is not a barrier). Therefore it will not be investigated further as part of the barriers and activities.

However, it was acknowledged that exception-based processing does lead to lower costs and does bring about other efficiencies. This will be investigated as a separate initiative.

**Responsible Party/ies**

Not applicable as it was agreed by the market that this is not a prerequisite to move to T+3.

**6.2.4 Issue**

SLB Automation

**Activity**

See Barrier 3 - Securities Lending and Borrowing.

**Outcome**

See Barrier 3 - Securities Lending and Borrowing.

**Responsible Party/ies**

See Barrier 3 - Securities Lending and Borrowing.

**6.2.5 Issue**

Corporate Actions Automation

**Activity**

See Barrier 4 - Corporate Actions.

**Outcome**

See Barrier 4 - Corporate Actions.

**Responsible Party/ies**

See Barrier 4 - Corporate Actions.

### 6.3 Barrier 3: Securities Lending & Borrowing

#### Definition

*The more efficient the SLB functionality to book “same-day” lending and “same-day” returns, the quicker SLB transactions can be effected to prevent fails in a shorter settlement cycle*

#### 6.3.1 Issue

##### Corporate Actions

##### Activities

- Market education to be undertaken to reassure Lenders that a Corporate Actions entitlement, including any tax implications (dividend withholding tax), will be obtained and updated to their account per their lending agreement. This includes educating Lenders on the impact of recalls due to Corporate Actions. This may also necessitate changes to Lending Agreements; and
- Market education to be undertaken to advise Lenders that a Corporate Actions entitlement, may be loaned out from LDT+1 as long as the delivery coincides with the update of the entitlements to their custody accounts. As noted above, this may require system changes to participants systems.

##### Outcome

This is being driven through the South African Securities Lending Association (SASLA) where workshops will be scheduled and held with Lenders and paraphernalia created.

##### Responsible Party/ies

JSE and SASLA.

#### 6.3.2 Issue

##### JSE Settlement Authority

##### Activity

Market education on the role of the JSE Settlement Authority as “lender of last resort” to encourage parties to loan securities to the JSE Settlement Authority.

##### Outcome

JSE to present on their role of lender as last resort to potential lenders to encourage them to loan securities to the JSE Settlement Authority.

**Responsible Party/ies**

JSE Settlement Authority.

**6.3.3 Issue**

More Lenders

**Activity**

Market education to encourage more Investors to either loan out more securities than they currently do (i.e. increase their lending limits) or encourage more Lenders. The focus here has to be the controls and risk mitigants that are in place to ensure that any loaned securities, and the fruits of such loaned securities, are guaranteed to be returned. This may also require changes to mandates or deeds in the case of Unit Trusts who are only permitted to loan out 50% of their assets.

**Outcome**

This is being driven through the South African Securities Lending Association (SASLA) where workshops will be scheduled and held with Lenders and associated paraphernalia created.

**Responsible Party/ies**

JSE and SASLA.

**6.3.4 Issue**

Same day Securities Lending & Borrowing and Returns

**Activities**

- Same day returns to be opened up to all Lending Desks (not restricted to Lending Desk Business Partners only).
- Strate Rule/Directive to be changed to allow same day Securities Lending & Borrowing. This should also be opened up to Lending Desk Business Partners as well as non-Lending Desk Business Partners.
- Review the Strate window period for returns which have to be done before 09h00 and committed before 10h00 on RD.

**Outcome**

The timelines have been agreed to for the JSEs T+3 Phase 3

**Responsible Party/ies**

JSE/Strate/CSDPs/SASLA

**6.3.5 Issue**

Automation of Security Collateral Movements

**Activities**

- Security collateral movements to be done on a same day basis as with Securities Lending & Borrowing and returns. No differentiation between Lending Desk Business Partners or non-Lending Desk Business Partners; and
- Security collateral to be automated through Strate’s SAFIRES for Lending Desk Business Partners. This includes tracking of collateral and various reports.

**Outcome**

Strate have documented Business Requirement Specification’s (BRS’s) for collateral movements.

Strate have also implemented their Collateral Management System (CMS) in 2013.

**Responsible Party/ies**

SASLA/JSE/Strate/CSDPs

**6.3.6 Issue**

Proxy Voting

**Activity**

Borrowers must make their intentions known to the Lender or the agent before borrowing.

**Outcome**

This is being driven through the South African Securities Lending Association (SASLA) where workshops will be scheduled and held with Borrowers and paraphernalia created.

The market has agreed that Proxy Voting is not a barrier for the move to T+3.

**Responsible Party/ies**

SASLA

**6.3.7 Issue**

Automated Securities Lending & Borrowing Matching System

**Activity**

Investigate an automated Securities Lending & Borrowing Matching system which reflects available securities for lending/lending fees.

**Outcome**

Various solutions have been investigated in the past. Although the implementation of an automated Securities Lending & Borrowing Matching system brings about certain efficiencies there are several sensitivities around this.

The market has agreed that a SLB matching system is not a barrier for the move to T+3.

**Responsible Party/ies**

JSE/SASLA.

**6.3.8 Issue**

Corporate Actions on Securities Lending & Borrowing and Securities Collateral

**Activities**

- Automate the closing of outstanding Securities Lending & Borrowing transactions for the old securities and the raising of new Securities Lending & Borrowing transactions for the new securities. This includes the tracking of the old and new securities and the loan period for the payment of STT where the loan exceeds 12 months. This also applies to outstanding securities collateral as well; and
- Automate the raising of entitlements on outstanding Securities Lending & Borrowing and also tracking these through the SAFIRES system including various reports. The automation should include the Lender or their agent being able to elect on elective events and these details being passed onto the Borrower and the system tracking the entitlements. Any entitlements must be raised as a new Securities Lending & Borrowing which may be returned through the SAFIRES system as with any outstanding Securities Lending & Borrowing. This also applies to outstanding securities collateral as well.

### **Outcome**

At Strate's SLB Business Partner committee meeting it was agreed that Strate would focus on Corporate Actions where there is a change to the mother share (which are non-elective events) i.e. name changes, scheme of arrangements, mergers, etc. Due to the complexities of entitlements and the way that SLBs are done in South Africa it was agreed that entitlements will continue to be processed as they currently are, (namely off-market).

Further workshops will be conducted by Strate to complete the BRS.

### **Responsible Party/ies**

Not applicable as the market has agreed that this is not a prerequisite for the move to T+3.

## **6.4 Barrier 4: Corporate Actions**

### **Definition**

*A shorter settlement cycle would also require the shortening of the corporate action cycle to LDT+3, which requires more efficient processes in order for investors to respond timeously on elective events.*

#### **6.4.1 Issue**

Change the Corporate Action model

### **Activities**

Investigate

- Compulsory Events which include the converting of securities;
- Compulsory Events which include payment of entitlements;
- Compulsory Events with elections; and
- Elective Events.

### **Outcome**

Various workshops instigated by Strate's Corporate Action Workgroup were held and the new Corporate Action model has been agreed and signed off by the market.

### **Responsible Party/ies**

Strate/JSE/CSDPs.

#### 6.4.2 Issue

Align to Global Best Practice

##### Activity

Investigate the Corporate Action models used by the London, Canadian and Australian stock markets.

##### Outcome

Various workshops under Strate's Corporate Action Workgroup were held and the new Corporate Action model was agreed and signed off by the market.

##### Responsible Party/ies

Strate/JSE/CSDPs

#### 6.4.3 Issue

Rounding convention for fractional entitlements

Fractions will always be rolled down with a cash payment for the fraction (as opposed to the current market requirement of rolling up if 0.50 or above or rolling down if 0.49 or below) which will eliminate the necessity for spreadsheets down to beneficial owner level for calculation purposes.

##### Activity

Market (brokers and CSDPs) to agree to this change and speak to Issuers about rounding down of fractions with a payout of cash for the fraction.

##### Outcome

With the drive to eliminate spreadsheets (which is considered a major enabler for the move to T+3) modelling was done and it was agreed that if we roll down and pay a fraction, no or small losses will be incurred by the CSDPs and/or brokers. Therefore the recommendation has been made to round down and pay a fraction.

This is also considered a possible quick win and can be implemented in the current T+5 settlement environment as opposed to waiting for T+3.

**Responsible Party/ies**

Refer to JSE's document relating to fractions and rounding down.

**6.4.4 Issue**

Automation of outstanding Corporate Action events

**Activities**

- Investigate and automate the Corporate Action events where applicable; and
- This includes Strate, CSDPs, Brokers and Clients.

**Outcome**

Under the investigations and discussions on the Corporate Action model it was agreed that the JSE equities members will have to fully automate. This has also been noted as a prerequisite for the move to T+3. The BDA system was enhanced as part of the JSE's T+3 Phase 1 implementation. Further enhancements will be done as part of the JSE's T+3 Phase 3 implementation.

CSDPs will deal directly with their institutional clients to enhance the automation of corporate actions.

**Responsible Party/ies**

Strate/JSE/CSDPs.

**6.4.5 Issue**

Strate's Corporate Action Automation Project

**Activities**

- Continue with Strate's Corporate Action Automation Project with the market;
- Link the "wish list" to Strate's Corporate Action Automation Project; and
- Link the current projects that have been put on hold to Strate's Corporate Action Automation Project.

**Outcome**

Strate implemented their automation project in Q1 2010.

**Responsible Party/ies**

JSE/Strate/CSDPs.

#### 6.4.6 Issue

##### Standards

##### **Activities**

- Review current ISO 15022 standards used in South Africa and move to Global Best Practice;
- Post the South African ISO 15022 market practice standards on the SMPG website; and
- Get involved with the ISO 20022 standards definitions and ensure that South Africa deploys ISO 20022 as per Global Best Practice when made available.

##### **Outcome**

Once the entire MT standards have been agreed and documented these will be sent to SMPG for update to their website.

##### **Responsible Party/ies**

NMPG to monitor completion and forward to SMPG.

#### 6.4.7 Issue

##### Spreadsheets

##### **Activities**

- Get agreement on the current format of spreadsheets to ensure that only one format is used to allow for the automatic generation of the spreadsheet; and
- Investigate and analyze different solutions available for the transport of the spreadsheets to Strate and/or the Issuer's agent to allow guaranteed delivery and better security. The investigations will include SWIFT (ISO 15022 and ISO 20022), FileAct and SWIFT e-mail. However, cost must be taken into consideration.

##### **Outcome**

With the drive to eliminate spreadsheets (which is considered a major enabler the move to T+3) modelling was done and it was agreed that if we round down and pay a fraction no or small losses will be incurred by the CSDPs and/or brokers. Therefore the recommendation has been made to roll down and pay a fraction.

This is also considered a possible quick win and can be implemented in the current T+5 settlement environment as opposed to waiting for T+3.

**Responsible Party/ies**

Refer to JSE's document relating to fractions and rounding down.

**6.4.8 Issue**

Standards/Automation/Market buy-in

**Activities**

- Educate the market, including clients, CSIG and sponsors on the message standards deployed in South Africa and encourage them to implement same; and
- Get market buy-in and encourage clients to automate their solutions.

**Outcome**

Will be part of the Market Education and Marketing.

**Responsible Party/ies**

This will form part of the Communication and Market Education to be undertaken by the JSE, Strate and CSDPs.

**6.4.9 Issue**

Freeze Period for Removals

**Activity**

Speak to the Issuing Companies where the primary listing is offshore and encourage them to reduce the freeze period to a shorter period.

**Outcome**

Discussions have been held with various parties and it has been agreed that the Finalisation Date (FD) of the rand conversion can be on LDT -1 which should reduce the freeze period of the registers.

**Responsible Party/ies**

Refer JSE's document relating to Freeze Period for Removals. JSE to discuss with dual and inward listed companies.

#### **6.4.10 Issue**

##### JSE to enforce Listing Requirements

##### **Activity**

- JSE to enforce Listings Requirements and enforce sanctioning where these are not adhered to; and
- Where there are differences or conflicts between Listing Requirements with dual listed companies where the lead regulator is offshore, such differences should be highlighted to the market.

##### **Outcome**

Will form part of Phase 3 – Document to be created confirming differences.

##### **Responsible Party/ies**

JSE to complete a document detailing the differences in Listing Requirements between the various jurisdictions.

#### **6.4.11 Issue**

##### Changes to Listing Requirements

##### **Activity**

Workshops to be set up with the market and the JSE Issuer Services Division to discuss and agree new requirements.

##### **Outcome**

Various workshops instigated by Strate's Corporate Action Workgroup were held and the new Corporate Action model was agreed and signed off by the market.

A document entitled "T+3 – Blueprint for barriers and sub-barriers assigned to Strate" was created by Strate.

The document will be supplied to the JSE Issuer Services to review and confirm if any changes are required to the Listing Requirements.

Will form part of impact analysis of the JSEs T+3 Phase 3.

**Responsible Party/ies**

The changes to the Listing Requirements will go through their normal cycle.

**6.4.12 Issue**

Corporate Action events

**Activity**

Educate the market, including clients, CSIG and sponsors on the various Corporate Action events and the processes and procedures thereof. This could include a handbook which is published to the market.

**Outcome**

This will form part of the Communication and Market Education to be undertaken by the JSE, Strate and CSDPs.

Strate to create a dummy guide to Corporate Actions

**Responsible Party/ies**

This will form part of the Communication and Market Education to be undertaken by the JSE, Strate and CSDPs.

**6.4.13 Issue**

Corporate Action information

**Activities**

- Issuers to be encouraged to make circulars available on their or a vendor’s website; and
- The website solution should allow some form of data mining as well, where Investors are able to go back in time to review past circulars and announcements.

**Outcome**

Most if not all Issuers make their circulars available on their website or a vendor’s website.

Listing Requirements have also been changed to facilitate electronic communication to shareholders (except for mergers).

The areas still to be addressed:

- Issuing Companies still need to change their memo and articles of association; and
- Market has to come up with a solution to allow Issuing Companies to get their shareholders' consent to electronic communication and release of information.

**Responsible Party/ies**

Refer JSE's document relating to electronic communication. JSE to discuss with the Issuing Companies.

**6.4.14 Issue**

Off-market transactions

**Activity**

Reduce the freeze period between LDT+1 and RD.

**Outcome**

Various workshops under Strate's Corporate Action Workgroup were held and the new Corporate Action model was agreed and signed off by the market.

**Responsible Party/ies**

This has been implemented.

**6.4.15 Issue**

Securities Lending & Borrowing (SLB)

**Activity**

Investigate the impact of same day Securities Lending & Borrowing and returns on RD with the new Corporate Action event timelines. This may involve the introduction of system functionality and new Strate Rule's and Directives to stop the booking of the same day transaction after 09h00 on RD.

**Outcome**

The timelines have been agreed to for the JSEs T+3 Phase 3

### Responsible Party/ies

Strate/JSE/CSDPs/SASLA and other market participants to conduct an impact analysis and the required development to systems.

## 6.5 Barrier 5: Systems Availability

### Definition

*While a shorter cycle reduces settlement risk, it increases operational risk, so the resilience required of all participants' systems is greater with less time for recovery*

#### 6.5.1 Issue

##### Business Continuity Plans

##### Activities

- Market workshops to be set up to discuss the impact of System Availability within the T+3 settlement cycle and the Business Continuity Plan activities required to be driven by each participant, JSE and Strate depending on the day within the settlement cycle;
- Business Continuity Plans to be updated per the discussions and agreements reached with the market workshops; and
- The Business Continuity Plans to be compared to other Business Continuity Plans drafted by other stakeholders (PASA/SARB, etc) to ensure that there are no conflicts.

##### Outcome

It was agreed that this would be moved to Phase 3 as this cannot be completed until the impact analysis for all the changes for the move to T+3 has been completed.

### Responsible Party/ies

Strate (Supervision) to complete the exercise with all stakeholders.

## 6.6 Barrier 6: Moving Shares between Registers

### Definition

*For dual listed securities, the moving of shares between registers (e.g. London to Johannesburg) needs to be more automated to avoid fails on the delivery in order for settlement to take place.*

### 6.6.1 Issue

Educate the foreign clients that (where there is arbitrage between foreign markets and South Africa) they may have to enter into a Securities Lending & Borrowing arrangement to ensure that settlement takes place.

#### Activity

Educate the foreign clients and ensure that there is an efficient and effective Securities Lending & Borrowing market.

#### Outcome

Refer to Securities Lending & Borrowing Barrier 3.

#### Responsible Party/ies

Refer to Securities Lending & Borrowing Barrier 3.

### 6.6.2 Issue

Enforce JSE Rules

#### Activities

- Market education on JSE Rules specifically the pre-trade requirement of a satisfactory borrowing arrangement prior to execution; and
- Enforce the JSE Rules regarding a satisfactory borrowing arrangement. Possibly look at adding a further Rule which specifically refers to moving shares between registers, i.e. arbitrage transactions.

#### Outcome

This will form part of the Communication and Market Education to be undertaken by the JSE, Strate and CSDPs.

JSE to update and publish the Settlement Obligations document.

#### Responsible Party/ies

This will form part of the Communication and Market Education to be undertaken by the JSE, Strate and CSDPs.

### 6.6.3 Issue

## Removal processes

### **Activity**

Investigate the various removal processes between foreign jurisdictions and South Africa and document any inefficient processes.

Global market education on the process of removals and impact on settlement if removals are not done timeously. This includes foreign Transfer Secretaries, foreign brokers, foreign clients as well as local stakeholders.

### **Outcome**

Meetings still to be set up with the Transfer Secretaries to discuss automation of the removals between other markets.

JSE is focusing on the other removals linked to Inward Listed Securities. Part of this process is to ensure that securities are available for SLB to oil the transaction until the securities are removed to the South African register.

### **Responsible Party/ies**

JSE to meet with other Transfer Secretaries to refine the process.

This will form part of the Communication and Market Education to be undertaken by the JSE, Strate and CSDPs.

## **6.7 Barrier 7: Providing Settlement Assurance**

### **Definition**

*Under a T+3 settlement cycle, the 99.99% settlement rate for all on-market transactions which the JSE Settlement Authority has achieved since Strate commenced, will require a review of cut-off times and processes.*

*It is also expected that with the move to the T+3 settlement cycle more fails will occur. Systems need to cater for up to 6% of settlement failing on a daily basis.*

### **6.7.1 Issue**

One of the requirements for the implementation of Phase 3 of the T+3 settlement cycle is the need to look for more automation within the Failed Trade processing which includes Rolling Of Settlement, Retransactions and Compensation. This is referred to the Failed Trades Procedures.

**Activities**

- Investigate and design automated Failed Trade Procedures;
- Consult with the market to get sign-off and ensure market buy-in; and
- Change JSE's and Strate's Rules and Directives to facilitate the Failed Trade Procedures.

**Outcome**

Refer to JSE Failed Trade Procedures document

**Responsible Party/ies**

JSE/Strate/CSDPs/ Clients

**6.7.2 Issue**

Enable full automation of Deal Allocations through different applications

**Activities**

- Investigate and implement full automation of Deal Allocations through different applications; and
- Consult with the market to get sign-off and ensure market buy-in.

**Outcome**

The BDA system does cater for allocations via:

- FTP
- SWIFT MT 514 (ISO15022)

**Responsible Party/ies**

JSE

**6.7.3 Issue**

Enable Automation of Loading of New Accounts

**Activities**

- Investigate and implement automation of Loading of New Accounts; and
- Consult with the market to get sign-off and ensure market buy-in.

**Outcome**

The BDA System does cater for clients' accounts via FTP

#### 6.7.4 Issue

Allow further back-to-back links to be created between trade types and off-markets and review the timings

##### Activities

- Revisit back-to-back links and timings on SAFIRES;
- Introduce further back-to-back links for future settlement dates; and
- Consult with the market to get sign-off and ensure market buy-in.

##### Outcome

Refer to the JSE Failed Trades Procedures document.

##### Responsible Party/ies

JSE/Strate/CSDPs/Clients.

#### 6.7.5 Issue

Local and global markets will need to understand the changes to the timelines and activities and their involvement therewith

##### Activity

Local and global market education on the changes to timelines and activities and their involvement therewith.

##### Outcome

This will form part of the Communication and Market Education to be undertaken by the JSE, Strate and CSDPs.

##### Responsible Party/ies

This will form part of the Communication and Market Education to be undertaken by the JSE, Strate and CSDPs.

### 6.8 Barrier 8: Central Securities Register

#### Definition

*Since the debate on a central securities register arising from the development of a Securities Ownership Register (SOR) for the Money Market Initiative, some believe that it is a pre-requisite to moving to T+3.*

#### 6.8.1 Issue

The market should move to a CSR to facilitate T+3

**Activity**

It was debated by the market whether a CSR was a prerequisite to move to T+3.

**Outcome**

It was agreed by the market that a CSR is not a prerequisite to move to T+3 and furthermore that such investigations would not form part of the scope of this project.

**Responsible Party/ies**

Not applicable as it was agreed by the market that a CSR is not a prerequisite to move to T+3.

**6.9 Barrier 9: Off-market Transactions**

**Definition**

*The dependency on off-market transactions not failing often has a critical impact on the settlement of on-market transactions and more alignment of settlement processes is needed.*

**6.9.1 Issue**

JSE Settlement Authority unable to view off-markets and links to on-markets

**Activity**

Back-to-back links to be reported to the JSE so that the JSE can see the links.

**Outcome**

Refer to the JSE Failed Trade Procedures document

**Responsible Party/ies**

JSE/Strate/CSDPs/Clients

**6.9.2 Issue**

Standards to be agreed

### Activities

- Where current ISO15022 message standards do not adhere to global standards, the applicable messages have to be reviewed and moved to global standards;
- This includes going into lower account details for non-resident off-market transactions for matching purposes. ISO15022 to go through the NMPG structure for approval; and
- Once ISO15022 standards have been agreed to and implemented these must be sent to SMPG who will make this available on their website.

### Outcome

Once the MT 54X messages have been approved by NMPG, these plus the current MT 51X and MT 56X messages will be sent to SMPG for update to their website.

### Responsible Party/ies

NMPG to monitor completion and forward to SMPG.

## 6.9.4 Issue

Enhance SAFIRES functionality

### Activity

Create further back-to-back functionality for all on-market and off-market transactions.

### Outcome

Refer to the JSE Failed Trade Procedures document.

### Responsible Party/ies

JSE/Strate /CSDPs/Clients.

## 6.9.5 Issue

Off-markets done for certain Corporate Action entitlements

### Activity

Automate the processing of all Corporate Action entitlements.

**Outcome**

Strate have instigated a Corporate Action Enhancement Project which went live Q1 2010.

Further, under the investigations and discussions on the Corporate Action model it was agreed that the JSE equities members will have to automate a lot more than currently done on BDA. This has also been noted as a prerequisite for the move to T+3

Changes were implemented to BDA as part of the JSEs T+3 Phase 1. Further enhancements will also be done as part of the JSEs T+3 Phase 3

**Responsible Party/ies**

JSE/Strate/CSDPs.

**6.9.6 Issue**

Account transfers and portfolio moves cannot be done between LDT+1 and RD

**Activity**

Allow Account Transfers and Portfolio Moves to be done between LDT+1 and RD for non-elective events.

**Outcome**

Implemented.

**Responsible Party/ies**

Strate/JSE/CSDPs.

**6.9.7 Issue**

Inter-CSDP Account Transfers, Portfolio Moves and Depository Receipts cannot be done for same-day settlement

**Activity**

Allow Inter-CSDP Account Transfers, Portfolio Moves and Depository Receipts to be done for same-day settlement.

**Outcome**

The timelines have been agreed to for the JSEs T+3 Phase 3.

**Responsible Party/ies**

Strate/JSE/CSDPs.

**6.9.8 Issue**

Local and global market will need to understand the changes to off-markets

**Activity**

Local and global market education on the changes to off-market transactions.

**Outcome**

This will form part of the Communication and Market Education to be undertaken by the JSE, Strate and CSDPs.

**Responsible Party/ies**

This will form part of the Communication and Market Education to be undertaken by the JSE, Strate and CSDPs.

**6.10 Barrier 10: Real-Time Trade Processing**

**Definition**

*The systems will need to cater for Real-Time Processing in order to achieve the T+3 Settlement Cycle.*

**6.10.1 Issue**

Systems need to allow for on-line daily processing

**Activity**

Investigate what functionality should be moved to on-line daily processing and what should be kept as batch processing – this includes CSDPs and Transfer Secretaries

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**Outcome**

Market has agreed to real-time messaging where required.

The timelines have been agreed to for the JSEs T+3 Phase 3

**Responsible Party/ies**

JSE/Strate/CSDPs.

**7. Phase 3**

Phase 3 of the project involves the impact analysis for the changes to all market participants systems and the implementation plan. This Phase will drive out:

- System development and time required;
- Testing requirements and time required;
- Communication and Market Education requirements; and
- Go-live date.

All of the documents as noted and referred to throughout this document will be made available through the JSE's website.

## 8. Glossary

This glossary defines all terms, abbreviations and acronyms that are new, business specific and required to interpret this document.

Term	Description
“API”	means Application Protocol Interface. A means to get data into a system.
“ASISA”	means Association for Savings & Investment South Africa.
“back-to-back link”	means the functionality which links two orders when the delivery of Securities is dependent upon the successful receipt of the same Securities.
“barriers”	means the barriers as defined by CSAC for the move to T+3.
BDA	Means Broker Deal Accounting system
“BCP”	means Business Continuity Plan.
“BRS”	means Business Requirements Specification.
“Corporate Action Enhancement Project”	means a project instigated by Strate to enhance the current system for Corporate Actions.
“CAWG”	means the Corporate Actions Working Group a sub-committee of Strate’s Equities Working Committee.
“collateral”	means a transaction where Securities are transferred by a Collateral Provider to a Collateral Taker under a Collateral Agreement.
“collateral return”	means a transaction where Securities are returned by the Collateral Taker to the Collateral Provider under a Collateral Agreement.
“corporate action”	means an action taken by an issuer or any other entity or third party, which affects the registered owner and the beneficial owner of equity securities in terms of an entitlement.
“clearing”	means the process, in conjunction with settlement, of determining accountability for the exchange of funds and securities between counterparties to a trade. Clearing creates binding statements of obligation for the movement of securities and funds. Clearing is the taking of a trade from a trade shape to a settlement shape for settlement and risk management by the JSE of the trade until settlement.
“CSAC”	means the JSE’s Clearing & Settlement Advisory Committee an independent Committee as set up as per the JSE’s Rules.
“CSD”	means Strate Limited licensed as a Central Securities Depository in terms of the Securities Services Act.
“CSDP”	means a Central Securities Depository Participant which is accepted by Strate as a participant in terms of the Securities Services Act and the Strate Rules.
“CSIG”	means Company Secretaries Interest Group.
“CSR”	means Central Securities Register.
“dematerialization”	means the process of converting a certificated equity security into an uncertificated equity security.
“elective event”	means a Corporate Action that takes place with action required on the part of the holder of the Security, and where the benefits that accrue to owners of Securities

Term	Description
	are not automatically disbursed by the Issuer but require an election to be made in line with the terms of the Corporate Action.
“ECS”	means Equities Clearing System, the system that will be used by the Settlement Authority to monitor and manage settlement of equity securities per the JSEs Rules and Directives.
“EWC”	means Strate’s Equities Working Committee.
“FIX”	means Financial Information eXchange the protocol used from pre-trade to allocation.
“FTP”	means File Transfer Protocol, a format for files to be uploaded to a system.
“ISO”	means International Standards Organisation (ISO), the international federation of standardisation bodies for various industries, which seeks to set common international standards in a variety of fields.
“JSE”	means JSE Limited, a public company incorporated in accordance with the laws of the Republic of South Africa, with registration number 2005/022939/06, licensed to carry on the business of an exchange in terms of section 8 of the Securities Services Act, No. 36 of 2004.
“JSE equities member”	means an entity admitted to membership of the JSE under the JSE’s Equities Rules.
“JSE Rules”	means the rules and directives of the JSE, as amended from time to time.
“LDT”	means Last Day to Trade, which is the last date that anyone can trade on-market in order to qualify or participate in a Corporate Action.
“MT”	means Message Type. Terms used with SWIFT Message Types.
“NMPG”	means the National Markets Practice Group, a sub-committee of the Securities Market Practice Group.
“OTC”	means Over-The-Counter and is also referred to as “off-markets”.
“PASA”	means Payment Association of South Africa.
“PMO”	means Pay Money Only, the delivery of cash without the delivery of securities.
“real-time”	means computer output in an immediate time frame.
“RD”	means Record Date, the date on which the holdings, upon which the Corporate Action entitlement is based, are ascertained. RD is equal to LDT+5.
“SAFIRES”	means Southern African Financial Instruments Real-time Electronic Settlement system, the clearing, settlement and depository system used by the CSD.
“SAMOS”	means the South African Multiple Options Settlement system, the national payment system established and operated by the South African Reserve Bank.
“SARB”	means the South African Reserve Bank.
“SASLA”	means the South African Securities Lending Association.
“settlement”	means the completion of a transaction, whereby securities and corresponding funds are delivered and received in the applicable clients and brokers accounts.
“settlement allegation”	means a settlement instructions sent by Strate for settlement
“Settlement Date (S)”	means settlement date, the day on which a transaction in a particular Security is settled through the CSD.
“Settlement Authority”	means the person or persons appointed by the JSE to manage the settlement of

Term	Description
	transactions in equity securities effected through the JSE equities trading system in terms of the rules and directives.
"settlement commitment"	means an electronic undertaking by a CSDP to settle a transaction in equity securities.
"Securities Lending & Borrowing"	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 a certain time period. Once the loaned Securities have settled, ownership and other rights attached to the Securities are transferred to the borrower. The borrower has the right to sell or re-lend the (borrowed) Securities during the life of the loan. In return, the borrower agrees to compensate the lender for any distributions in respect of the Securities which that lender would have been entitled to receive during the period had the arrangement not been entered into.
"Securities Lending & Borrowing return"	means the return of Securities which had been loaned in terms of a Securities Lending and Borrowing Transaction.
"STP"	means Straight-Through-Processing.
"Strate"	means Strate Limited, a public company incorporated in accordance with the laws of the Republic of South Africa, with registration number 1998/022242/06 and which is a Central Securities Depository in terms of the Securities Services Act, No. 36 of 2004.
"SWIFT"	means Society for Worldwide Inter-bank Financial Telecommunication a global communication network.
"T"	means Trade Date, the date that a trade is executed on the trading system.
"XBRL"	means eXtensible Business Reporting Language.