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**MARKET NOTICE**Johannesburg  
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**Number:** 194A/2018  
**Relates to:**  Equity Market  
 Equity Derivatives  
 Commodity Derivatives  
 Interest Rate and Currency Derivatives

**Date:** 25 May 2018

**SUBJECT:** **PROPOSED AMENDMENTS TO THE INTEREST RATE AND CURRENCY DERIVATIVES RULES -  
SETTLEMENT OF TRANSACTIONS IN BONDS**

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**Designation:** Director - Market Regulation

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Members are advised that the proposed amendments to the JSE Interest Rate and Currency Derivatives Rules, attached as Annexure A, were adopted by the JSE Rules Committee on 24 May 2018.

Members will be aware that Strate implemented a new settlement system for bonds in September 2017 – (under what was known as the Debt Instrument Solution project). This included the introduction of a new bonds settlement model. Both the JSE and Strate made a number of changes to their respective rules and directives to give effect to the implementation of the new settlement model. Post the implementation, a review has been undertaken of the impact on the market of some of the new processes which accompanied the implementation of the new system and settlement model. This review included extensive consultation between the JSE, Strate, CSDPs and other market stakeholders. One of the outcomes of the review is that both the JSE and Strate recognised that market practices and processes, and the rules and directives, need to be reconciled and aligned to ensure that the risks associated with the settlement of bond transactions on the JSE are effectively managed, and to avoid unnecessary disruptions to the settlement process.

With the above objective in mind, Strate have made a number of amendments to their bond settlement directives, and the JSE is proposing to make the amendments included in this market notice to its Interest Rate and Currency Market settlement rules.

The proposed amendments address the following main points:

1. In practice, if a trading member or its client is unable to settle a transaction in bonds on settlement day due to the unavailability of securities or funds, and the Settlement Authority attempts to facilitate the borrowing

or lending of securities or funds on behalf of the member or its client, the Settlement Authority does not act as an agent to the borrowing or repurchase transaction, as the current rules state. The Settlement Authority plays a facilitation role, when necessary and if possible, in sourcing a counterparty to the transaction for the member or client. The relevant rules that deal with the role of the Settlement Authority as an agent in lending or repurchase transactions have either been amended or deleted, and the amended rules instead reflect the facilitation role that the Settlement Authority performs.

2. The IRC trading rules require allocations and principal assignment trades to be effected on the trade date. However, the various settlement commitment deadlines require allocations and principal assignments to be effected by specific times to avoid an impact on the settlement commitment deadlines. The settlement rules dealing with allocation and principal assignment deadlines have therefore been amended to ensure that they are within the timeframes required to enable settlement commitments to be in place before their respective deadlines.
3. To ensure that settlement commitments by CSDPs are in place in sufficient time to avoid unnecessary delays or disruptions to the settlement process on settlement day, the deadlines for settlement commitments have been amended as follows, in line with Strate's amended settlement directives:
  - 3.1 13h00 for same day trades due to settle on the trade date
  - 3.2 18h00 on S-1 for trades due to settle on T+1, T+2 or T+3
4. For same day trades, to ensure that the settlement commitment is in place by 13h00, the trading window will close at 12h00 and will only be opened for the purpose of exception handling, such as cover trades. However, the rules do not make specific mention of the 12h00 cut-off time as this will be enforced in the trading system.
5. For T+1 trades, to ensure that the settlement commitment is in place by 18h00 on T (or S-1), a new rule has been introduced which requires trading members to only report T+1 trades to the trading system up to 17h00, unless they have certainty that the reporting of a trade after 17h00 will not compromise the ability of the relevant CSDP to commit to settlement by 18h00 on T (or S-1).
6. The exception to the requirement for settlement commitments to be in place by 18h00 on S-1 for trades due to settle on T+1, T+2 or T+3, is where the settlement of an on-market trade is dependent either directly or indirectly on the settlement of an off market trade, and the off market trade qualifies for a late commitment on S in terms of Strate's directives. Strate's directives provide for a CSDP to apply to Strate for permission to commit to settlement of an off market transaction on S, which permission is granted subject to criteria determined by Strate or under exceptional circumstances. If such permission is granted and the ability of a CSDP to commit to settling an on market trade is dependent on the commitment to settling the relevant off market trade being in place, the commitment to settle the on-market trade must be in place as soon as possible on S but by no later than 13h00. If any member feels that these dependencies on off market transactions may apply to any on-market transactions that they may execute, they are encouraged to discuss these transactions with their CSDPs who will in turn engage with Strate to determine whether the particular circumstances regarding the off market transactions will qualify for late settlement commitments.

7. A CSDP could commit to settling a transaction prior to S but the transaction could be dependent on another transaction which, on S, has not been committed to by the CSDP of the party to that transaction. In these circumstances, the CSDP to the first transaction may be required to lift their commit pending a resolution of the dependent trade or some other action being taken to enable the CSDP to recommit. New rules have been introduced dealing with these circumstances.
8. The rule which requires non-member settled clients to submit settlement instructions to their CSDPs by certain deadlines has been deleted in line with the proposed deletion of the equivalent requirement in Strate's directives. The reason for the proposed deletion of this rule is that non-member settled clients should be permitted to make the necessary arrangements with their CSDPs with the objective of enabling their CSDPs to commit to settlement by the relevant deadlines, rather than impose specific timelines for the submission of settlement instructions through the JSE rules.
9. Strate's final settlement run commences at 15h15 on S. Whilst commitments to settle need to be in place by the times stipulated in the amended rules, and there would be a contravention of the rules if those commitments are not in place by the stipulated times, the Settlement Authority has to continue to manage the settlement process and the risks associated therewith in those circumstances where the stipulated timelines have not been met. Despite any contraventions of the stipulated commitment timelines and the possible consequences of those contraventions for the responsible parties, members and, where applicable, their clients need to continue to take the necessary steps to ensure that settlement takes place as soon as possible on S but by no later than 15h15. With this in mind, the amended rules set out the obligations of members and their clients to address any settlement issues timeously on S, and the rules also describe the role that the Settlement Authority will perform in this regard. The key timelines for managing exceptions on S are as follows:
  - 9.1 Members and, where applicable, their clients must ensure that their CSDPs have committed to settle transactions by 13h00 on S.
  - 9.2 If commitments to settle are not in place by 13h00, the member must take the necessary steps to cover the uncommitted transactions, which may include borrowing or lending of bonds or funds or entering into carry or repurchase transactions.
  - 9.3 If commitments to settle are still not in place by 14h00, the Settlement Authority will instruct the member to take the necessary steps to cover the transaction.
  - 9.4 If by 15h00 a commitment to settle is still not in place, or if the Settlement Authority realises by any earlier time that a transaction is not going to settle, the Settlement Authority will make a decision on whether the transaction will be rolled to a later settlement date, failing which the transaction will be declared a failed trade. In either case the rolling of settlement or failed trade procedures in the rules will then apply.
10. The current rules dealing with the rolling of settlement provide for the non-failing member claiming any losses or expenses incurred as a result of the rolling of settlement from the failing member. This claims process is not applied in practice, and the carry cost of the rolled settlement is automatically built into the

price of the rebooked transaction for the revised settlement date. Therefore, we have proposed that the rules dealing with claims for other losses or expenses be deleted.

Unless written objections are lodged within 10 days of this notice, in terms of rule 1.80.3, the proposed amendments to the rules will be submitted to the registrar for his approval.

Consequential amendments to the JSE Interest Rate and Currency Derivative Directives (Section E: Settlement) are currently being drafted and will be distributed to members for comment shortly.

Should you have any queries regarding this notice, please contact Paul Hartzenberg on (011) 520 7584 or at [paulh@jse.co.za](mailto:paulh@jse.co.za)

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