

Commits in a T+3 settlement cycle

JSE - Post-Trade and Information Services Division

October 2015



- Introduction
- Finality of Commit
- Margin in a T3 environment
- Fails management
- JSE User Readiness activities
- Questions




- For non-controlled clients, JSE looks to CSDPs to commit
- If committed by **EOD T+1** – no margin will be called
- CSDP can still lift their commit until 16h00 on T+2, subject to:
 - Curatorship and Liquidation of the client – provisional or final
- Commit becomes final and irrevocable at 16h00 on T+2

- Three potentially major issues - which are interlinked - need to be addressed with the go-live of T+3:
 - Margin EOD T+1 – specifically around non-controlled clients' commits
Margin for proprietary and controlled clients will not change except from a timing perspective
 - Fails Management from EOD T+2
 - Holding margin for the Fails Management



- Under T+3 settlement the JSE will margin at EOD T+1 (collected on morning of T+2 respectively) i.e. **35 to 40% of trades will be margined unless behaviour adapts** (figures dependent on how market practice will adjust)
- Margin will be retained in the case of Fails Management and returned on final settlement of the transaction:
 - Rolling of Settlement
 - Retransactions
 - Compensation

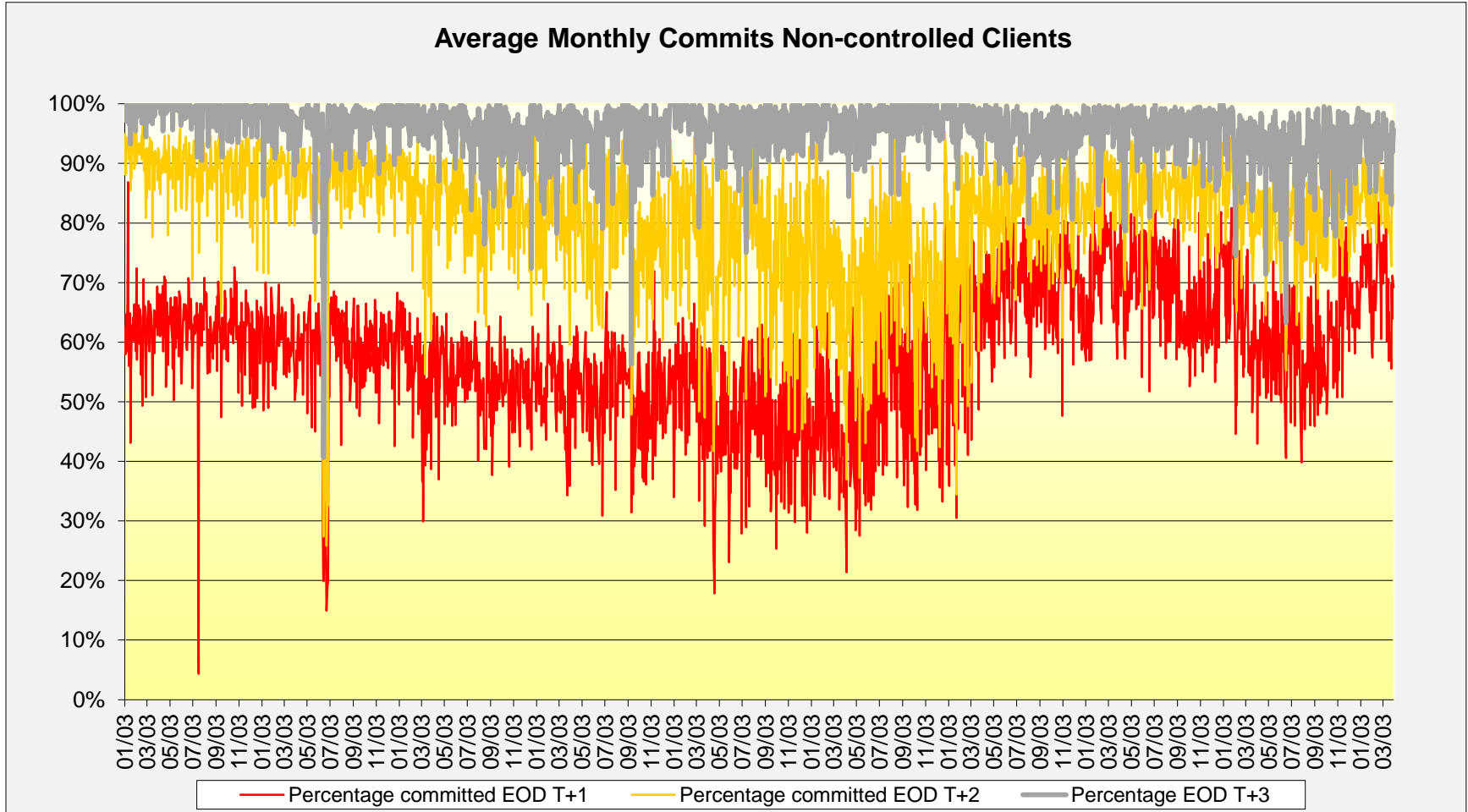


A change of
behaviour –
**execution of
commits by EOD
T1** - is required to
avoid excessive
margin obligations



- JSE has moved to real-time systems – members may do allocations on a real-time basis on T and commits to flow on T
- Market practice will change – Investors will send instructions and CSDPs will commit on T or T+1
- Per JSE Rules and Directives – brokers can claim margin from clients





	EOD T+1	EOD T+2	EOD T+3
Note:	65% committed	85% committed	99% committed

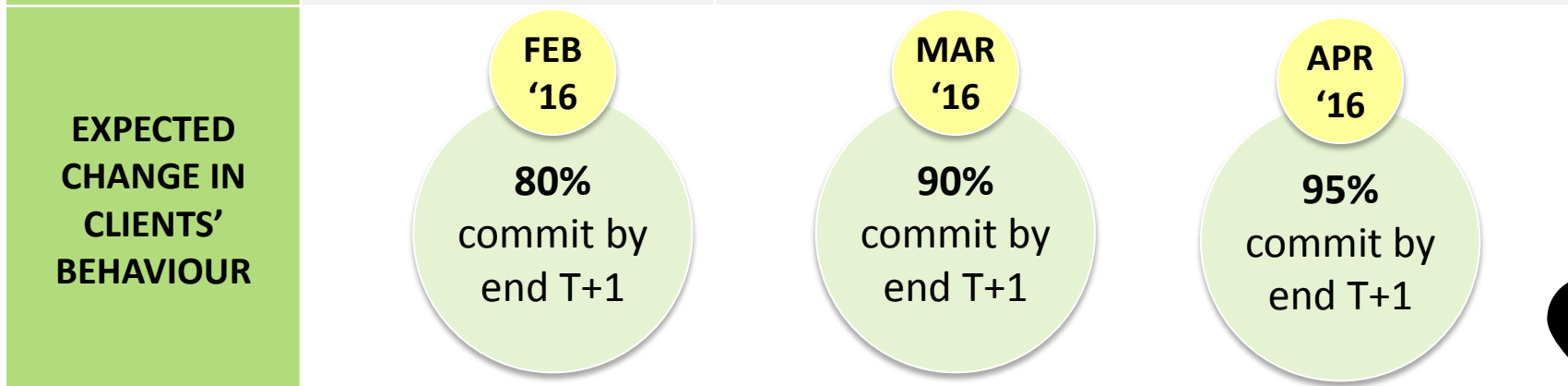


Changing behaviour – actions to be taken

	Action required	Expected outcomes
JSE	JSE to analyse data per broker / per CSDP	<ul style="list-style-type: none"> Meet with brokers / CSDPs to discuss the analysis results Share data with respective brokers / CSDPs
BROKERS	Brokers to analyse data	<ul style="list-style-type: none"> Review the data to determine a breakdown per client – Goldman Sachs / JP Morgan etc. Submit client groupings back to the JSE
CSDPS	CSDPs to analyse data	<ul style="list-style-type: none"> Review the data to determine a breakdown per client – Goldman Sachs / JP Morgan etc. Submit client groupings back to the JSE
JSE	Meeting with buy-side Cape Town	<ul style="list-style-type: none"> Workshop in Cape Town 29 October 2015 One on one meetings in Cape Town 30 October 2015 (where biggest impact)

Changing behaviour – actions to be taken (cont.)

	Action required	Expected outcomes
JSE	Meeting with buy-side Johannesburg	<ul style="list-style-type: none"> Workshop in Johannesburg November 2015 One-on-one meetings in Johannesburg (where biggest impact)
JSE	Meeting with London based clients	<ul style="list-style-type: none"> JSE to set up meetings with London-based clients (where biggest impact) in November 2015
JSE	Work with brokers and CSDPs to motivate clients based in other countries	<ul style="list-style-type: none"> Videoconferences Teleconferences Visits to clients (where biggest impact)



- Clients Instructions - on-market and off-market
- Arbitrage transactions and movement of securities between registers
- Dual Listed Companies – freezing of registers
- Corporate Actions:
 - New entitlements not being loaned out until PD
 - SLB where the Corporate Action is complex
 - SLB due to tax implications

- Principle is that the non-failing party is not prejudiced and must be treated as if their transaction settled
- Rolling of Settlement
 - If circumstances are correct
- Retransaction
 - Market liquidity
- Compensation
 - Lack of Market liquidity

Primary

- Securities Lending and Borrowing
- Money Lending and Borrowing

Then

- Rolling of Settlement:
 - If circumstances are correct

Then

- Failed Trade:
 - Retransactions
 - Compensation



For Failed Trade procedures we need to find opposite transactions

MT598-103

- Same settlement cycle
- Must include details of linked transactions:
 - On-Market report only
 - SLB
 - Collateral
 - Account Transfer
 - Portfolio move
 - SLB return
 - Collateral return
 - Off-markets
- Could be multiple links



MT598-104

- Future settlement cycle
- Must include details of linked transactions:
 - On-Market report only
 - SLB
 - Collateral
 - Account Transfer
 - Portfolio move
 - SLB return
 - Collateral return
 - Off-markets
- Could be multiple links

- ECS will request terminating and non-terminating transactions from BDA
- BDA will supply:
 - Controlled Clients and Prime Broking Clients transactions; and
 - Broker proprietary – net amount.



- Updates from Strate for links
 - MT598-103
 - MT598-104
- Update from BDA
- Failed Trade procedures
- Look for a terminating transaction:
 - Equal and opposite; then
 - Highest to lowest
- Look for a non-terminating transaction with least impact:
 - Account transfers
 - Portfolio move
 - Collateral
 - SLB return
 - Off-market
- Then
 - Equal and opposite; then
 - Highest to lowest



- MT598-116
 - Advising instrument with potential problems
 - This could happen multiple times
- MT598-117
 - Settlement orders selected for Failed Trade procedures
- MT598-118
 - Problem resolved
- MT598-117 is sent to STRATE and the CSDP
- Strate will lift the commit based on this message and break links where applicable

Flows Fails Management Rolling of Settlement

Non-Controlled Client Acct

Client A	
S	P
100 AAA R500 (4)	100 AAA R500
0	

Compulsory
Reverse Substitution

Reverse Subs Acct

Broker C	
S	P
100 AAA R500(598-113)	100 AAA (3) R1,000 (598-113)
R500	

ROS suspense Acct

Broker D	
S	P
100 AAA (3) R1,000(598-113)	100 AAA (2) R1,000 (598-113)
0	

Non-Controlled Client Acct

Client B	
S	P
100 AAA (1) R1,000 (598-122)	100 AAA R1,000
0	

BDA to cancel original
Contract Note

ECS will:

1. Generate cancellation to Strate for Client B to cancel purchase (MT 598-117 and then MT 598-122)
2. Generate Settlement Order for Broker D (purchase) to replace failing trade for Client B
3. Generate Settlement Orders to move purchase from Broker D ROS settlement account to Broker C's Reverse Sub account
4. Hold margin for original failing deal – Client A Sale

Flows Fails Management Rolling of Settlement

Non-Controlled Client Acct
Client A

S	P
100 AAA	100 AAA
R500 (2)	R500
100 AAA	
R500	
100 AAA	

Broker C to
Do manual
Allocation

Reverse Subs Acct
Broker C

S	P
100 AAA	100 AAA
R500	R1,000
100 AAA (1)	100 AAA
R1,000 (598-113)	R500
	0

ROS suspense Acct
Broker D

S	P
100 AAA	100 AAA (2)
R1,000	R1,000 (598-113)
100 AAA (1)	100 AAA (1)
R1,000 (598-113)	R1,000 (598-113)
	0

Non-Controlled Client Acct
Client B

S	P
100 AAA	100 AAA
R1,000	R1,000
	100 AAA (1)
	R1,000 (598-113)
	100 AAA

**BDA to issue new
Contract note for new
Settlement date**

ECS will:

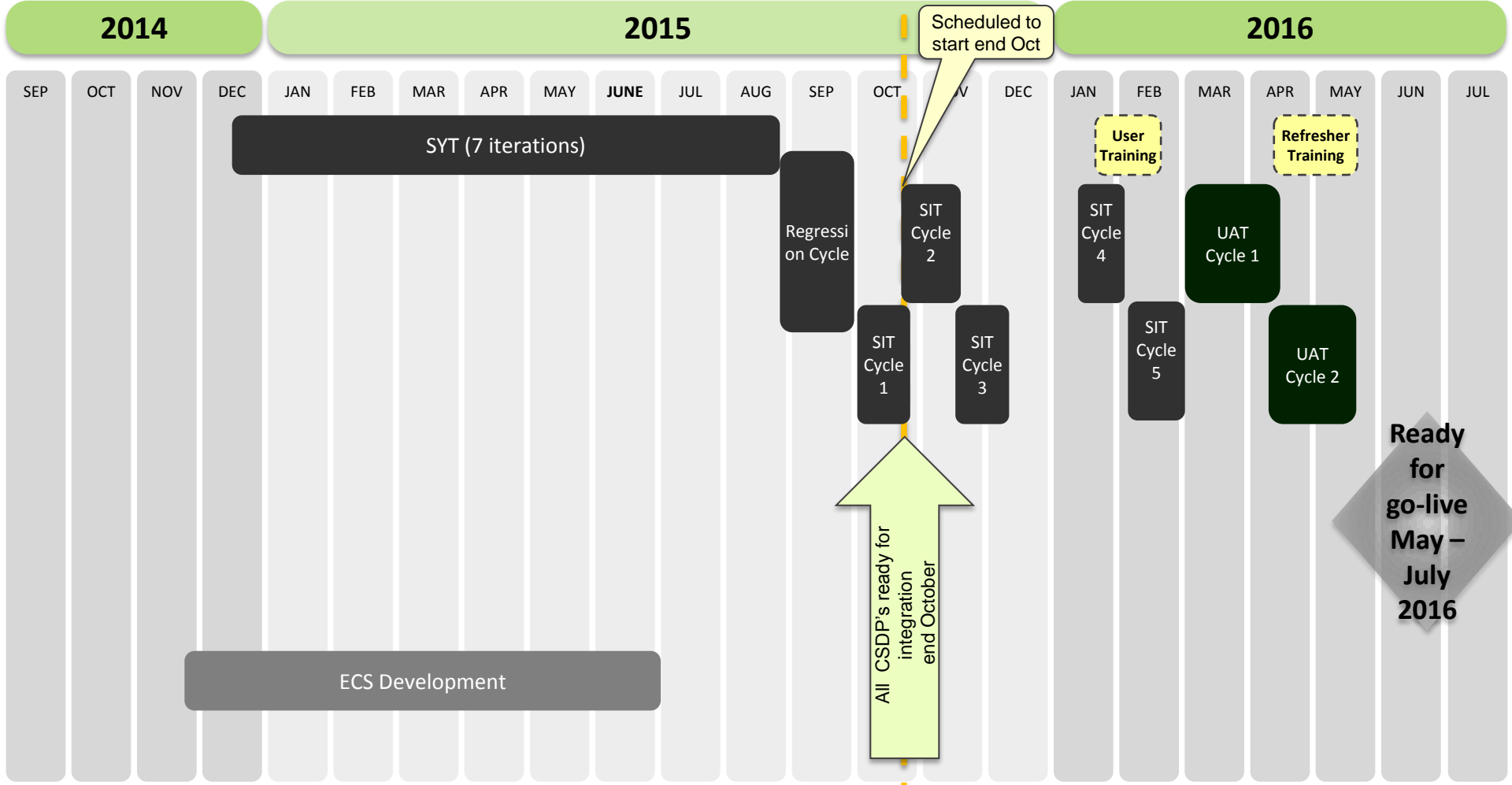
1. Generate Settlement Orders for future settlement date
2. Return Margin held for original failing deal (Client A sale) once settled
3. Generate message to BDA with defaulting and non-defaulting transaction details including future settlement date

- Rolling of settlement can only be done for 2 settlement cycles
- Contract notes and settlement orders for Rolling of Settlement and Retransaction will keep the original trade date except where there has been a mandatory corporate action
- Claims for the below must be processed through the broker firm by the client
 - Loss of income – interest / lending fee's
 - Corporate Action claims (including Dividend Tax where applicable)

T3 Project Timeline



Phase 3 Timeline



On-market timings T+5 versus T+3 migration week

Action	Current Timings – T+5	Future Timings – T+3
Settlement Orders – non-controlled clients	T – Real-time after allocations	T - Real-time after allocations
Client Affirmation to CSDP/Rejection to broker	T+2 (12h00)	T+1 (18h00)
Deemed Affirmation Client	T+2 (12h00)	T+1 (18h00)
Broker re-allocation	T+2 (16h00)	T+1 (18h00)
Client affirmation of re-allocation	T+2 (16h00)	T+1 (18h00)
Brokers nets	T+2 (EOD)	T+1 (EOD)



On-market timings T+5 versus T+3 migration week

Action	Current Timings – T+5	Future Timings – T+3
Non-controlled client breach	T+3 (12h00)	T+2 (12h00)
Principal Assumption	T+4 (12h00) will move to 16h00	T+2 (16h00)
Margining	T+3 (EOD)	T+1 (EOD)
Broker borrowing on Principal Assumption	T+4 (12h00 to 14h00) will move to 16h00 to 18h00	T+2 (16h00 to 18h00)
Settlement Authority SLB	T+4 (14h00 to 16h00) will move to 08h00 to 10h00 on S	T+3 (08h00 to 10h00)
Failed Trade/Rolling Of Settlement	T+4 (16h00 to 18h00) will move to 10h00 to 12h00 on S	T+3 (10h00 to 12h00)
Settlement	T+5	T+3



Migration Schedule

W	T	F		M	T	W	T	F	M	T
T	T+1	T+2	C	T+3	T+4	T+5				
	T	T+1	O	T+2	T+3	T+4	T+5			
		T	N	T+1	T+2	T+3	T+4	T+5		
			V	T	T+1	T+2	T+3		CA	
			E		T	T+1	T+2	T+3	CA	
			R			T	T+1	T+2	T+3	
			S				T	T+1	T+2	T+3
			I					T	T+1	T+2
			O							
			N		LDT			RD/RD	PD/PD	



- Limit amount of corporate actions (including IPO's/Private Placement) where possible
 - Moving to RD-3 LDT date – no LDT on Friday of conversion
- Jobbing across settlement days – warn members and clients about SLBs and funding for a period of time
- Resources will be available across the market for 2 weeks after go-live to manage issues
- Migration will not take place over a month end
- Migration will not take place over a futures close out
- Migration will not take place where there is a significant overseas event taking place

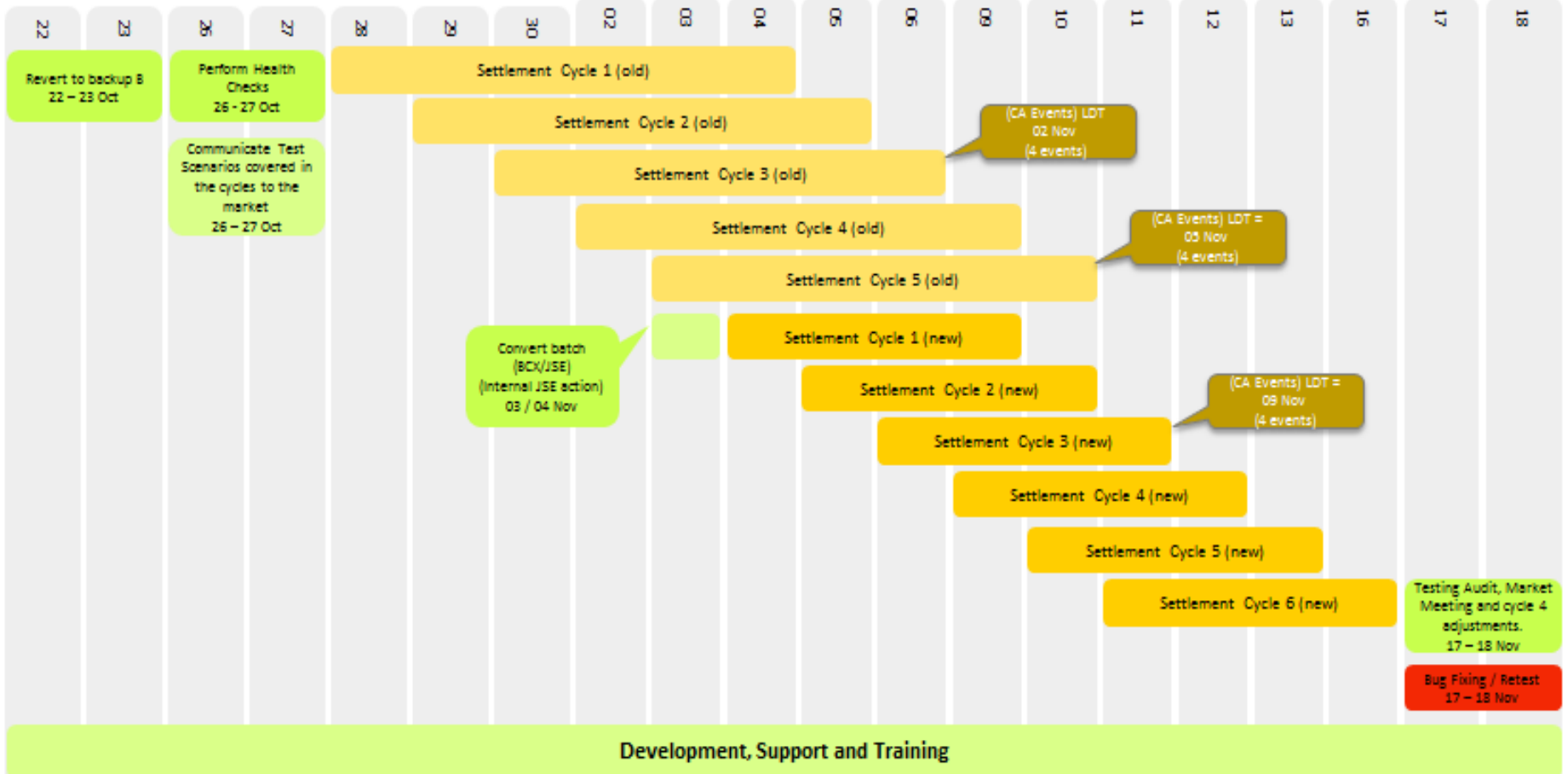


Testing T+5 versus T+3 migration

Integration Testing Cycle 3 (Migration Testing)

October

November



- Educational Materials:
 - **Description:** User guides / brochures / manuals explaining the move to T3 and additional concepts contained therein
 - **Frequency:** Multiple drops – August to November
 - **Purpose:** To enhance the knowledge of participants impacted by T3, to enable them to transition to the shorter settlement cycle
 - **Planned content:**
 1. T+3 Overview and FAQs (Aug)
 2. T+5 to T+3 process timelines (Aug)
 3. T+5 to T+3 Corporate Actions timelines (Aug)
 4. Fails Management Process (to include roles and responsibilities of SASLA & CSDPs) (Oct)
 5. SLB Overview (Oct)
 6. T5 to T3 Migration (Oct)
 7. Corporate Actions Document – Strate (Nov)
 8. Removal Process (Transfer Secs) (Nov)
 9. SLB Tax Document (Nov)
 10. SLB Corporate Actions Document (Nov)
 11. Settlement Obligations Document (Nov)
 12. JSE & Strate Rules & Directives – JSE & Strate (2016)
 - **Additional content:** work being done to map “To-be” process guidelines (done in conjunction with one of the largest local brokerage firms)

- Roadshows / Conferences:

- **Description:** External presentations to stakeholders (local and foreign) regarding the T3 project
- **Frequency:** Multiple sessions
- **Purpose:** To allow impacted stakeholders not based in JHB to attend T3-focussed presentations and engage with project staff
- **Schedule of Events :**
 - **Completed:**
 - July 2015 - Namibian Stock Exchange visit
 - August 2015 - Buy-side Roadshow (CT)
 - October 2015 - Retail Broker Session (JHB)
 - **Pending:**
 - October 2015 - Buy-side visit (Commits)(CT)
 - November 2015 - Buy-side visit (Commits)(JHB) / JSE Roadshow event (LDN) / NEMA Africa (LDN) / Namibian Stock Exchange visit (with CSDPs)
 - February / March 2016 – potential UK/USA roadshow (TBC)
 - March / April 2016 – CT visit



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Questions?

