

# SETTLEMENT OBLIGATIONS: BONDS

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## INTRODUCTION

This document sets out the settlement obligations of clients who enter into transactions in JSE listed bond securities that settle electronically through Strate. The requirement for JSE bond members to make their clients aware of their settlement obligations is laid out in rule 9.15.4 of the JSE Rule book.

This document has two broad sections, the first being the settlement obligations of member *clients*, and secondly the settlement obligations of *non-member clients*. Either one of the two sections will be applicable to a client at any point of time. In order to assist in distinguishing the two types:

- a *member settled client* is a client, or an account holder on whose behalf a client is acting, who does not appoint a CSDP of their own, since their funds and bond securities are under the control of their member and are settled via the CSDP of a member. As a result, the settlement of their transactions is conducted by the member of the client via accounts belonging to the member in the records of the CSDP of that member;
- a *non-member settled client* is a client, or an account holder on whose behalf a client is acting, who has appointed its own CSDP. As a result, the settlement of their transactions is conducted by the CSDP of the client via the accounts belonging to the client in the records of the CSDP.

For ease of reference, the relevant rules that create the settlement obligations and penalties for the transgression of these rules are reflected in boxes in the text. Relevant definitions are set out in the last section of the document.

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This document is also available on the JSE's and Strate's websites, and can be downloaded from the addresses <http://www.jse.co.za> and <http://www.strate.co.za>.

## SETTLEMENT OBLIGATIONS FOR MEMBER SETTLED CLIENTS

### Settlement Obligation 1: Settlement Principles for transactions in bond securities

Settlement will take place in accordance with the following principles:

- 1.1 Each transaction represented by a single contract note between the ultimate buyer and ultimate seller;
- 1.2 Applying the market convention that parties to a transaction have a contractual obligation to cause such transaction to settle on a specific day, settlement day; and
- 1.3 where every business day will be a trade day and every business day is a settlement day.

#### **APPLICABLE RULES**

##### **9.20 Settlement principles for bonds**

*Settlement of bonds shall be effected in accordance with the following principles –*

- 9.20.1 *trade by trade;*
- 9.20.2 *between the scrip root and the cash root; and*
- 9.20.3 *rolling and contractual*

### Settlement Obligation 2: member settled client settlement obligations

In the case of T+2 or T+3 transactions: by no later than 12h00 on the business day after the transaction, a member settled client must ensure that their member is in a position to settle the transaction, either by providing the necessary funds or bond securities to the member or entering into an arrangement with the member to ensure that settlement takes place on settlement day.

In the case of T+1 transactions: by no later than 15h00 on the same business day, a member settled client must ensure that their member is in a position to settle the transaction, either by providing the necessary funds or bond securities to the member or entering into an arrangement with the member to ensure that settlement takes place on settlement day.

In the case of T+0 transactions: by no later than 13h00 on the same business day, a member settled client must ensure that their member is in a position to settle the transaction, either by providing the necessary funds or bond securities to the member or entering into an arrangement with the member to ensure that settlement takes place on settlement day.

#### **APPLICABLE RULES**

##### **9.90 Member settled client settlement obligations**

- 9.90.1 *A member settled client shall, in respect of reported transactions ensure that the trading member which effected the transaction for or on behalf of such client will be in a position to settle the transaction on settlement day -*
  - 9.90.1.1 *by no later than 13h00 on trade date for trades that are due to settle on trade date;*
  - 9.90.1.2 *by no later than 15h00 on trade date in respect of trades that are due to settle on the first business day after trade date; or*
  - 9.90.1.3 *by no later than 12h00 on the business day after the transaction, for trades that are due to settle on the second or third business day after trade date.*

### Settlement Obligation 3: General settlement provisions

- 3.1 Where the member settled client fails to put the member in a position to settle the transaction on settlement day, the member may close out the client's transaction and claim the difference between the original transaction value and the close out value from the client, including interest, subject to any agreement with the client or notification to the client to the contrary, and to any action taken by the Settlement Authority in terms of the failed trade procedures set out in the rules. The member may sell for the account of the client so many of any other bond securities held on the client's account as is necessary to cover any loss that may be incurred by the client as a result of the close out of the original transaction. The client shall also remain liable for any losses, costs and charges incurred, or charges imposed by the member, in respect of any of the aforementioned transactions.
- 3.2 Where the member settled client has not complied with its obligation to put the member in a position to effect settlement and neither the member nor the Settlement Authority is able to effect settlement, the Settlement Authority shall as at 12h00 on settlement date declare the transaction to be a failed trade.
- 3.3 Notwithstanding 3.1 and 3.2 above, the notification at any stage by a member settled client to a member of its inability to put the member in a position to settle a transaction, may result in the declaration of a failed trade by 09h00 on the following business day, if neither the member nor the Settlement Authority is able to ensure that settlement will take place on settlement day by doing a securities lending & borrowing.

#### **APPLICABLE RULES**

##### **Rule 9.90 Member settled client settlement obligations**

- 9.90.2 *In the event that a member settled client fails to comply with the provisions of rule 9.90.1, the trading member which effected the transaction –*
- 9.90.2.1 *is obliged in terms of rule 9.100.4 to take the necessary steps to ensure that the transaction settles on settlement day, including the borrowing or lending of bonds or funds or entering into a carry or repurchase transaction on such member settled client's account; and*
- 9.90.2.2 *may proceed in the manner set out in rule 9.90.3.*
- 9.90.3 *Subject to any agreement between the trading member and the client to the contrary and the action of the Settlement Authority in terms of rule 9.100.11 or 9.100.12, in the event that a member settled client fails to comply with the provisions of rule 9.90.1, the trading member may –*
- 9.90.3.1 *in respect of a sale transaction, buy such bonds for the account of the client; or*
- 9.90.3.2 *in respect of a purchase transaction, sell such bonds for the account of the client.*
- 9.90.4 *The member settled client shall remain liable for any losses, costs and charges incurred, or charges imposed, by the trading member as a result of the trading member acting in accordance with rules 9.90.2 or 9.90.3 or any action taken by the Settlement Authority in terms of rule 9.130 or rule 9.135*

#### **Settlement Obligation 4: Borrowing of bond securities or cash or entering into a Carry or Repurchase and member buy-in**

- 4.1 If a member settled client is unable to meet their settlement obligations and the member is unable to enter into an arrangement to ensure that settlement takes place, the member must advise the Settlement Authority.
- 4.2 If the Settlement Authority is able to lend the necessary funds or bond securities to the member or enters into a Carry or Repurchase transaction to ensure that settlement takes place, the member must close out the original transaction before the close of business on the next business day.

#### **APPLICABLE RULES**

##### **Rule 9.140 Borrowing of Bonds to prevent a failed trade**

###### **9.140.1 If a trading member –**

9.140.1.1 *is not able to comply with rule 9.100.7 or 9.100.9 in respect of a sale transaction; or*

9.140.1.2 *at any time notifies the Settlement Authority or the Settlement Authority otherwise becomes aware, that a trading member or client will not be able to settle a sale transaction on settlement day, the Settlement Authority will endeavour to borrow, as agent, on behalf of the trading member or client as undisclosed principal, the bonds required by the trading member or client to comply with its obligations to settle the transaction.*

##### **9.150 Lending of funds to prevent a trade from failing**

###### **9.150.1 If a trading member –**

9.150.1.1 *is not able to comply with rule 9.100.7 or 9.100.9 in respect of a purchase transaction; or*

9.150.1.2 *at any time notifies the Settlement Authority or the Settlement Authority otherwise becomes aware, that a trading member or a client will not be able to settle a purchase transaction on settlement day, the Settlement Authority may lend to the trading member or client the funds required by the trading member or client to comply with its obligations to settle the transaction.*

##### **9.160 Carry and repurchase transactions in bonds to prevent a trade from failing**

###### **9.160.1 In the event that a trading member –**

9.160.1.1 *is not able to comply with rule 9.100.7 or 9.100.9 in respect of a transaction; or*

9.160.1.2 *at any time notifies the Settlement Authority or the Settlement Authority otherwise becomes aware, that a trading member or client will not be able to settle a transaction on settlement day; and*

9.160.1.3 *the Settlement Authority is unable to enter into a securities borrowing or funds borrowing transaction, as the case may be, in terms of rule 9.140 or 9.150, the Settlement Authority will endeavour to enter into a carry or repurchase transaction, as agent, on behalf of the trading member or client as undisclosed principal, as required by the trading member or client to comply with its obligations*

*to settle the transaction*

#### **9.100 Trading member settlement obligations**

*9.100.11 If the Settlement Authority receives notification in terms of rule 9.100.10 and is able to procure the settlement of the transaction by means of the borrowing of bonds or funds or effecting a carry or repurchase transaction, the trading member shall by no later than the close of business on the next business day –*

*9.100.11.1 in respect of a sale transaction, buy such bonds for the account of the client and advise the Settlement Authority accordingly; or;*

*9.100.11.2 in respect of a purchase transaction, sell such bonds for the account of the client and advise the Settlement Authority accordingly.*

#### **Settlement Obligation 5: Borrowing costs - securities**

- 5.1 Where a member borrows securities from the Settlement Authority to effect settlement on behalf of a member settled client, the member settled client is responsible for any costs that may be incurred by the member in this regard and any penalties imposed on the member by the Settlement Authority. These costs include the costs related to capital events.

#### **APPLICABLE RULES**

##### **9.140 Borrowing of bonds to prevent a trade from failing**

*9.140.3 A client must pay any costs or fees that may be incurred as a result of the borrowing of bonds to effect settlement and any penalty imposed on the trading member by the Settlement Authority as set out in the directives, where the client failed to deliver the bonds required to settle the transaction.*

#### **APPLICABLE FEES AND PENALTIES**

- *EI 3.6 – R5 000*
- *EI 3.7 - R1 000 plus 10 basis points on the nominal value up to a maximum of R100 000*
- *EJ 1.3 - R1 000 administration fee plus the greater of R1 000 or 5% p.a. above the lending rate obtained by the Settlement Authority on the initial value of the loaned bond securities over the loan period*

#### **Settlement Obligation 6: Borrowing costs - cash**

- 6.1 Where a member borrows funds from the Settlement Authority to effect settlement on behalf of a member settled client who has not made payment of the required funds to the member timeously, the member settled client is responsible for any costs incurred by the member or penalties imposed on the member by the Settlement Authority in this regard.

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9.100.11 amended with effect from 9 May 2011

**APPLICABLE RULES****Rule 9.150 Lending of funds to prevent a trade from failing**

- 9.150.3 A client must pay any costs or fees that may be incurred as a result of the borrowing of funds to effect settlement and any penalty imposed on the trading member by the Settlement Authority as set out in the directives, where the client failed to pay the funds required to settle the transaction.

**APPLICABLE FEES AND INTEREST**

- EI 3.6 – R5 000
- EJ 1.3 - R1 000 administration fee plus an interest charge of 5% per annum above the prime overdraft rate at FirstRand Bank Ltd.

**Settlement Obligation 7: Carry and Repurchase costs**

- 7.1 Where the Settlement Authority effects a Carry or Repurchase to a member to effect settlement on behalf of a member settled client, the member settled client is responsible for any costs that may be incurred by the member in this regard and any penalties imposed on the member by the Settlement Authority. These costs include the costs related to capital events.

**APPLICABLE RULES****9.160 Carry and repurchase transactions in bonds to prevent a trade from failing**

- 9.160.3 A client must pay any costs that may be incurred in relation to a carry or repurchase transaction in bonds to effect settlement and any penalty imposed on the trading member by the Settlement Authority as set out in the directives, where the client failed to meet his obligations to settle the transaction.

**APPLICABLE FEES AND PENALTIES**

- EI 3.6 – R5 000
- EJ 1.5 - R5 000

**Settlement Obligation 8: Failed Trade or Rolling of Settlement - Failing Party**

- 8.1 Where a member settled client does not meet his settlement obligations timeously and neither the member nor the Settlement Authority are able to borrow the necessary funds or bond securities or do a Carry or Repurchase to ensure that settlement of the transaction takes place, the transaction of the failing member settled client may be rolled or failed in accordance with instructions provided by the Settlement Authority to the member.
- 8.2 A failing member settled client, in the case of a rolled or failed trade, will in addition to any fees and penalties, be responsible for any capital event entitlements or losses that are claimed and paid to the non-failing party.

9.160 amended with effect from 9 May 2011  
 9.160.3 amended with effect from 9 May 2011

**APPLICABLE RULES****Rule 9.100 Trading member settlement obligations**

9.100.12 *If the Settlement Authority receives notification in terms of rule 9.100.10, and either rolls the settlement in terms of rule 9.125 or is able to close the transaction in terms of rule 9.30.2.9 or declares the transaction to be a failed trade in terms of rule 9.70.4, the trading member shall act in accordance with the instructions received from the Settlement Authority in terms of rule 9.130 or 9.135 respectively.*

**9.90 Member settled client settlement obligations**

9.90.4 *The member settled client shall remain liable for any losses, costs and charges incurred, or charges imposed, by the trading member as a result of the trading member acting in accordance with rules 9.90.2 or 9.90.3 or any action taken by the Settlement Authority in terms of rule 9.130 or rule 9.135.*

**APPLICABLE FEES AND PENALTIES****Rolling Of Settlement**

- *EI 3.8 - R1 000 plus 20 basis points on the nominal value to a maximum of R100 000; and*
- *EJ 1.6 - R5 000 administration fee payable by the member who introduced the trade which resulted in the execution of the process in terms of 9.30.2.10*

**Failed Trade**

- *EI 3.9 - R1 000 plus 30 basis points on the nominal value to a maximum of R100 000; and*
- *EK 1.8 - R5 000 administration fee payable by the member who introduced the trade which resulted in the execution of the process in terms of 9.30.2.9*

**Settlement Obligation 9: Rolling of Settlement – Non-failing Party**

- 9.1 A member settled client may be instructed by the JSE, via their member, to roll settlement of their transaction, where the rolling of the settlement will allow the transactions to settle on a future settlement date.
- 9.2 The failed transaction may only be rolled twice which should not be more than 6 business days from the original settlement date.
- 9.3 If the transaction is rolled in accordance with 9.1, then the member settled client will be entitled to claim for any capital event entitlement or losses incurred.

**APPLICABLE RULES****Rule 9.30 Settlement Authority**

- 9.30.2.10 *in its sole discretion and in exceptional circumstances, instruct a trading member or client (via the trading member) to roll the settlement of a purchase or sale transaction on the basis set out in rule 9.125*

**9.125 Rolling of settlement**

- 9.125.1 *The rolling of settlement will be carried out in the following manner:*
- 9.125.1.1 *The Settlement Authority will obtain a list of the linked settlements, which will include the failed trade leg as well as the opposite trade leg and any linked settlements;*
  - 9.125.1.2 *The Settlement Authority will advise the failing and non-failing trading members that the transaction will be rolled to a revised settlement date determined by the Settlement Authority;*
  - 9.125.1.3 *The failing and non-failing trading members will be instructed to re-book the original transaction for settlement on the revised settlement date.*
- 9.125.2 *If settlement does not take place on the revised settlement date, the transaction may, at the discretion of the Settlement Authority, either be rolled to another revised settlement date, under exceptional circumstances, or be declared to be a failed trade, and the affected trading members must act in accordance with the instructions received from the Settlement Authority in terms of rule 9.130 or rule 9.135.*

**APPLICABLE COMPENSATION****Rule 9.125 Rolling of settlement**

- 9.125.3 *The failing trading member or non-failing trading member must, before the close of business on the business day following that on which the rolling of settlement has been completed, submit a statement, in writing, to the Settlement Authority detailing any expenses incurred or income foregone by the member or the client as a consequence of the rolling of settlement, including interest.*
- 9.125.4 *The non-failing trading member shall in respect of a reported transaction, claim any losses and compensation resulting from the rolling of settlement from the failing trading member. Failure by the failing trading member to pay such funds shall be in contravention of these rules and directives, and may, in the discretion of the JSE, be deemed to constitute an act of default in terms of rule 11.10.*

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New 9.30.2.10 introduced with effect from 9 May 2011

9.125 introduced with effect from 9 May 2011

9.125.1 to 9.125.5 introduced with effect from 12 July 2010

### **Settlement Obligation 10: Closing out a failed trade and compensation – Non-failing Party**

- 10.1 If there is a failed trade which will result in a transaction not settling, a member settled client must, if instructed by the JSE via their member, fail the transaction.
- 10.2 The JSE Settlement Authority will determine a closing price.
- 10.3 The non-failing member will claim compensation from the failing member

#### **APPLICABLE RULES**

##### **Rule 9.30 Settlement Authority**

- 9.30.2.9 *instruct a trading member or a client (via the trading member) to close a purchase or sale transaction at a price and on the basis set out in rule 9.130 or rule 9.135 ;*

##### **9.135 Failed trade procedure applicable to reported transactions not cleared by JSE Clear**

- 9.135.1 *A failed trade arising out of a reported transaction not cleared by JSE Clear shall be dealt with in the following manner:*
  - 9.135.1.1 *the Settlement Authority will obtain a list of the linked settlements, which will include the failed trade leg as well as the opposite trade leg and any linked settlements;*
  - 9.135.1.2 *the transactions selected in terms of rule 9.135.1.1 shall be closed at a price to be determined by the Settlement Authority in accordance with principles set out in the directives. This price may differ from the original transaction price and will include compensation for the trading members or clients whose transactions are being closed;*
  - 9.135.1.3 *the non-failing trading member shall claim any losses and compensation resulting from the close out of the transaction from the failing trading member. Failure by the failing trading member to pay such funds shall be in contravention of these rules and directives, and may, in the discretion of the JSE, be deemed to constitute an act of default in terms of rule 11.10.*

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9.30.2.9 amended with effect from 9 May 2011

9.135 introduced with effect from 9 May 2011

9.135.1 introduced with effect from 9 May 2011

## SETTLEMENT OBLIGATIONS OF NON-MEMBER SETTLED CLIENTS

### Settlement Obligation 1: Settlement principles for transactions in bond securities

Settlement will take place in accordance with the following principles:

- 1.1. each transaction represented by a single contract note between the ultimate buyer and ultimate seller;
- 1.2. applying the market convention that parties to a transaction have a contractual obligation to cause such transaction to settle on a specific day, settlement day (which is three business days after the trade was done); and
- 1.3. intermediate parties who are neither the scrip root nor the cash root play no part in the settlement of uncertificated securities.

#### **APPLICABLE RULES**

##### **9.20 Settlement principles for bonds**

*Settlement of bonds shall be effected in accordance with the following principles –*

- 9.20.1 *trade by trade;*
- 9.20.2 *between the scrip root and the cash root; and*
- 9.20.3 *rolling and contractual*

### Settlement Obligation 2: Appointment of a CSDP

A non-member settled client must, before transacting, appoint a CSDP and notify the member of the following details or any changes to such details:

- 2.1 the CSDP of the client;
- 2.2 the branch code of the CSDP of the client;
- 2.3 the custody account name of the client;
- 2.4 the custody account number of the client;
- 2.5 the name of the bank where the clients' funds bank account is held and the branch code;
- 2.6 the cash account name of the client;
- 2.7 the cash account number of the client; and
- 2.8 the Strate Client Code.

#### **APPLICABLE RULES**

##### **9.40 Trading in bonds**

- 9.40.1 *A client shall only place an order in respect of bonds with a trading member if –*
  - 9.40.1.1 *the client has directly or indirectly appointed a CSDP;*
- 9.40.2 *A trading member shall only place an order or report a transaction in respect of bonds on the trading system if such member has appointed a clearing member, where applicable, and a CSDP as prescribed by directive, and has taken reasonable*

*steps to satisfy itself that –*

*9.40.2.1 if a client with whom or on whose behalf the trading member is trading is not a member settled client, the client has appointed a CSDP and the appointed CSDP has confirmed, in the manner determined by the JSE, that the details of that client held by the CSDP correspond with and match the details of the client held by the trading member;*

### **Settlement Obligation 3: General pre-trade settlement requirements**

A non-member settled client may not place an order to sell bond securities unless:

- 3.1 the securities to be sold are in the custody of the non-member settled client's CSDP in uncertificated form; or
- 3.2 another transaction has been entered into by the client for the equivalent number of bond securities to be available for settlement on T+3 or before; or
- 3.2 the client has made arrangements to borrow or has done a Carry or Repurchase for the equivalent number of bond securities, and the equivalent securities will be available for settlement to take place on T+3.

#### **9.40 Trading in bonds**

*9.40.1 A client shall only place an order in respect of bonds with a trading member if –*

*9.40.1.2 the client has taken the appropriate steps to ensure that settlement of the transaction will occur on settlement date.*

#### **APPLICABLE PENALTY**

- *Ei 3.6 - R5 000*

### **Settlement Obligation 4: General settlement provisions**

- 4.1 A non-member settled client must notify the member of the account to which a transaction is to be allocated in sufficient time to allow the member to process such allocation on the trade date.
- 4.2 In the case of a T+3 or T+2 transaction, a non-member settled client must by no later than 12h00 on T+1 give instructions to its CSDP to settle the transaction. In the case of a T+1 transaction, a non-member settled client must by no later than 15h00 on T give instructions to its CSDP to settle the transaction. In the case of a T+0 transaction, a non-member settled client must by no later than 13h00 on T give instructions to its CSDP to settle the transaction.
- 4.3 A non-member settled client must immediately notify the member where the details of the transaction as advised to the client by the member are not correct but in any event the notification must take place by no later than 12h00 on T+1 for T+3 and T+2 transactions and 15h00 on T for T+1 transactions. If the client does not notify the member of any corrections to be made to the transaction, it will be deemed to have been accepted by the client at these times.
- 4.4 If the details of the transaction are not correct, the appropriate correction will then be made by the member by no later than 18h00 on T+1 for T+3 transactions, 15h00 on T+1 for T+2 transactions and 15h00 on T for T+1 transactions. The details of the correction will be advised by the member to the non-member settled client immediately.

9.40.2 amended with effect from 9 May 2011

9.40.1.2 amended and 9.40.1.2.1 to 9.40.1.2.3 deleted with effect from 9 May 2011

- 4.5 The non-member settled client must affirm to its CSDP that the new details of the transaction are correct within sufficient time to allow the CSDP of the client to commit timeously to settling the transaction.

#### **APPLICABLE RULES**

##### **9.70 Settlement of bonds**

- 9.70.1 *All transactions in bonds shall only be settled electronically through Strate in accordance with the principles set out in rule 9.20.*
- 9.70.2 *A trade in bonds by a trading member shall –*
- 9.70.2.1 *in accordance with rule 7.100, be allocated to a client or a trading member's proprietary account on the trade date;*
  - 9.70.2.2 *if the trade is effected through a principal assignment stock account, be assigned to a client on the trade date in accordance with rule 7.110:*
  - 9.70.2.3 *be communicated to a client on the trade date, subject to rules 9.70.2.1 and 9.70.2.2;*
  - 9.70.2.4 *in the absence of notification from the client to the contrary by no later than 12h00 on the business day after the original trade, be deemed to have been accepted by the client;*

##### **9.80 Non-member settled client settlement obligations**

- 9.80.1 *A non-member settled client shall, in respect of reported transactions, give instructions to his CSDP to settle the transaction –*
- 9.80.1.1 *by no later than 13h00 on trade date for trades due to be settled on trade date;*
  - 9.80.1.2 *by no later than 15h00 on trade date for trades due to be settled on the first business day after trade date; or*
  - 9.80.1.3 *by no later than 12h00 on the business day after the transaction for trades due to settle on the second or third business day after trade date.*

##### **9.70 Settlement of bonds**

- 9.70.3 *Notwithstanding rules 9.70.2.1 to 9.70.2.3 –*
- 9.70.3.1 *allocation corrections in respect of trades due to settle on the third business day after the trade date or a later settlement date may be effected up to 18h00 on the first business day after the trade date if they have not been effected on the trade date. All late allocation corrections after 18h00 on the first business day after the trade date will be corrected by the Settlement Authority subject to the payment of the fee as prescribed by directive. Any late allocation corrections shall be communicated to and accepted by the client within sufficient time to allow for the CSDP of the client to comply with rule 9.70.2.5;*
  - 9.70.3.2 *principal assignment corrections in respect of trades due to settle on the third business day after the trade date or a later settlement date may be effected up to 18h00 on the first business day after the trade date if they have not been effected on the trade date. All late principal*

9.70.2 amended with effect from 9 May 2011

9.70.2.1 amended with effect from 9 May 2011

9.70.2.2 amended with effect from 9 May 2011

9.70.3.1 amended with effect from 9 May 2011

*assignment corrections after 18h00 on the first business day after the trade date will be corrected by the Settlement Authority subject to the payment of the fee as prescribed by directive. Any late principal assignment corrections shall be communicated to and accepted by the client within sufficient time to allow for the CSDP of the client to comply with rule 9.70.2.5;*

- 9.70.3.3** *allocations corrections and principal assignment corrections in respect of trades due to settle on the first or the second business day after the trade date may be effected up to 15h00 on the business day preceding the settlement day. All late allocation corrections and late principal assignment corrections after 15h00 on the first business day after the original trade for trades to be settled on the second business day and 15h00 on trade day for trades to be settled on the first business day will be corrected by the Settlement Authority subject to the payment of the fee as prescribed by directive. Any late allocation corrections or late principal assignment corrections shall be communicated to and accepted by the client within sufficient time to allow for the CSDP of the client to comply with rule 9.70.2.5.*

### **Settlement Obligation 5: CSDP commit**

- 5.1 In the case of a T+1, T+2 and T+3 transaction, by no later than 15h00 on S-1, a non-member settled client must ensure that its CSDP is in a position to commit to the transaction on behalf of the client. In the case of a T+0 transaction by no later than 14h30 on S, a non-member settled client must ensure that its CSDP is in a position to commit to the transaction on behalf of the client.

#### **APPLICABLE RULE**

#### **9.80 Non-member settled client settlement obligations**

- 9.80.2** *A non-member settled client shall, in respect of reported transactions, ensure and procure that his CSDP is in a position to commit to settle the transaction on his behalf on the settlement date –*
- 9.80.2.1** *by no later than 14h30 on trade date for trades due to settle on trade date; or*
- 9.80.2.2** *by no later than 15h00 on the business day preceding the settlement date for trades due to settle on the first, second or third business day after trade date.*

### **Settlement Obligation 6: Non-commit by CSDP**

- 6.1 In the case of T+3, T+2 and T+1 transactions, where the CSDP of a non-member settled client fails by 17h00 on S-1 to commit to settle the transaction on settlement day, the member must take actions to ensure settlement will take place on S. The member may close out the client's transaction and claim the difference between the original transaction value and the close out value from the client, including interest, subject to any agreement with the client or notification to the client to the contrary, and to any action taken by the Settlement Authority in terms of the failed trade procedures set out in the rules. The client shall also

9.70.3.2 amended with effect from 9 May 2011

9.70.3.3 introduced with effect from 9 May 2011

remain liable for any losses, costs and charges incurred, or charges imposed by the member in respect of any of the aforementioned transactions.

- 6.2 Where the member is unable to ensure settlement will take place they will notify the JSE Settlement Authority immediately.

#### **APPLICABLE RULES**

##### **9.100 Trading member settlement obligations**

- 9.100.8 *If a non-member settled client fails to comply with rule 9.80.2, or is advised by the Settlement Authority that a reported transaction that is due to settle on the first, second or third business day after the trade date may not settle at 10h00 on the settlement date, the trading member must take the necessary steps to ensure that the transaction settles on settlement day, which may include the borrowing or lending of bonds or funds or entering into a carry transaction on the said client's account.*
- 9.100.9 *If by 17h00 on the business day preceding the settlement date, a non-member settled client remains unable to ensure and procure that his CSDP will be in a position to commit to settling a reported transaction that is due to settle on the first, second or third business day after trade date, the trading member shall continue to take the necessary steps to ensure that, by no later than 10h00 on the settlement date, the CSDP of the non-member settled client commits to settling the transaction.*

##### **Rule 9.80 Non-member settled client settlement obligations**

- 9.80.4 *In the event that a non-member settled client fails to comply with rule 9.80.2, or is advised by the Settlement Authority that the transaction may not settle on the settlement date, the trading member which effected the transaction –*
- 9.80.4.1 *is obliged in terms of rule 9.100.8 to take the necessary steps to ensure that the transaction settles on settlement day, including the borrowing or lending of bonds or funds or entering into a carry or repurchase transaction on such non-member settled client's account; and*
- 9.80.4.2 *may proceed in the manner set out in rule 9.80.5.*

#### **Settlement Obligation 7: Failed trade principles and procedures**

- 7.1 Where the non-member settled client fails to meet their obligations the member may close out the client's transaction and claim the difference between the original transaction value and the close out value from the client, including interest, subject to any agreement with the client or notification to the client to the contrary, and to any action taken by the Settlement Authority in terms of the failed trade procedures set out in the rules. The client shall also remain liable for any losses, costs and charges incurred, or charge imposed by the member, in respect of any of the aforementioned transactions.
- 7.2 Where the non-member settled client has not complied with its obligation to effect settlement and neither the member nor the Settlement Authority is able to effect settlement, the Settlement Authority shall as at 12h00 on 5 declare the transaction to be a failed trade.
- 7.3 Notwithstanding 7.1 and 7.2 above, the notification at any stage by a non-member settled client to a member of its inability to put the member in a position to settle a transaction, may

9.100.8 amended with effect from 9 May 2011

9.80.4 amended with effect from 9 May 2011

9.80.4.1 amended with effect from 9 May 2011

result in the declaration of a failed trade by 09h00 on the following business day, if neither the member nor the Settlement Authority is able to ensure that settlement will take place on settlement day by doing a securities lending & borrowing.

#### **APPLICABLE RULES**

##### **9.80 Non-member settled client settlement obligations**

*9.80.4 In the event that a non-member settled client fails to comply with rule 9.80.2, or is advised by the Settlement Authority that the transaction may not settle on the settlement date, the trading member which effected the transaction –*

*9.80.4.1 is obliged in terms of rule 9.100.8 to take the necessary steps to ensure that the transaction settles on settlement day, including the borrowing or lending of bonds or funds or entering into a carry or repurchase transaction on such non-member settled client's account; and*

*9.80.4.2 may proceed in the manner set out in rule 9.80.5.*

*9.80.5 Subject to any agreement between the trading member and the client to the contrary and the action of the Settlement Authority in terms of rule 9.100.11 or 9.100.12, in the event that a non-member settled client fails to comply with the provisions of rule 9.80.2, the trading member may –*

*9.80.5.1 in respect of a sale transaction, buy such bonds for the account of the client; or*

*9.80.5.2 in respect of a purchase transaction, sell such bonds for the account of the client.*

*9.80.6 The non-member settled client shall remain liable for any losses, costs and charges incurred, or charges imposed, by the trading member as a result of the member acting in accordance with rule 9.80.4 or 9.80.5 or any action taken by the Settlement Authority in terms of rule 9.130 or rule 9.135.*

##### **9.100 Trading member settlement obligations**

*9.100.12 If the Settlement Authority receives notification in terms of rule 9.100.10, and either rolls the settlement in terms of rule 9.125 or is able to close the transaction in terms of rule 9.30.2.9 or declares the transaction to be a failed trade in terms of rule 9.70.4, the trading member shall act in accordance with the instructions received from the Settlement Authority in terms of rule 9.130 or 9.135 respectively.*

##### **9.70 Settlement of bonds**

*9.70.4 If a trading member advises the Settlement Authority at any stage that the CSDP of the trading member or the CSDP of a client will not be in a position to settle a transaction on settlement day and the Settlement Authority is not able to procure that the settlement of the transaction will take place on settlement day, or the Settlement Authority does not roll the settlement to a subsequent date, the transaction shall be declared a failed trade by no later than 09h00 on the next business day and shall be dealt with in terms of the failed trade procedure as set out in rule 9.130 or rule 9.135.*

9.80.4 amended with effect from 9 May 2011

9.80.4.1 amended with effect from 9 May 2011

### **Settlement Obligation 8: Borrowing bond securities or cash or entering into a Carry or Repurchase and member buy-in**

- 8.1 If a non-member settled client is unable to meet his settlement obligations and the member is unable to enter into an arrangement to ensure that settlement takes place, the member must advise the Settlement Authority.
- 8.2 If the Settlement Authority is able to lend the necessary funds or bond securities to the member or enter into a Carry or Repurchase to ensure that settlement takes place, the member must close out the original transaction before the close of business on the next business day.

#### **APPLICABLE RULES**

##### **9.100 Trading member settlement obligations**

- 9.100.10 *If a client, at any stage, advises a trading member or the trading member otherwise becomes aware, that the client is not able to settle a transaction, the trading member shall endeavour to enter into an arrangement to ensure that the transaction settles on settlement day. If the trading member is unable to enter into such an arrangement, the trading member shall immediately notify the Settlement Authority.*
- 9.100.11 *If the Settlement Authority receives notification in terms of rule 9.100.10 and is able to procure the settlement of the transaction by means of the borrowing of bonds or funds or effecting a carry or repurchase transaction, the trading member shall by no later than the close of business on the next business day –*
- 9.100.11.1 *in respect of a sale transaction, buy such bonds for the account of the client and advise the Settlement Authority accordingly; or;*
- 9.100.11.2 *in respect of a purchase transaction, sell such bonds for the account of the client and advise the Settlement Authority accordingly*

### **Settlement Obligation 9: Borrowing costs - Securities**

- 9.1 Where the CSDP of a non-member settled client has not committed timeously to settle a sale of securities, and the member borrows securities from the Settlement Authority to effect settlement, the non-member settled client is responsible for any costs that may be incurred by the member in this regard and any penalties imposed on the member by the Settlement Authority. These costs include the costs related to Capital Events.

#### **APPLICABLE RULES**

##### **9.140 Borrowing of bonds to prevent a trade from failing**

- 9.140.3 *A client must pay any costs or fees that may be incurred as a result of the borrowing of bonds to effect settlement and any penalty imposed on the trading member by the Settlement Authority as set out in the directives, where the client failed to deliver the bonds required to settle the transaction.*

#### **APPLICABLE FEES AND PENALTIES**

- EI 3.6 – R5 000
- EI 3.7 - R1 000 plus 10 basis points on the nominal value up to a maximum of R100 000
  - EJ 1.3 - R1 000 administration fee plus the greater of R1 000 or 5% p.a. above the

9.100.11 amended with effect from 9 May 2011

*lending rate obtained by the Settlement Authority on the initial value of the loaned bond securities over the loan period*

### **Settlement Obligation 10: Borrowing costs - Cash**

- 10.1 Where a member borrows funds from the Settlement Authority to effect settlement on behalf of a non-member settled client who has not made payment of the required funds timeously, the non-member settled client is responsible for any costs incurred by the member and any penalties imposed on the member by the Settlement Authority in this regard.

#### **APPLICABLE RULES**

##### **Rule 9.150 Lending of funds to prevent a trade from failing**

- 9.150.3 A client must pay any costs or fees that may be incurred as a result of the borrowing of funds to effect settlement and any penalty imposed on the trading member by the Settlement Authority as set out in the directives, where the client failed to pay the funds required to settle the transaction.

#### **APPLICABLE FEES AND INTEREST**

- EI 3.6 – R5 000
- EJ 1.3 - R1 000 administration fee plus an interest charge of 5% per annum above the prime overdraft rate at FirstRand Bank Ltd.

### **Settlement Obligation 11: Carry and Repurchase costs**

- 11.1 Where the Settlement Authority effects a Carry or Repurchase to a member to effect settlement on behalf of a non-member settled client, the non-member settled client is responsible for any costs that may be incurred by the member in this regard and any penalties imposed on the member by the Settlement Authority. These costs include the costs related to capital events.

#### **APPLICABLE RULES**

##### **9.160 Carry and repurchase transactions in bonds to prevent a trade from failing**

- 9.160.3 A client must pay any costs that may be incurred in relation to a carry or repurchase transaction in bonds to effect settlement and any penalty imposed on the trading member by the Settlement Authority as set out in the directives, where the client failed to meet his obligations to settle the transaction.

#### **APPLICABLE FEES AND PENALTIES**

- EI 3.6 – R5 000
- EJ 1.5 - R5 000

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9.160 amended with effect from 9 May 2011  
9.160.3 amended with effect from 9 May 2011

## Settlement Obligation 12: Failed Trade or Rolling of Settlement - Failing Party

- 12.1 Where a non-member settled client does not meet his settlement obligations timeously and neither the member nor the Settlement Authority are able to borrow the necessary funds or bond securities or do a Carry or Repurchase to ensure that settlement of the transaction takes place, the transaction of the failing non-member settled client may be rolled or failed in accordance with instructions provided by the Settlement Authority to the member.
- 12.2 A failing non-member settled client, in the case of a rolled or failed trade, will in addition to any fees and penalties, be responsible for any capital event entitlements or losses that are claimed and paid to the non-failing party.

### APPLICABLE RULES

#### Rule 9.100 Trading member settlement obligations

*9.100.12 If the Settlement Authority receives notification in terms of rule 9.100.10, and either rolls the settlement in terms of rule 9.125 or is able to close the transaction in terms of rule 9.30.2.9 or declares the transaction to be a failed trade in terms of rule 9.70.4, the trading member shall act in accordance with the instructions received from the Settlement Authority in terms of rule 9.130 or 9.135 respectively.*

#### 9.80 Non-member settled client settlement obligations

*9.80.6. The non-member settled client shall remain liable for any losses, costs and charges incurred, or charges imposed, by the trading member as a result of the member acting in accordance with rule 9.80.4 or 9.80.5 or any action taken by the Settlement Authority in terms of rule 9.130 or rule 9.135.*

### APPLICABLE FEES AND PENALTIES

#### Rolling Of Settlement

- *EI 3.8 - R1 000 plus 20 basis points on the nominal value to a maximum of R100 000; and*
- *EJ 1.6 - R5 000 administration fee payable by the member who introduced the trade which resulted in the execution of the process in terms of 9.30.2.10*

#### Failed Trade

- *EI 3.9 - R1 000 plus 30 basis points on the nominal value to a maximum of R100 000; and*
- *EK 1.8 - R5 000 administration fee payable by the member who introduced the trade which resulted in the execution of the process in terms of 9.30.2.9*

## Settlement Obligation 13: Rolling of Settlement – Non-failing Party

- 13.1 A non-member settled client may be instructed by the JSE, via their member, to roll settlement of their transaction, where the rolling of the settlement will allow the transactions to settle on a future settlement date.
- 13.2 The failed transaction may only be rolled twice which should not be more than 6 business days from the original settlement date.
- 13.3 If the transaction is rolled in accordance with 13.1, then the non-member settled client will be entitled to claim for any capital event entitlement or losses incurred.

**APPLICABLE RULES****Rule 9.30 Settlement Authority**

- 9.30.2.10 *in its sole discretion and in exceptional circumstances, instruct a trading member or client (via the trading member) to roll the settlement of a purchase or sale transaction on the basis set out in rule 9.125*

**9.125 Rolling of settlement**

- 9.125.1 *The rolling of settlement will be carried out in the following manner:*
- 9.125.1.1 *The Settlement Authority will obtain a list of the linked settlements, which will include the failed trade leg as well as the opposite trade leg and any linked settlements;*
  - 9.125.1.2 *The Settlement Authority will advise the failing and non-failing trading members that the transaction will be rolled to a revised settlement date determined by the Settlement Authority;*
  - 9.125.1.3 *The failing and non-failing trading members will be instructed to re-book the original transaction for settlement on the revised settlement date.*
- 9.125.2 *If settlement does not take place on the revised settlement date, the transaction may, at the discretion of the Settlement Authority, either be rolled to another revised settlement date, under exceptional circumstances, or be declared to be a failed trade, and the affected trading members must act in accordance with the instructions received from the Settlement Authority in terms of rule 9.130 or rule 9.135.*

**APPLICABLE COMPENSATION****Rule 9.125 Rolling of settlement**

- 9.125.3 *The failing trading member or non-failing trading member must, before the close of business on the business day following that on which the rolling of settlement has been completed, submit a statement, in writing, to the Settlement Authority detailing any expenses incurred or income foregone by the member or the client as a consequence of the rolling of settlement, including interest.*
- 9.125.4 *The non-failing trading member shall in respect of a reported transaction, claim any losses and compensation resulting from the rolling of settlement from the failing trading member. Failure by the failing trading member to pay such funds shall be in contravention of these rules and directives, and may, in the discretion of the JSE, be deemed to constitute an act of default in terms of rule 11.10.*

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New 9.30.2.10 introduced with effect from 9 May 2011

9.125 introduced with effect from 9 May 2011

9.125.1 to 9.125.5 introduced with effect from 12 July 2010

### **Settlement Obligation 14: Closing out a failed trade and compensation – Non-failing Party**

- 14.1 If there is a failed trade which will result in a transaction not settling, a non-member settled client must, if instructed by the JSE via their member, fail the transaction.
- 14.2 The JSE Settlement Authority will determine a closing price.
- 14.3 The non-failing member will claim compensation from the failing member.

#### **APPLICABLE RULES**

##### **Rule 9.30 Settlement Authority**

- 9.30.2.9 *instruct a trading member or a client (via the trading member) to close a purchase or sale transaction at a price and on the basis set out in rule 9.130 or rule 9.135 ;*

##### **9.135 Failed trade procedure applicable to reported transactions not cleared by JSE Clear**

- 9.135.1 *A failed trade arising out of a reported transaction not cleared by JSE Clear shall be dealt with in the following manner:*
  - 9.135.1.1 *the Settlement Authority will obtain a list of the linked settlements, which will include the failed trade leg as well as the opposite trade leg and any linked settlements;*
  - 9.135.1.2 *the transactions selected in terms of rule 9.135.1.1 shall be closed at a price to be determined by the Settlement Authority in accordance with principles set out in the directives. This price may differ from the original transaction price and will include compensation for the trading members or clients whose transactions are being closed;*
  - 9.135.1.3 *the non-failing trading member shall claim any losses and compensation resulting from the close out of the transaction from the failing trading member. Failure by the failing trading member to pay such funds shall be in contravention of these rules and directives, and may, in the discretion of the JSE, be deemed to constitute an act of default in terms of rule 11.10.*

9.30.2.9 amended with effect from 9 May 2011

9.135 introduced with effect from 9 May 2011

9.135.1 introduced with effect from 9 May 2011

**APPLICABLE DEFINITIONS**

<b>“business day” or “day”</b>	any day except a Saturday, Sunday, public holiday or any other day on which the JSE is closed;
<b>“client”</b>	a member settled client or a non-member settled client
<b>“contractual settlement”</b>	the market convention whereby the parties to a transaction in bond securities have a contractual obligation to cause such transaction to be settled on the settlement date;
<b>“member settled client”</b>	a client or an account holder on whose behalf a client is acting, whose funds and uncertificated bond securities are under the control of a member or whose settlements take place via the CSDP of a member;
<b>“capital event”</b>	an action taken by an issuer or any other entity or third party, which affects the registered owner and the beneficial owner of bond securities in terms of an entitlement;
<b>“CSDP”</b>	a central securities depository participant that has been accepted by a central securities depository as a participant in that central securities depository;
<b>“custody account”</b>	an bond securities account with a CSDP which reflects the uncertificated bond securities balances of a non-member settled client “or” of member settled accounts of a member and through which settlement of transactions in bond securities is effected;
<b>“dematerialisation”</b>	the process of converting a certificated bond security into an uncertificated bond security;
<b>“bond securities”</b>	those JSE listed securities traded on the JSE IRC system;
<b>“exchange”</b>	a person who constitutes, maintains and provides an infrastructure – <ul style="list-style-type: none"> <li>(a) for bringing together buyers and sellers of securities;</li> <li>(b) for matching the orders for securities of multiple buyers and sellers; and</li> <li>(c) whereby a matched order for securities constitutes a transaction;</li> </ul>
<b>“failed trade”</b>	a transaction in bond securities which the Settlement Authority deems to be a failed trade on the basis that neither the client, the member nor the Settlement Authority is able to ensure that such transaction will settle on the settlement date or any revised settlement date;
<b>“JSE”</b>	JSE Limited, a company duly registered and incorporated with limited liability under the company laws of the Republic, licensed to operate an exchange under the Act;
<b>“margin”</b>	a payment made or guarantee provided by a member to the JSE to assure settlement of transactions in bond securities by that member or its clients;
<b>“Market Controller”</b>	the person appointed by the JSE to supervise, administer and control the daily operations of the JSE IRC trading system;

<b>“member”</b>	an bond member, which is a category of authorised user admitted to membership of the JSE under these rules;
<b>“non-member settled client”</b>	a client or an account holder on whose behalf a client is acting, who has appointed his own CSDP to settle transactions in bond securities on his behalf;
<b>“Rolling of settlement”</b>	the process initiated by the Settlement Authority in terms of which the settlement date of a transaction in bond securities is rolled to a later date;
<b>“securities”</b>	has the same meaning as that contained in section 1 of the Act;
<b>“settle”</b>	to discharge the obligations arising from a transaction in listed securities;
<b>“Settlement Authority”</b>	the person or persons appointed by the JSE to manage the settlement of transactions in bond securities effected through the JSE IRC trading system in terms of the rules and directives;
<b>“settlement commitment”</b>	an electronic undertaking by a CSDP to settle a transaction in bond securities;
<b>“settlement date”</b>	in respect of a transaction in bond securities, the date on which the transaction is due to be settled;
<b>“settling party”</b>	a buyer or seller of listed securities who settles a transaction or any person appointed in terms of exchange rules by such buyer or seller to settle a transaction on behalf of such buyer or seller;
<b>“Strate”</b>	Strate Limited, a public company licensed as a central securities depository in terms of the Act;
<b>“trade date”</b>	in respect of a transaction in bond securities, the date reflected as such on the contract note or an electronic confirmation thereof;
<b>“T+1”</b>	the first business day after the trade date;
<b>“T+2”</b>	the second business day after the trade date;
<b>“T+3”</b>	the third business day after the trade date;
<b>“transaction”</b>	contract of purchase and sale of securities.
<b>“uncertificated bond securities”</b>	bond securities that are not evidenced by a certificate or written instrument and are transferable by book entry without a written instrument;
<b>“uncommitted settlement”</b>	settlement obligation for which a CSDP has not provided a settlement undertaking;