

CSDs: **Strate (South Africa)**

Date: 27 Nov 2008

SMI Markets: **South Africa**CMIRR Markets: **South Africa**

Implementation of Rolling of Settlement for On-Market Trades

With effect from 16 October 2008, the Johannesburg Securities Exchange (JSE) implemented rolling settlement for on-market transactions in order to ease the management and settlement of equity trades.

As a settlement authority, the JSE can now initiate a process at its discretion to postpone the settlement date of a transaction in equity securities to a later date, being no more than five business days, after the settlement date of the original transaction. If the settlement does not occur on the revised settlement date, the trades will be deemed as a failed trade.

The rolling of settlement process is as follows:

- The on-market reverse substitution program is initiated at 10.00am on T+4, when any trades that were not committed to by the relevant central securities depository participant (CSDP) will be removed from the on-market group.
- As part of the reverse substitution program, Strate, the South African CSD, will generate cancellation advices to the relevant CSDPs for on-market trades that the CSDP has not committed to, allowing the on-market group to move forward.
- The JSE will attempt to source the securities to allow commit and ultimately settlement.
- In the event that the JSE is successful in sourcing the securities, the trade will be booked against the relevant broker's account for commit and settlement as per the contractual settlement date.
- If the JSE settlement authority is unsuccessful in sourcing the securities, the JSE will identify a terminating transaction. Where such transaction is not identified, the JSE settlement authority will prescribe which trade will be closed. The relevant CSDP and broker will be advised of its intention and the CSDP will be requested to lift the commit of such trade.
- A SWIFT MT548 cancellation will be generated to the relevant CSDP for the concerned trade.
- The JSE will generate a new SWIFT MT586 settlement allegation through Strate to the relevant CSDP with the revised date, as prescribed by the JSE settlement authority.
- The CSDP will send a SWIFT MT548 unmatched notification to the client. The client will give the CSDP new instructions with the revised settlement date.
- The CSDP will be requested to commit to the new settlement allegation with the revised date.
- The CSDP will send a SWIFT MT548 intimation advice to the client where applicable.
- Once the CSDP commits to the trade, it will settle on the revised settlement date and the CSDP will generate a settlement advice to the client.

CSD Risk Impact

Strate (South Africa)

Impacted Risk Type: Liquidity Risk

Current Rating = AA

Flash Impact = Negative

Impacted Risk Type: Counterparty Risk

Current Rating = AA

Flash Impact = Positive

Previously, the JSE guaranteed settlement for on-market trades on T+5. The rescinding of this guarantee will allow for fails and late settlements, having a 'negative' impact on Liquidity Risk. However, this move is essential for the introduction of a T+3 settlement cycle in the future which would be positive for Counterparty Risk and will bring the South African market into line with international norms on settlement cycles.

Market Information Impact

South Africa

This information affects the data contained in the Settlement sections of the Securities Market Information Service.

Infrastructure Risk Ratings Impact

South Africa

Market Rating: AA-

Market Flash Impact: On Watch

Impacted Risk Type: Liquidity Risk

Current Rating = AA-

Flash Impact = Negative

Impacted Risk Type: Counterparty Risk

Current Rating = AA-

Flash Impact = Positive

Previously, the JSE guaranteed settlement for on-market trades on T+5. The rescinding of this guarantee will allow for fails and late settlements, having a 'negative' impact on Liquidity Risk. However, this move is essential for the introduction of a T+3 settlement cycle in the future which would be positive for Counterparty Risk and will bring the South African market into line with international norms on settlement cycles.

Overall, the impact is 'On watch' pending the results of this new form of settlement management.

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