

A2X Failed Trade Procedures

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Failed Trade Management

Glossary

A2X	A2X markets
BtB	Back-to-Back link - CSDP creates a link between transactions settling on the same settlement date
CSDP	CSD Participant
DPL	Dependency Link - CSDP creates a link between transactions settling across settlement dates
Failing member	Is the member that introduced the failing transaction that Rolling of Settlement or the Failed Trade procedure is being instigated
Non-failing member	Is the member whose transaction is selected for Rolling of Settlement or the Failed Trade procedure
Failing party	Is the party, which could be a client or a broker (proprietary trade), who owns the transaction that is failing
Non-failing party	Is the party, which could be a client or a broker (proprietary trade), who owns the transaction is selected for Rolling of Settlement or the Failed Trade procedure
A2X Settlement Committee	The entity appointed in terms of A2Xs Rules to manage settlement
Failed Trade Procedures	Where the A2X Settlement Committee is unable to enter into a Securities Lending & Borrowing (SLB) transaction the Failed Trade Procedures will be instigated. This could result in - - Rolling Of Settlement - Failed Trade with a Retransactions - Failed Trade with Compensation
Rolling Of Settlement	The action taken by the A2X Settlement Committee to roll the settlement date of a failing and a non-failing transaction to a future settlement date - typically a new T+3 settlement cycle
Failed Trade - Retransaction	The action taken by the A2X Settlement Committee to instruct a member to

	retransact for the non-failing client which will be booked to the client for a future settlement date - typically a new T+3 settlement cycle
Failed Trade - Compensation	The action taken by the A2X Settlement Committee to pay compensation between the failing and non-failing parties.
Terminating Transaction	A transaction which is not on delivered into the market
Non-termination Transaction	A transaction which is on delivered into the market
SLB	Securities Lending & Borrowing by A2X Settlement Committee

Introduction

The South African market allows for Failed Trade Procedures for the cash equities market and is also catered for in A2X Rules and Directives and systems as it is with other exchanges.

Although the processing and functionality is being introduced by A2X for Failed Trade Procedures, the A2X first line of defense will always be Securities Lending & Borrowing (SLB) before going into the Failed Trade Procedures.

Failed Trade Procedures will only be done for Central Order Book deals.

Failed Trade Procedures

The Failed Trade Procedure includes Rolling of Settlement and Failed Trades (which incorporates Retransactions and Compensation) all of which have their own processing requirements. The decision relating to Failed Trade Procedures will be done as follows:

1. Rolling of Settlement - will be at the discretion of the A2X Settlement Authority and will be largely driven based on whether the rolled transaction will settle within a period of time. Transactions may only be rolled twice. Each rolling of settlement will default to a T+3 settlement cycle where the original trade date will be kept. Failure to secure commitment for the transactions to settle on the second rolling will require the A2X Settlement Committee to invoke either the Retransactions or Compensation procedures. Margin will be held until the future Rolling of Settlement has settled.

2. Retransaction - is largely driven based on whether there is sufficient liquidity in the market for the transaction to be retransacted within a limited period of time. In the case of insufficient liquidity, the A2X Settlement Committee will undertake the Compensation Procedure. The Retransaction Procedure requires that the non-defaulting Broker (the innocent purchaser) goes into the market and retransacts the original purchase. Once the purchase has been completed the transaction will be booked back to the client (purchaser) at the original price - settlement will default to a T+3 settlement cycle where the original trade date will be kept. The non-defaulting broker will claim any differences between the original purchase and the new purchase. Margin will be held until the future transaction has settled.

3. Compensation – is largely driven based on whether there is sufficient liquidity in the market for the transaction to be re-transacted within a limited period of time. If the liquidity is insufficient, the A2X Settlement Committee will calculate a compensation amount for the non-defaulting Broker/client. This will be sent to the non-defaulting Broker who will have 7 days to object to the compensation amount giving details on why they have rejected same. Margin will be held until the compensation has settled.

Timing of Failed Trade Procedures

The A2X Settlement Committee will instigate the Failed Trade Procedures between 10h00 and 12h00 on T+3 (settlement date). However, the A2X Settlement Committee may take over the management of a potentially failing transaction, to ensure settlement, at any stage throughout the settlement cycle.

Due to the complications between the various parties systems with regards to terminating and non-terminating transactions, it has been agreed that Failed Trade Procedures can only be instigated after Principal Assumption has run at 16h00 on T+2.

Other actions, such as Securities Lending and Borrowing by the A2X Settlement Committee can still take place prior to this.

Terminating versus Non-terminating Transactions

In the event that a transaction is identified as a potential failing deal by the A2X Settlement Committee, to assist with resolving the issue related to potential non-settlement of the 'problem' transaction and therefore the settlement group, the A2X Settlement Committee will look for a terminating transaction which has the least impact to the market.

Failing finding a terminating transaction a non-terminating transaction must be selected which again has the least impact on the market.

The following linkages could occur through the CSDPs and Strates systems –

On-market linked to –

- A2X Central Order Book (Main Board) trade
- JSE Central Order Book (Main Board) trade
- JSE Report Only trade
- Account transfer
- Portfolio Move
- Collateral
- Collateral Return
- SLB
- SLB return
- Off-market

Corporate Actions

Where the A2X Settlement Committee chooses a terminating or non-terminating transaction/s for the Failed Trade Procedures which affects a Corporate Action entitlement, the Non-failing Party will be able to claim the Corporate Action entitlement from the A2X Settlement Committee through the Non-failing Member that executed their trade. The Non-failing Party would also have to include any tax implications with regards to the Dividends Withholding Tax so that the A2X Settlement Committee may also compensate the Non-failing Party for tax.

Where the Failed Trade Procedures affects an election provided to a CSDP or broker for an elective event, the CSDP or member will notify their Non-failing Party of amendments to their elections.

Where there is a Corporate Action that affects the nature of the shares, such as a consolidation, sub-division or name change, in the case of Rolling of Settlement or Retransaction where the future settlement date will be after Record Date, the new transactions must be booked for the new shares. This will also affect the Mark-to-Market and margining of the failed transaction.

Margining

The margin calculated at EOD T+1 and called for at BOD T+2 from the Failing Member will be held until the Failed Trade has been resolved and the future settlement, in terms of Rolling of Settlement and Retransaction, has settled, claims paid or Compensation paid.

The Failed Trade will be revalued on a daily basis via a Mark-To-Market process and the margin called for daily where there is a shortfall. If there is a surplus cash amount the surplus is not returned to the Failing Member.

The Failing Member may call the margin from their Failing Party (client). In the case of the Failed Trade Procedures being instigated, the margin will be held until the future settlement. Members may also call for any Mark-To-Market from their clients.

In the case of default of a member, the margin held for the Failed Trades will be protected in terms of the Insolvency Act which makes reference to the Exchanges Rules.

Selecting opposite transaction by A2X

The A2X Settlement Committee will work with the Strate Operations Helpdesk and the applicable CSDP/s to select a transaction which has the least impact to settlement if selected as the opposite transaction for the Failed Trade Procedures.

The following will be applied by A2X Settlement Committee to determine which transaction will be used in the Failed Trade Procedures process:

Step 1:

The A2X Settlement Committee will identify a terminating transaction as a contra deal to the failing deal in the following sequence:

- Equal and Opposite; then

- Highest to lowest

If a terminating transaction could not be found by applying the above logic, then the A2X Settlement Committee will proceed with -

Step 2:

The A2X Settlement Committee will look for a non-terminating transaction (with the least impact) as a contra deal to the failing deal in the following sequence:

- JSE On-market Report only;
- Account transfers;
- Portfolio Move;
- Collateral;
- Collateral Return;
- SLB;
- SLB Return; then
- Off-Market.

If the contra deal is found, it will be selected against the below criteria:

- Equal and Opposite; then
- Highest to Lowest.

Transactions created Rolling of Settlement

At the time of executing the Failed Trade Procedures for Rolling of Settlement:

- The A2X Settlement Committee will choose an opposite transaction/s which will be rolled so as to allow the failing transaction to settle - see above.
- Where a non-controlled client is involved a cancelled contract note MT 515 will be generated out by the member.
- The A2X Settlement Committee will instruct the member to rebook the new transaction/s for the rolled settlement date.
- Where a non-controlled client is involved a new contract note will be generated by the member.

Notes -

1) If there has been a corporate action that changes the nature of the shares the new shares will be booked for the future transaction.

2) The margin called for from the Failing Member will be held until the future date of the Rolling of Settlement has taken place and any claims have been received and paid.

3) The A2X will endeavour to not choose the same terminating trade for an extended rolling or fail. It would be at the A2X best effort basis depending on market volatility.

4) The Non-failing Party is not precluded from selling the securities from the Rolling of Settlement. i.e. if a purchase is rolled the Non-failing Party may still sell the securities from the rolled settlement.

Transactions created Retransaction

At the time of executing the Failed Trades, the A2X Settlement Committee will not know if this will be resolved via a Re-transaction or Compensation.

- The A2X Settlement Committee will choose an opposite transaction/s which will be rolled so as to allow the failing transaction to settle – see above.
- Where a non-controlled client is involved a cancelled contract note MT 515 will be generated out by the member.

Where the decision is made that that the Failed Trade will be resolved with a Re-transaction, the A2X Settlement Committee will instruct the non-failing member to re-transact and once the purchase has been completed:

- The A2X Settlement Committee will instruct the member to rebook the new transaction/s on a new settlement cycle.
- A new contract note where a non-controlled client is involved will be generated by the member.

Note –

1) If there has been a corporate action that changes the nature of the shares the new shares will be booked for the future transaction.

2) The margin called for from the Failing Member will be held until the future date of the Retransaction settlement has taken place and any claims have been received and paid.

2) The Non-failing Party may sell securities once the Retransaction is booked to their account.

Transactions created Compensation

At the time of executing the Failed Trades, the A2X Settlement Committee will not know if this will be resolved via a Re-transaction or Compensation.

- The A2X Settlement Committee will choose an opposite transaction/s which will be rolled so as to allow the failing transaction to settle – see above.
- Where a non-controlled client is involved a cancelled contract note MT 515 will be generated out by the member.

Where the decision is made that that the Failed Trade will be resolved with by Compensation, this will be dealt with outside of the systems by the A2X Settlement Committee.

Note – 1) The margin called for from the Failing Member will be held until any claims have been received and paid with the Compensation amount.