



A2X Failed Trade Procedures

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► **A2X MARKETS**

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Failed Trade Management

Glossary

A2X	A2X markets
A2C	A2X Clearing System
BOD	Beginning Of Day
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
JSE	Johannesburg Stock Exchange
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, as lender of last resort, 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 currently allows for Failed Trade Procedures for the cash equities market and will therefore also be catered for in A2X Rules and Directives and systems.

Due to dependencies of transactions between markets, such as a transaction executed on the JSE which is dependent on a transaction executed on A2X or vice versa, it is expected that the A2X Settlement Committee and JSE Settlement Committee will have some form of an understanding or agreement with regards to managing a failing trade.

It should be noted that although this processing and functionality is being introduced 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 trades executed on Central Order Book of the A2X trading system.

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 Committee and will be largely driven 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. CER 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. CER 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. CER 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 party's systems with regards to terminating and non-terminating transactions, it has been agreed that Failed Trade Procedures may only be instigated after Principal Assumption has run at 16h00 on T+2.

Where a potential Failed Trade is identified A2X will generate a MT 598-116 messages to Strate, the CSDPs and the JSE. As per current processes, all processing around the identified instrument will stop until the Failed Trade has been resolved and a MT 598-118 has been sent to Strate, the CSDPs and the JSE. A potential change is that we include the group number in the MT 598-116 and processing around the noted group is stopped as opposed to the whole instrument.

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 A2C will calculate the non-terminating transactions by using the Back-to-Back (BtB) and Dependency Links (DPL) received from Strate, who would have received the same from the CSDPs for proprietary nets and non-controlled clients. The BTB and DBL messages from the CSDPs will be triggered from T and will flow to A2C (via Strate) real-time throughout the settlement cycle.

Changes will need to be made to the BTB and DPL messages to indicate the amount/s that are linked. For example, if there is a RvP for 100,000 AAA shares which is linked to a DvP for 20,000 AAA shares the BTB or DPL should indicate that the link is for 20,000 AAA shares. The BTB and DPL messages will also need to be changed to identify links to A2X or JSE transactions. This will have to be discussed further with the market.

The focus in terms of the Failed Trade Procedures is to select a terminating transaction which has the least impact to the market. Failing finding a terminating transaction a non-terminating transaction must be selected which has the least impact on the market.

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



On-market linked to –

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

Algorithm to select opposite transaction by A2C

As A2X receives the BTB and DPL messages from Strate, the A2C application will be updated to reflect terminating transactions versus the non-terminating transactions. With regards to the non-terminating transactions, A2C will reflect the dependencies such as it is linked to a Report Only transaction, etc.

The following algorithm will then be applied by A2C to determine which transaction will be used in the Failed Trade Procedures process:

Step 1:

A2C 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 cannot be found by applying the above logic, then proceed with

Step 2:

A2C will look for a non-terminating transaction (with the least impact) as a contra deal to the failing deal in the following sequence:

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

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

- Equal and Opposite; then



- Highest to Lowest.

NOTE - Should A2X select a non-terminating transaction which is linked to a JSE transaction, or vice versa, the JSE or A2X would have to instigate their Fails Management procedures as applicable. Ideally this should not happen.

Transactions created Rolling of Settlement

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

- A2C will choose an opposite transaction/s which will be rolled so as to allow the failing transaction to settle – see above.
- In the case where the opposite transaction/s is on a non-controlled clients account, A2C will cancel the settlement allegation under confirmation to the applicable CSDP – MT 598-117 to Strate and the CSDP and a MT 598-122 cancellation once the commit has been lifted.
- Where a client is involved a cancelled contract note MT 515 will be generated out by the member. The contract note will state “Cancelled: Rolling Of Settlement”.
- A2C will then automatically book the new transaction/s for the rolled settlement date. The trade date of the new transactions will remain as the original trade date – only the settlement date changes.
- Where a client is involved a new contract note will be generated by the member. The new contract note will state “Rolling of Settlement” and the trade date will remain as the original trade date – only the settlement date changes.

Notes –

- 1) The only instance where the trade date will not remain as the original trade date on the new transaction/s or the contract note is where a Corporate Action has taken place where a new instrument replaces the old instrument.
- 2) The CER 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 endeavor 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.

- A2C will choose an opposite transaction/s which will be rolled so as to allow the failing transaction to settle – see above.
- In the case where the opposite transaction/s is on a non-controlled clients account, A2C will cancel the settlement allegation under confirmation to the applicable CSDP – MT 598-117 to Strate and the CSDP and a MT 598-122 cancellation once the commit has been lifted.
- Where a client is involved a new contract note will be generated by the member. The contract note will state “Cancelled: Failed Trade”.

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:

- A2C will book the new transaction/s on a new settlement cycle. The trade date of the new transactions will remain as the original trade date – only the settlement date changes.
- A new contract note where a client is involved will be generated by the member. The new contract note will state “Retransaction” and the trade date will remain as the original trade date – only the settlement date changes.

Notes –

- 1) The only time that the trade date will not remain as the original trade date on the new transaction/s or the contract note is where a Corporate Action has taken place where a new instrument replaces the old instrument.
- 2) The CER 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.
- 3) 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.

- A2C will choose an opposite transaction/s which will be rolled so as to allow the failing transaction to settle.
- In the case where the opposite transaction/s is on a non-controlled clients account, A2C will cancel the settlement allegation under confirmation to the applicable CSDP – MT 598-117 to Strate and the CSDP and a MT 598-122 cancellation once the commit has been lifted.
- Where a non-controlled client is involved, a cancelled contract note will be generated by the member. The contract note will state “Cancelled: Failed Trade”.

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 CER called for from the Failing Member will be held until any claims have been received and paid with the Compensation amount



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.

Note –

- 1) 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 CER of the failed transaction.

Capital Exposure Requirement (CER)

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

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

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

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