

# Trading Directives

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► A2X MARKETS

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## Version History

Version	Date	Comments
1.0	6 October 2017	Initial Version
1.1	10 August 2018	Market Notice 1 of 2018
1.2	20 November 2018	Rebrand
1.3	23 March 2021	Inclusion of Trade Types



## Directive A: Trading Directive

### 1. Client Accounts

- 1.1 A separate account must be maintained for each client and the use of sundry accounts is not permissible. Trades may be booked to an allocation suspense account, which must be in the clients' names, and must be allocated to the underlying clients account on trade date.

### 2. Misdeals Accounts

- 2.1 A member must maintain a separate account or accounts into which transactions in equity securities conducted in error and missed deals must be transferred.
- 2.2 A misdeals account may only be used for the purpose of correcting transactions in equity securities conducted in error or missed deals.
- 2.3 A member must manage the missed deal account in a way that ensures that a client does not suffer prejudice as a result of a missed deal or transaction in equity securities conducted in error.

### 3. Allocation Facilitation Account

- 3.1 A member must maintain a separate account or accounts into which transactions in equity securities must be booked where a client's transaction has been executed on another exchange and A2X, and the allocation to the underlying clients' account is done through A2X. A2X may request evidence that the trade was executed on the other exchange.

### 4. Arbitrage Account

- 4.1 Any arbitrage deals conducted by a member must be processed through an arbitrage account.



## 5. Use of stock accounts for Securities Transfer Tax (STT) purposes

- 5.1 Members are required to ensure that the following types of accounts are used when trading in qualifying equity securities for their own account and reflecting positions in equity securities held for their own account if the:
- 5.1.1 member has the freedom to acquire or dispose of such equity securities without being subject to any restrictions placed on the member by any other person; or
  - 5.1.2 member will not have the freedom to dispose of the equity securities and where the restriction in respect of the disposal of such equity securities has been placed on the member by a:
    - 5.1.2.1 lender of cash or another creditor, to whom the qualifying equity securities are pledged or ceded as security for the money lent or other debt, and where interest on the loan or other debt is charged at a rate which is unrelated to any changes in the value of the equity securities; or
    - 5.1.2.2 lender of securities to whom the equity securities are pledged or ceded as security for fulfilment of the member's obligations in terms of a "lending arrangement" as defined in the STT Act, and where the fee charged by the lender is unrelated to any changes in the value of the equity securities; or
    - 5.1.2.3 person to whom the equity securities are pledged or ceded as security for the fulfilment of the member's obligations in respect of the purchase or sale of other securities, and where the benefits of the rights attaching to the equity securities remain with the member and are not directly or indirectly transferred to the pledgee or cessionary during the period of the pledge or cession:



<b>Account Description</b>
Stock accounts – arbitrage
Stock accounts – investment
Stock accounts – jobbing
Stock accounts – misdeals
Stock accounts – suspense

- 5.2 Members are required to ensure that the following types of accounts are used when trading in qualifying equity securities for their own account and reflecting positions in equity securities held for their own account where the member will not have the freedom to acquire or dispose of the equity securities and where the restriction in respect of the acquisition or disposal of such equity securities has been placed on the member by an associated banking entity, other than the restrictions referred to in 5.1.2:

<b>Account description</b>
Bank restricted stock accounts – arbitrage
Bank restricted stock accounts – investments
Bank restricted stock accounts – jobbing

- 5.3 Members are required to ensure that the following types of accounts are used when trading in equity securities for their own account and reflecting positions in equity securities held for their own account, where the member will not have the freedom to acquire or dispose of the equity securities and where the restriction



in respect of the acquisition or disposal of such equity securities has been placed on the member by any party other than-

- 5.3.1 an associated banking entity; or
- 5.3.2 a lender of cash or another creditor, to whom the equity securities are pledged or ceded as security for the money lent or other debt, and where interest on the loan or other debt is charged at a rate which is unrelated to any changes in the value of the equity securities; or
- 5.3.3 a lender of securities to whom the equity securities are pledged or ceded as security for fulfilment of the member's obligations in terms of a "lending arrangement" as defined in the Securities Transfer Tax Act ("STT Act"), and where the fee charged by the lender is unrelated to any changes in the value of the equity securities; or
- 5.3.4 a person to whom the equity securities are pledged or ceded as security for the fulfilment of the member's obligations in respect of the purchase or sale of other securities, and where the benefits of the rights attaching to the equity securities remain with the member and are not directly or indirectly transferred to the pledgee or cessionary during the period of the pledge or cession:

<b>Account description</b>
General restricted stock accounts – arbitrage
General restricted stock accounts - investments
General restricted stock accounts – jobbing

- 5.4 For the purpose of the STT Act, the stock accounts referred to in 5.1 are referred to as unrestricted and security restricted stock accounts.
- 5.5 If equity securities held by a member on an unrestricted and security restricted stock account referred to in 5.1 become subject to a restriction contemplated in relation to the transactions and stock accounts referred to in 5.2 and 5.3, or vice versa, or if the nature of a restriction changes in relation to equity securities held



on a stock account referred to in 5.1, 5.2 or 5.3, the member must transfer the equity securities to a stock account of a type which correctly reflects the existence, or nature, of the restriction, without delay.

- 5.6 The stock account positions representing equity securities which are subject to one of the restrictions referred to in 5.1.2.1, 5.1.2.2 or 5.1.2.3 may remain on the stock accounts on which those positions were originally transacted but the relevant accounting entries must also be processed in the members' books to reflect that the equity securities are subject to the particular restriction. These accounting entries include the flagging of equity securities which remain in the possession of the member but which are pledged to a third party and the necessary entries to reflect that equity securities have been delivered to a third party as security for a loan or other obligation.
- 5.7 The requirement to use the stock accounts referred to in 5.1 to 5.3, to effect the transfers referred to in 5.5 and to process the accounting entries referred to in 5.6 facilitates accurate reporting to the South African Revenue Service and assists members in evidencing compliance with the STT Act in respect of transactions and positions for the member's own account where a restriction has been placed on the member in respect of the acquisition or disposal of equity securities.

## **6. Direct Market Access through an Order Entry Application**

- 6.1 A member may allow a client to submit orders to the trading facility through direct market access ("DMA") using an order entry application, subject to the member having in place adequate systems and controls.
- 6.2 A member may not provide direct market access without the prior written approval of A2X.
- 6.3 A2X may at any time request information from the member to allow A2X to assess the effectiveness of measures used to control direct market access and assess any impact on the operation on the trading facility.
- 6.4 A2X may at any time, without prior notice, withdraw the approval if A2X is of the opinion that DMA is not operating in a manner which is inconsistent with the objects of the Act and the integrity of the market.





- 6.5 Members providing clients with DMA are responsible for all obligations and liabilities arising from the provision of that access to the client.
- 6.6 A member who applies to provide DMA must:
  - 6.6.1 be able to restrict a client's ability to submit orders to the trading facility and delete orders if required;
  - 6.6.2 implement access controls over order entry;
  - 6.6.3 be able to easily identify any orders that are processed through DMA;
  - 6.6.4 implement security controls over any network link between the client and the member which should be sufficient for the member to be sure that an order purporting to come from a client actually has done so;
  - 6.6.5 ensure a clear allocation of responsibility for dealing with actions and errors and how, when and by whom orders are to be deleted.
  - 6.6.6 ensure appropriate training, education and guidance has been provided to clients using DMA;
  - 6.6.7 require order acknowledgements from the client;
  - 6.6.8 make provision for the generation of an alert where an order would execute at a price with which the member would not be satisfied; and
  - 6.6.9 monitor and control the total exposure of the member to orders submitted for a particular client.
- 6.7 A member must regulate its relationship with a client to whom it is providing DMA in a formal agreement.

## 7. Off-Book Trades

### 7.1. Large in Scale Cross (LS)

- 7.1.1. A LS trade is where both legs of the trade are a pre-agreed buy and sell agency or principal order with the same member acting on behalf of both the buyer and the seller that is not displayed on, nor interacts with the central order book.
- 7.1.2. In order for a transaction in an equity security to qualify to be submitted to the A2X equity trading system as a LS in terms of rule 6.4. B, the transaction must comprise at least the value as determined by A2X, which value will be the same value per equity security as is prescribed



by the Johannesburg Stock Exchange for the same equity security to qualify as block trade in terms of and as defined in the Johannesburg Stock Exchange rules and directives from time to time.

- 7.1.3. The value as determined in accordance with 7.1.2 will be published on the A2X website.

## **7.2. Negotiated Benchmark Cross Trade (NC)**

- 7.2.1. A NC trade is where both legs of the trade are a pre-agreed buy and sell agency order with the same member acting on behalf of both the buyer and the seller and where a member agrees to effect the transaction at a price that is calculated over a specified number of instances and as weighted by volumes traded on the central order book during a future or previous period of time.
- 7.2.2. The trade is not displayed on, nor interacts with the central order book, and must be reported to the trading facility during trading hours by a member.
- 7.2.3. In order for a transaction in an equity security to qualify to be submitted to the A2X equity trading system as an NC, the transaction must:
  - 7.2.3.1. Be comprised of a minimum of 10 trade instances; and
  - 7.2.3.2. Reflect the volume weighted average price for the respective time period.



## Directive B: Financial Reporting and Capital Adequacy

### 1. Financial Reporting

- 1.1 A member must:
  - 1.1.1 comply with the auditing requirements set out in chapter XI of the Act and FSB board notices 96 and 100 of 2013;
  - 1.1.2 prepare its annual financial statements in accordance with IFRS and must have been audited, without qualification.
- 1.2 Within 3 months of the members financial year end, the member must submit its annual financial statements to the CEO of A2X or such other person as the CEO may stipulate.

### 2. Capital Adequacy of a Member

#### 2.1 Principles

- 2.1.1 To be eligible to be accepted as, and to remain a member, the member must satisfy the Controlling Body that it meets the admission and continuing obligation requirements set out in the Rules, one of which is being able to evidence financial soundness.
- 2.1.2 As a general guideline, the capital of the member must be sufficient to protect a member's clients and counterparties from various risks, including market risk, settlement risk, credit risk, operational risk and liquidity risk.
- 2.1.3 In addition, an efficient capital adequacy structure will also result in timely warning signals to members in respect of their risk management, as a decline in the capital base can expose the member to significantly higher levels of risks.
- 2.1.4 In order to ensure an efficient functioning of an exchange it is critical for all members to have confidence in each members' financial stability and the ability to effectively manage risk. The inability of any one member to be able to meet a commitment may impact the financial solvency of other members, leading to market disruption and a decline in investor confidence.



2.1.5 Consequently, appropriate capital adequacy standards and procedures are required to ensure a member's financial resources are able to withstand the risks to which its business is subject.

## 2.2 Definitions

The definitions as set out in the A2X trading rules will have the same meaning in this directive unless otherwise provided for.

2.2.1 **Annual financial statements:** the most recent annual financial statements which must have been prepared according to IFRS and the SA GAAP AC 500 series and have been audited, without qualification.

2.2.2 **Capital adequacy requirement:** the sum of the greater of a member's initial capital or one quarter of its annual fixed operating costs plus the risk requirements as determined by A2X by directive;

2.2.3 **Capital adequacy return:** the submission by a member of his capital adequacy requirement to A2X in the manner and form specified by A2X;

2.2.4 **Cash expenditure:** all expenditure excluding capital expenditure, depreciation, amortisation, fair value adjustments and any gain or loss on disposal of fixed assets;

2.2.5 **Illiquid assets:** assets that are not easily and quickly converted into cash, including but not limited to real estate, antiques, collectables and certain types of debt instruments;

2.2.6 **Initial capital:** the minimum capital as specified from time to time by A2X;

2.2.7 **Intangible assets:** assets that are not physical in nature including but which are not limited to goodwill, patents, trademarks, copyrights, business methodologies, brand recognition and similar rights;

2.2.8 **Fixed expenditure requirement:** whichever is the greater of:

2.2.8.1 R 500 000; or

2.2.8.2 cash expenditure for 13 weeks excluding expenditure directly related to trading activities as calculated with reference to the most recent annual financial statements, which must be calculated and submitted to A2X annually and within three months of the financial year end of the member;

2.2.9 **Management Accounts:** a set of financial statements which:



- 2.2.9.1 have been prepared from the accounting records contemplated in section 90 of the Act;
  - 2.2.9.2 reflect the financial position of the member at month end;
  - 2.2.9.3 are prepared in accordance with the accounting policies contained in IFRS;
  - 2.2.9.4 fairly represent that state of affairs of the members business;
  - 2.2.9.5 refer to any material matter that has affected or is likely to affect the financial affairs of the member; and
  - 2.2.9.6 include a provision for all taxation liabilities.
- 2.2.10 **Own Funds:** the net financial worth of a member calculated in a manner prescribed by A2X.
- 2.2.11 **Risk Requirements: the risk requirements as identified and calculated according to generally accepted current market practice.**
- 2.2.12 **Subordinated Loans:** any loan advanced to the member, including shareholders loans, which are legally subordinated and are indicated as such in the annual financial statements and a copy of the subordination has been provided to A2X at membership application stage, or immediately when the status of the loan changes;
- 2.2.13 **Trading Activities:** those activities relating to the provision of securities services as defined in the Act but excluding sub-sections (d), (e), (f) and (g) of that definition.

## **2.3 Furnishing of financial information by a member for the purpose of determining capital adequacy**

- 2.3.1 A member is required to submit to A2X within three months after the end of its financial year, a copy of its audited financial statements, and the audited report prescribed by the Act, in respect of such period.
- 2.3.2 A member shall submit the prescribed capital adequacy return monthly to A2X within ten business days of the end of the month or within such other period that A2X may require, or on request from A2X: Provided that the member shall at all times comply with the capital adequacy requirements referred to in these directives, and provided further that



A2X shall be entitled to suspend a member from trading, should the return not be submitted timeously.

- 2.3.3 A member is required to advise A2X, in writing, as soon as It becomes aware that It has failed to meet the relevant capital adequacy requirements.

### 3. Capital Adequacy Requirements

- 3.1 A member must at all times:
- 3.1.1 comply with the capital adequacy requirements as set out in this directive and as prescribed by the controlling body from time to time; and
  - 3.1.2 remain within the credit limit of the member.
- 3.2 In determining the level of capital adequacy that a member must comply with, the controlling body may reduce, adjust or disregard in totality any amount included in the calculation of the member's financial resources if it is of the opinion that there is not a sufficient level of assurance in respect of that value of that source.
- 3.3 A member must at all times maintain own funds which are in excess of the total of the fixed expenditure requirement plus the capital exposure requirement.
- 3.4 On an annual basis, a member must provide A2X with:
- 3.4.1 its most recent annual financial statements within 3 months of the financial year end of the member;
  - 3.4.2 a detailed calculation of its fixed expenditure requirement which correlates with the annual financial statements submitted.



## Illustrative calculation of own funds

The purpose of this calculation is to determine the members own funds available to comply with this Directive.

<b>The table below illustrates how “own funds” is calculated: -</b>		
Ordinary share capital	0	
Preference share capital	0	
Share premium account	0	
Reserves	0	
Audited retained earnings (or accumulated losses)	0	
Unaudited profit (or loss)	0	
<b>Owner’s equity</b>		0
<b>Add:-</b>		
Subordinated loans to the company	0	
Guarantees available	0	0
<b>Total capital resources</b>		0
<b>Subtract:-</b>		
Intangible assets	0	
Guarantees provided	0	
Capital subject to Preferential claims	0	0
		0
<b>Subtract:-</b>		
Illiquid assets	0	
Fixed assets, net of related secured loans	0	
Investments in related parties (IAS 24 definition)	0	
Investments in unlisted securities	0	0
<b>OWN FUNDS (B)</b>		0



### Illustrative example of calculations required in terms of this directive to compute the fixed expenditure requirement

Complete the table below listing total annual expenditure and the split between the sum of non-cash expenditure and expenditure that relates to trading activities, and other.

Expenditure categories and actual amounts for the year immediately preceding this declaration should be included. This list does not purport to be exhaustive and rows (per additional expenditure category) may be inserted as required.

Expense category	Annual amount		
	Total	Non- cash and trading activities	Fixed expenditure requirement
Accounting and secretarial or other services, charges, etc.			
Auditors remuneration			
Insurance			
IT infrastructure (Hardware and Software) licensing and maintenance costs			
Machine and other leasing charges			
Motor vehicle expenses			
Office rental			
Municipal charges (if separate from Office rental)			
Printing and stationery			
Salaries and wages			
Strate charges and fees			
JSE charges and fees			
A2X charges and fees			
Tax obligations			
Telephone, postage etc			
Other			
Total annual expenditure	R	R	R
			Divide by 4 or 25%
Fixed expenditure required			R





## Directive C: Clearing and Settlement

### 1. Specific Information Technology Requirements for Clearing and Settlement

- 1.1 Members must have a system which complies with the MeCRAS requirements as prescribed by A2X from time to time. The system must cater for reference data, deal management and accounting and must pass conformance to A2X clearing system.
- 1.2 Where changes are made to the A2X clearing system which impacts on the MeCRAS requirements, members will be given sufficient notice to allow them to develop their systems accordingly.
- 1.3 Members will be required to test the changes before sign off will be given for deployment into production.
- 1.4 Members will be required to test to A2X's Disaster Recovery site on 3 months' notice by A2X.

### 2. A2X Settlement Cycle

T	Time	
1. Execution	09:00 – 16H50	Trading hours
2. Allocation	19:00	Real time
3. Contract note	20:00	Real time after allocation
4. Settlement order to Strate	20:00	Real time after allocation
5. Member capital exposure calculation	End of day	Net principal, unallocated transactions, partially allocated transactions, over allocated transactions and uncommitted non-controlled client trades



T+1	Time	
1. Member exposure call for collateral (securities or cash)	By 12:00	
2. Clients settlement instruction to CSDP	12:00	
3. Client rejection to broker	18:00	
4. Client deemed affirmation	18:00	
5. Member Reallocation	18:00	
6. Client affirmation of reallocation	18:00	
7. Client settlement instruction to CSDP on reallocation	18:00	
8. Brokers principal trades net created	End of day	
9. Member capital exposure calculation	End of day	Net principal and uncommitted non-controlled client trades
T+2	Time	
1. Member exposure call for collateral (securities or cash)	By 12:00	
2. Client must secure CSDPs commit	12:00	
3. Client breach where CSDP has not committed	12:00	
4. CSDP Commitment	Up to 15:00	
5. Reverse substitution	16:00	
6. SLB – Member	16:00–18:00	
7. Member capital exposure calculation	End of day	Uncommitted net principal trades including trades that have gone into reverse substitution, and trades that have gone through rolling of settlement or which have been declared a failed trade
T+3	Time	
1. Settlement Committee SLB	08:00–10:00	
2. Rolling of settlement to revised settlement date	10:00–12:00	
3. Declaration of Failed trade	10:00–12:00	
4. Settlement	06:00 – End of day	
5. Member capital exposure calculation	End of day	Trades that have gone through rolling of settlement or which have been declared a failed trade



### 3. Information to be supplied to the Settlement Committee

- 3.1 Member's CSDP name;
- 3.2 Member's CSDP SWIFT BIC;
- 3.3 Members Business Partner ID with Strate;
- 3.4 Member's CSDP Business Partner ID with Strate;
- 3.5 Member's CSDP Central Securities Account (CSA) or Segregated Depository Account (SDA) number for principal settlements;
- 3.6 Principal custody account number at the member's CSDP;
- 3.7 Cash settlement account number at the member's CSDP; and
- 3.8 Name and contact details of the member's settlement officer and their alternate.

### 4. Borrowing of equity securities through the Settlement Committee

- 4.1 For the purposes of this directive, the following definitions apply –
  - 4.1.1 “**collateral**” means cash or securities provided to the Settlement Committee by a member as security for the due return of equivalent equity securities in terms of a lending transaction;
  - 4.1.2 “**corporate action**” means any economic right or benefit flowing from ownership of the loaned equity securities;
  - 4.1.3 “**equivalent equity securities**” means equity securities of an identical type, nominal value, description and amount to the loaned equity securities duly adjusted for any corporate action;
  - 4.1.4 “**lender**” means the third party from which the Settlement Committee, as agent for the member as undisclosed principal, has borrowed the equity securities;
  - 4.1.5 “**lending fees**” means the fees due by the member in respect of loaned equity securities;
  - 4.1.6 “**loan date**” means the date on which loaned equity securities are transferred by the Settlement Committee into the custody account of a member;
  - 4.1.7 “**loan period**” means the period of time expressed in days from the loan date to the return date;



- 4.1.8 “**loan recall**” means a demand by the Settlement Committee for the return of equivalent equity securities in terms of a lending transaction;
  - 4.1.9 “**loaned equity securities**” means the equity securities borrowed by a member through the Settlement Committee;
  - 4.1.10 “**return date**” means the date on which a member returns equivalent equity securities to the Settlement Committee.
  - 4.1.11 “**value at risk calculation**” means the amount or percentage by which the value of the collateral is required to exceed the initial loan value or the current ruling price value or the highest mark-to-market value during the loan period, whichever is the greatest, of the loaned equity securities.
- 4.2 The Settlement Committee will facilitate the borrowing of equity securities on behalf of a member under the following terms and conditions –
- 4.2.1 where a member chooses not to post securities collateral or does not have sufficient securities collateral a member must ensure that sufficient cash is available in its funds settlement account with its bank to meet the initial and any subsequent collateral requirement;
  - 4.2.2 the Settlement Committee will initiate the borrowing by sending the necessary transactions to Strate, and will advise a member of the transactions giving rise to the loaned equity securities and the collateral requirement;
  - 4.2.3 the collateral provided will continue during the loan period and will be held by the Settlement Committee until equivalent equity securities are returned to the Settlement Committee;
  - 4.2.4 the collateral amount must be equivalent to the initial loan value or current ruling price value or highest mark-to-market value during the loan period, whichever is the greatest, of each loaned equity securities position, plus the value at risk calculation applicable thereto;
  - 4.2.5 if on any business day, the collateral value falls below the value set out in 4, the Settlement Committee may request a member to immediately provide further securities or funds collateral in the amount of any shortfall. A member will only be entitled to a refund of the collateral amount at the time of and in proportion to, the amount of the loan returned;



- 4.2.6 a value at risk calculation will be applicable to all loaned equity securities, such that the collateral amount will be 100% plus the value at risk calculation of the applicable value of each loaned equity securities position;
- 4.2.7 a member must ensure the return of the loaned equity securities within 3 business days of a loan recall;
- 4.2.8 a member must return equivalent equity securities in no more than two deliveries, the first delivery being not less than 50% of the loaned equity securities;
- 4.2.9 a member must pay to the Settlement Committee the lending fees, which will accrue over the loan period and be paid monthly in arrears;
- 4.2.10 a member will be entitled to interest on the value at risk calculation of the collateral.

## 5. Lending of funds by the Settlement Committee

- 5.1 For the purposes of this directive, the following definitions apply –
  - 5.1.1 “**collateral**” means the equity securities provided to the Settlement Committee as security for the due return of the funds lent to a member;
  - 5.1.2 “**loaned funds**” means the funds provided by the Settlement Committee to a member;
  - 5.1.3 “**loan date**” means the date on which funds are transferred by the Settlement Committee into the funds settlement account of a member;
  - 5.1.4 “**loan fees**” means the interest and fees due to the Settlement Committee by a member in respect of the funds provided;
  - 5.1.5 “**loan period**” means the period of time expressed in days from the loan date to the return date;
  - 5.1.6 “**margin**” means the amount or percentage by which the value of the collateral is required to exceed the value of the loaned funds;
  - 5.1.7 “**return date**” means the date on which a member returns the loaned funds to the Settlement Committee.



- 5.2 The Settlement Committee will facilitate the lending of funds to a member under the following terms and conditions –
- 5.2.1 a member must ensure that the equity securities which constitute the failing transaction forms the initial collateral for the funds advanced;
  - 5.2.2 the Settlement Committee will initiate the funding by sending the necessary transactions to Strate, and will advise a member of the transactions giving rise to the loaned funds and the collateral;
  - 5.2.3 the collateral provided will continue during the loan period and will be held by the Settlement Committee until the loaned funds are returned to the Settlement Committee;
  - 5.2.4 the collateral value will be equivalent to the ruling price value of the collateral less the value at risk calculation applicable thereto and will be at least equivalent in value to the loaned funds;
  - 5.2.5 if on any business day the collateral value falls below the value of the loaned funds, the Settlement Committee may –
    - 5.2.5.1 request a member to immediately provide additional collateral acceptable to the Settlement Committee, to cover such shortfall; or
    - 5.2.5.2 require a member to repay so much of the loaned funds so as to ensure that the shortfall is removed.
  - 5.2.6 If the collateral value exceeds the value of the loaned funds the member may not be entitled to the return of the excess collateral except at the time of and in proportion to, the repayment of the loaned funds by the member;
  - 5.2.7 a value at risk calculation of the securities held as collateral will be applicable to all loaned funds, such that the collateral value will be not less than the value of the loaned funds plus the value at risk calculation;
  - 5.2.8 a member must pay to the Settlement Committee the loan fees which will accrue over the loan period and be paid monthly in arrears.



## 6. Non-compliance with settlement obligations – penalties and fees

The following fees and penalties will be levied for a breach of a settlement obligation:

Contravention	Penalty	Fees
Rule 7.10.2 regarding the failure to ensure equity securities or cash required for a transaction in equity securities are available for settlement.	R1 000	
Where a member has assumed the obligations of a client to settle a transaction and is unable at 18h00 on T+2 to procure a commitment of its CSDP to settle the transaction in terms of rule.	R500 per occurrence	N/A
Where a member is unable to enter into an arrangement to ensure that a sale transaction settles on settlement date, which results in the Settlement Committee facilitating the borrowing of equity securities on behalf of the member in terms of rule 7.31.1	R1 000 plus the brokerage on the trade for which securities are borrowed with a minimum fine of 0,075% of the value of the trade, not exceeding R25 000	N/A
Provision of securities lending facilities to a member to enable settlement	N/A	R1 000 administration fee plus the greater of R1 000 or 5% p.a. above the lending rate obtained by the Settlement Committee on the initial value of the loaned equity securities over the loan period.
Provision of funds to a member to enable settlement	N/A	R1 000 administration fee plus an interest charge of 5% p.a. above the Prime Overdraft Rate at FirstRand Bank Limited.



<b>Contravention</b>	<b>Penalty</b>	<b>Fees</b>
Where a member introduces a trade for which settlement is rolled in terms of rule 7.24.	R1 000 plus the brokerage on the trade for which settlement is rolled with a minimum fine of 0,15% of the value of the trade, not exceeding R50 000.	R5 000 administration fee payable by the member who introduced the trade for which the settlement was rolled in terms of rule 7.24
Where a member introduces a trade, which is declared a failed trade in terms of rule 7.36.	R1 000 plus double the brokerage with a minimum fine of 0,3% of the value of the trade, not exceeding R100 000	R5 000 administration fee payable by the member who introduced the failed trade.
Resolution of a corporate action entitlement resulting from loaned equity securities, rolling of settlement or failed trades.	N/A	R1000 administration fee

Notwithstanding the provisions of Directive C, disciplinary action in terms of the rules may also be taken for any contraventions of section 7 of the rules.

## **7. Payment of penalties**

- 7.1 A member must pay any penalty imposed by the Settlement Committee within 5 business days of the date of invoice.
- 7.2 An objection to a penalty imposed must be lodged in writing, signed by the member and received by the Settlement Committee by no later than 11h00 on the day that the penalty is payable. The payment of any penalty will be delayed until the finalisation of the appeal.





## Directive D: Capital Exposure Requirements

### 1. Capital Exposure Requirements

- 1.1 A2X will calculate the capital exposure for the full settlement cycle daily at the end of each business day.
- 1.2 The capital exposure will be calculated on -
  - 1.2.1 T for net principal transactions, unallocated transactions, partially allocated transactions and uncommitted settlement orders for non-controlled clients; and
  - 1.2.2 T+1 for net principal transactions and uncommitted settlement orders for non-controlled clients; and
  - 1.2.3 T+2 for uncommitted net principal transactions, uncommitted trades where principal assumption has been implemented and any transactions that have undergone Rolling of Settlement or Failed Trade Procedures; and
  - 1.2.4 T+3 for any transactions that have undergone rolling of settlement or failed trade procedures in terms of the rules.
- 1.3 A member may post securities or cash for the calculated capital exposure.
  - 1.3.1 Each member will mandate its bank or CSDP, to the satisfaction of A2X, to accept instructions from A2X on behalf of the member for cash and securities collateral; and
  - 1.3.2 Ensure that sufficient cash is available in the designated account to meet any daily capital exposure calls.
- 1.4 A2X will publish from time to time, the securities which will be accepted by A2X as collateral for the purposes of this directive, as well as the haircuts on such securities to cover the capital exposure.
- 1.5 A member may establish a capital exposure deposit, by means of cash, securities or bank guarantee, to be utilised by A2X in meeting the member's daily capital exposure requirements. The cash and securities deposit and bank guarantee will be held in good faith and will only be returned on the request by the member; provided that A2X is satisfied that the returned portion of the capital exposure deposit is no longer required.



- 1.6 A2X will determine the capital exposure requirement on principal trades, unallocated transactions, partially allocated transactions and uncommitted settlement orders for non-controlled clients by -
  - 1.6.1 the mark-to-market price movement from the trade price on T of the equity securities to the closing price at EOD T or T+1 or T+2 or T+3; and
  - 1.6.2 the potential adverse price movement of the equity securities from EOD on T until settlement, based on a value at risk calculation.
- 1.7 The capital exposure requirements across instruments and across non-controlled clients' accounts will not be netted.
- 1.8 The capital exposure requirement due by a member will first be applied to the member's capital exposure deposit and any shortfall will result in a capital exposure call.
- 1.9 Where the member has elected to provide securities collateral, A2X will initiate a securities collateral call or return by sending the capital exposure to Strate's Collateral Management System. Securities will be transferred to A2X by means of an out-and-out cession.
- 1.10 A2X will initiate a cash capital exposure call by sending the necessary settlement order messages to the member's CSDP to instruct the transfer of funds for the same day value.
- 1.11 The capital exposure requirement will be payable by the member to A2X before 12h00 on each business day and will be repayable by A2X to the member before 12h00 on each business day.
- 1.12 Interest will be calculated and payable to members monthly in arrears on funds held as a capital exposure deposit and/or capital exposure call.
- 1.13 An administration fee will be calculated and payable by members monthly in arrears on cash and securities held over the previous month.



## Directive E: Record Keeping Requirements

### 1. Specific Record Keeping Requirements per Record Type

For purposes of this section, a “record” means a document or record in physical or electronic format including communication, data and/ or data messages as defined in the Electronic Communications and Transactions Act, No 25 of 2002 (ECT Act).

#### 1.1 **Company Documents:**

1.1.1 Must be retained for the minimum periods as prescribed in Section 24 of the Companies Act, No 71 of 2008.

#### 1.2 **Advisory and Intermediary Documents:**

1.2.1 Must be retained for the minimum periods as prescribed in Section 18 of the Financial Advisory and Intermediary Services Act, No 37 of 2002 (FAIS).

#### 1.3 **Due Diligence Documents:**

1.3.1 Must be retained in terms of Section 22 of the Financial Intelligence Centre Act, no 38 of 2001 (FICA) for the minimum periods as prescribed in Section 22 of the same Act.

#### 1.4 **Client Complaints Documents:**

1.4.1 Must be retained for a minimum period of five years from the date the complaint was lodged.

#### 1.5 **Client Transaction Instructions:**

1.5.1 Must be kept for a minimum period of six months in respect of client instructions to execute transactions, from the date the transaction is executed.

#### 1.6 **Client Documents:**

1.6.1 In respect of communications, transactions, mandates and personal information must be kept for the duration of the relationship and a minimum period of five years from the date the relationship ceases to exist.

#### 1.7 **Other Documents:**

1.7.1 All other documents, where there is no legislative or regulatory requirement, a minimum record keeping period of five years will apply.



## 2. Overlapping Legislation or Regulation

- 2.1 Where there is an overlap in record keeping requirements, the most onerous requirement will apply.



## Directive F: Settlement Agent

### 1. Settlement Agents

- 1.1 A member may enter into an arrangement with another member (referred to as a “settlement agent”) in terms of which the settlement agent assists the member in meeting its obligations to ensure the settlement of trades.
- 1.2 The services which a settlement agent may provide to a member may include, but are not limited to, the monitoring of unsettled trades executed by the member, and instituting any action which is necessary to ensure that the member meets its obligations to ensure the settlement of such trades.
- 1.3 A member that has entered into an arrangement with a settlement agent in terms of this directive remains fully responsible for meeting its settlement obligations in terms of the rules and directives.
- 1.4 A member shall advise A2X of its intention to enter into an arrangement with a settlement agent in terms of this directive prior to entering into such an arrangement.
- 1.5 The arrangement entered into by a member with a settlement agent must be reduced to writing and a copy lodged with A2X and shall provide for–
  - 1.7.2 any functions performed by the settlement agent are performed strictly in accordance with the provisions of the Act, the rules and the directives;
  - 1.7.3 the settlement agent to act as an agent of the member in all functions which it performs for the member; and
  - 1.7.4 an audit of its role as a settlement agent.

No agreement entered into in terms of this directive may be terminated without the consent of A2X first having been obtained, which consent may not be unreasonably withheld.